VALMIERA GLASS®

*Consolidated financial statements for the year 2013*
*prepared in accordance with*
*International Financial Reporting Standards*
*as adopted by the European Union*
*and Independent Auditor's Report**

** This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of financial statements takes precedence over this translation.*

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## GENERAL INFORMATION

| | |
|---|---|
| NAME OF THE PARENT COMPANY | Valmieras stikla šķiedra |
| LEGAL STATUS | Joint stock company |
| REGISTRATION NUMBER, PLACE AND DATE | No. 40003031676<br>Riga, 30 September 1991 |
| TYPE OF BUSINESS | Production of glass fibre products |
| ADDRESS | 13 Cempu Street,<br>Valmiera, LV- 4201,<br>Latvia |
| SUBSIDIARY | Valmiera Glass UK Ltd<br>Sherborne, Dorset DT9 3RB<br>United Kingdom |
| THE BOARD | Chairman of the Board :<br>Andris Oskars Brutāns, president<br><br>Members of the Board :<br>Andre Heinz Schwiontek, Vice-president<br>Joeran Pfuhl<br>Friedhelm Schwender<br>Dainis Šēnbergs<br>Stefan Jugel<br>H.J.Hausler (from 01.09.2013)<br>Karl Heinz Will (till 01.09.2013.) |
| THE COUNCIL | Chairman of the Council :<br>Jürgen Preiss-Daimler<br><br>Members of the Council :<br>Hans Peter Cordts<br>Guntis Strazds<br>Aivars Lošmanis<br>Frank Wilhelm Behrends (from 31.05.2013)<br>Reinhard Edwin Conradt (till 28.05.2013) |
| REPORTING YEAR | 1 January 2013 - 31 December 2013 |
| PRIOR REPORTING YEAR | 1 January 2012 - 31 December 2012 |
| AUDITORS AND THEIR ADDRESS | Deloitte Audits Latvia SIA<br>License No. 43<br>4a Gredu Str.<br>Riga, LV-1019<br>Latvia<br><br>Elīna Sedliņa<br>Swom Auditor<br>Certificate No. 179 |

## General information

The principal activities of AS Valmieras stikla šķiedra (hereinafter referred to as "the Company") are research, development, manufacturing and sales of glass fibre. The Company specializes in manufacturing of two different types of glass fibre and related products: E-glass with temperature resistance of 600°C and SiO2-glass with temperature resistance of 1000+°C. These products can be used for further processing for thermal and technical insulation, as ready-made materials for mechanical engineering, construction etc.

On 4 October 2013 the Company completed acquisition of subsidiary Valmiera Glass UK Ltd, which produces glass fibre products for aerospace industry, insulation and architecture. The profit of Valmiera Glass UK Ltd results from innovative production and technical application, using modern production equipment. The subsidiary has more than 80 years' experience in fibre glass textile production.

AS Valmieras stikla šķiedra and Valmera Glass UK Ltd has been combined in Valmiera Glass Group, which will be positioned as vertically integrated supplier – from fibre glass manufacturing to coated and saturated fabrics – different composites for aerospace, construction and other industries. Combination of knowledge, experience and export potential, as well as development of new projects, ensures strengthening and expansion of AS Valmieras stikla šķiedra position in fibre glass production market. The Company continuously analyses and realizes export opportunities in new markets with new clients.

The products of the Company are sold in 37 countries, and export contributes 96% of total sales of the Company. In 2013 the Company continued to strengthen its position in existing markets and rapidly increased sales. Main export markets remained the same: countries of the European Union (71%), North America and Russia. In addition, Valmiera Glass UK exports goods to 41 countries worldwide.

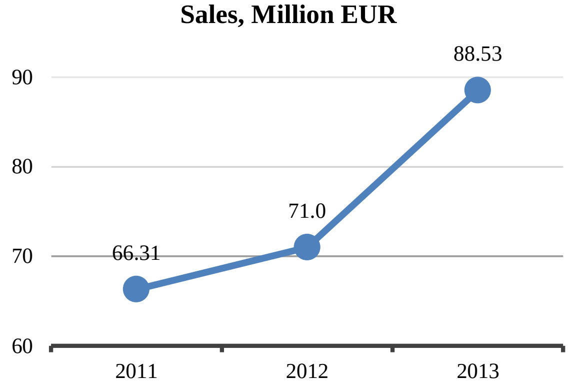
The average number of employees of the Group in 2013 was 1045, of which the number of employees of AS Valmieras stikla sķiedra was 915 and has increased in comparison to prior year. The average number of employees of Valmiera Glass UK was 130.

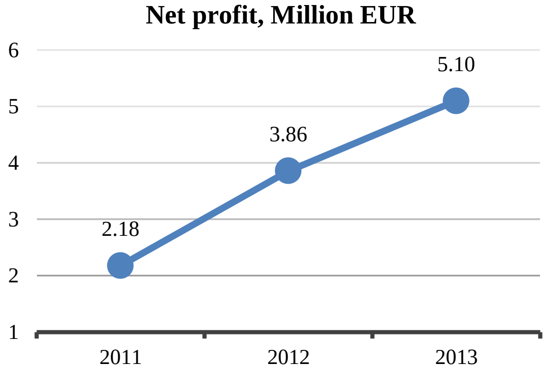
The quality management system of the Company is certified according to ISO 9001:2008 requirements. The German Quality management system certification company DQS GmbH performs re-certification every three years and annual audits of compliance with these requirements. Current quality management compliance certificate was issued on 16 March 2012 and is valid until 15 March 2015.

## Financial results

The consolidated sales in 2013 amount to EUR 88.53 Million or LVL 62.22 Million. Consolidation includes the data of subsidiary Valmiera Glass UK Ltd for the fourth quarter 2013.

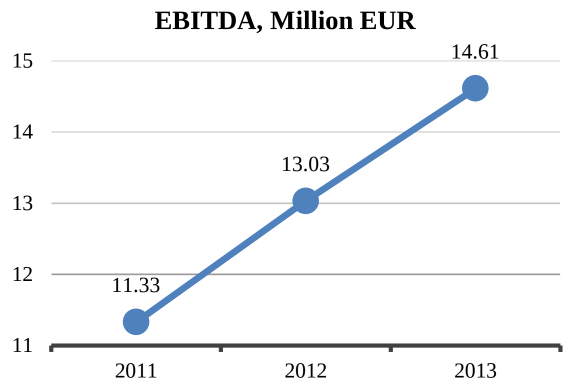
In 2013 AS Valmieras stikla šķiedra reached the highest sales during its existence. If compared with AS Valmieras stikla šķiedra sales for 2012, the increase amounts to EUR 17.52 Million (LVL 12.31 Million) or 25%. The contribution of the subsidiary for the last 3 month of 2013 is EUR 4.72 Million (LVL 3.32 Million). The consolidated net profit of the Group amount to EUR 5.10 Million or LVL 3.59 Million, which exceeds the profit of AS Valmieras stikla šķiedra in 2012 by 30%.

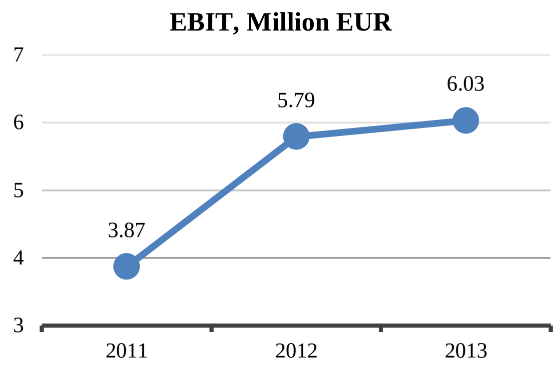


The operating profit (EBITDA) for 2013 was EUR 14.61 Million (LVL 10.27 Million) that is by 12% more than in 2012.

Earnings before interest and taxes (EBIT) for 2013 reached EUR 5.92 Million (LVL 4.16 Million), which is by 3.8% more than in 2012.




Return on capital employed (ROCE) amounts to 7.5% and consolidated operating profit margin for 2013 was 6.8%.

Total investments in 2013 amounted to EUR 10.84 Million (LVL 7.62 Million), which includes acquisition of new equipment, modernisation of existing technical and technological solutions and development of new products with the purpose to increase the production capacity.

In 2014 the Group plans to invest EUR 8.62 million in the development of the Group, including investments in new equipment and modernization of existing technological solutions. Considering the market development trends and the results of the Group, the management of the Group plans that sales for 2014 could reach EUR 127.02 Million. Based on the management forecasts and budget, the net consolidated profit for 2014 could amount to EUR 9.31 Million.

**Stock exchange market**

The shares of AS Valmieras stikla šķiedra are listed on NASDAQ OMX Riga Secondary market since 24 February 1997.

From 1 January 2013 till 31 December 2013 the share price of the Company has increased by EUR 0.854 (LVL 0.60) or 70.59%. The value of one share on 1 January 2013 was EUR 1.209 (LVL 0.85), while until 31 December 2013 the price had grown to EUR 2.063 (LVL 1.45). Profit per share in 2013 amounts to EUR 0.2102 (LVL 0.1477), which is the maximum price in the history of the Company.

The total number of traded shares of the Company in 2013 was 276 thousand amounting to EUR 480 thousand (LVL 337.35 thousand).

*The share price development of AS „Valmieras stikla šķiedra" during the period from 1 January 2013 to 31 December 2013.*
*Information from: AS „NASDAQ OMX Riga", home page www.nasdaqomxbaltic.com*


On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. There have been no other significant events since the end of the reporting period to the date of signing of this report that could materially affect the results of the reporting period, require adjustments to the consolidated financial statements or should be disclosed in the notes.

Andris Oskars Brutāns
The Chairman of the Board
28 March 2014

## STATEMENT OF MANAGEMENT RESPONSIBILITIES

The management of AS Valmieras stikla skiedra is responsible for the preparation of the consolidated financial statements of the Group.

The consolidated financial statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2013 and the results of its operations and cash flows for the year then ended. The management confirms that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the consolidated 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 consolidated 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 Group and to prevent and detect fraud and other irregularities.

On behalf of the management

Andris Oskars Brutāns
Chairman of the Board

28 March 2014

Deloitte.

Deloitte Audits Latvia SIA
Grēdu iela 4a
Rīga, LV -1019
Latvija

Tālr.: (+371) 6707 4100
Fakss: (+371) 6707 4103
www.deloitte.com/lv

**INDEPENDENT AUDITORS' REPORT**

To the shareholders of AS Valmieras Stikla Skiedra

**Translation from Latvian**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of AS Valmieras Stikla Skiedra and its subsidiary Valmiera Glass UK Ltd (the Group) set out on pages 9 to 47 of the accompanying consolidated annual report, which comprise the consolidated statement of financial position as of 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2013, and of its consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

We have read the consolidated management report for 2013 set out on pages 4 to 6 of the accompanying consolidated annual report for 2013 and have not identified any material inconsistencies between the consolidated financial information contained in the management report and the consolidated financial statements for 2013.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stuģis
Member of the Board

Elīna Sedliņa
Certified auditor of Latvia
Certificate No. 179

Riga, Latvia
28 March 2014

| | Notes | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| **Intangible assets** | | | | |
| Software licenses, patents, trade marks and other rights | 4 | 36,149 | 16,435 | 9,418 |
| Software in acquisition process | 4 | 110,296 | 110,296 | 22,277 |
| Goodwill | 5 | 2,762,597 | - | - |
| **Total intangible assets** | | **2,909,042** | **126,731** | **31,695** |
| **Tangible assets** | | | | |
| Land and buildings | 6 | 8,405,935 | 8,229,441 | 8,081,078 |
| Equipment and machinery | 6 | 34,021,409 | 31,694,271 | 30,050,498 |
| Other fixed assets | 6 | 569,945 | 260,475 | 244,431 |
| Construction in progress | 6 | 2,571,689 | 1,432,167 | 578,763 |
| Advance payments for fixed assets | | 537,408 | 732,817 | 334,436 |
| **Total tangible assets** | | **46,106,386** | **42,349,171** | **39,289,206** |
| **Deferred tax asset** | 30 | 765,275 | - | - |
| **Total non-current assets** | | **49,780,703** | **42,475,902** | **39,320,901** |
| **Current assets** | | | | |
| **Inventories** | | | | |
| Raw materials | 7 | 6,394,904 | 4,298,928 | 4,275,621 |
| Work in progress | | 1,918,769 | 1,457,109 | 1,269,216 |
| Finished goods | 8 | 8,549,655 | 5,137,301 | 4,536,750 |
| Advance payments for inventories | | 55,852 | 27,623 | 14,861 |
| **Total inventories** | | **16,919,180** | **10,920,961** | **10,096,448** |
| **Accounts receivable** | | | | |
| Trade receivables | 9 | 8,811,181 | 6,476,834 | 5,996,120 |
| Other receivables | 10 | 662,536 | 597,501 | 582,766 |
| Deferred expenses | 11 | 150,646 | 245,469 | 311,846 |
| **Total accounts receivable** | | **9,624,363** | **7,319,804** | **6,890,732** |
| **Cash and cash equivalents** | 12 | **825,880** | **168,422** | **218,637** |
| **Total current assets** | | **27,369,423** | **18,409,187** | **17,205,817** |
| **TOTAL ASSETS** | | **77,150,126** | **60,885,089** | **56,526,718** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

| | |
|---|---|
| Andris Oskars Brutāns | Jürgen Preiss-Daimler |
| Chairman of the Board | Chairman of the Council |

| | Notes | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 13 | 23,903,205 | 23,903,205 | 23,903,205 |
| Other reserves | | 333,973 | - | - |
| Retained earnings | | 9,460,801 | 6,973,614 | 4,885,173 |
| **Total equity** | | **33,697,979** | **30,876,819** | **28,788,378** |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 18,071,979 | 14,093,090 | 16,483,602 |
| Finance lease | 15 | 91,908 | 77,374 | 19,149 |
| Deferred tax liabilities | 30 | 289,180 | 113,729 | - |
| Defined benefit obligation | 20 | 3,127,530 | - | - |
| Deferred income | 21 | 891,063 | 688,809 | - |
| Derivative | 34 | 1,142,644 | 1,738,027 | 1,699,187 |
| **Total non-current liabilities** | | **23,614,304** | **16,711,029** | **18,201,938** |
| **Current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 7,721,206 | 6,830,917 | 5,448,763 |
| Finance lease | 15 | 51,567 | 38,810 | 14,362 |
| Advance payments from customers | | 95,754 | 131,070 | 104,674 |
| Trade payables | 16 | 9,146,600 | 5,164,137 | 3,093,787 |
| Taxes and social security contributions | 17 | 529,675 | 428,531 | 472,253 |
| Other accounts payable | 18 | 385,673 | 350,907 | 245,485 |
| Accrued liabilities | 19 | 1,092,266 | 248,394 | 157,078 |
| Defined benefit obligation | 20 | 698,847 | - | - |
| Deferred income | 21 | 116,255 | 104,475 | - |
| **Total current liabilities** | | **19,837,843** | **13,297,241** | **9,536,402** |
| **Total liabilities** | | **43,452,147** | **30,008,270** | **27,738,340** |
| **TOTAL EQUITY AND LIABILITIES** | | **77,150,126** | **60,885,089** | **56,526,718** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

**AS VALMIERAS STIKLA ŠĶIEDRA**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS OF 31 DECEMBER 2013**

| | Notes | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| **Intangible assets** | | | | |
| Software licenses, patents, trade marks and other rights | 4 | 51,435 | 23,385 | 13,401 |
| Software in acquisition process | 4 | 156,937 | 156,937 | 31,697 |
| Goodwill | 5 | 3,930,822 | - | - |
| **Total intangible assets** | | **4,139,194** | **180,322** | **45,098** |
| **Tangible assets** | | | | |
| Land and buildings | 6 | 11,960,567 | 11,709,439 | 11,498,338 |
| Equipment and machinery | 6 | 48,408,104 | 45,096,885 | 42,758,006 |
| Other fixed assets | 6 | 810,959 | 370,624 | 347,795 |
| Construction in progress | 6 | 3,659,184 | 2,037,790 | 823,506 |
| Advance payments for fixed assets | | 764,663 | 1,042,704 | 475,859 |
| **Total tangible assets** | | **65,603,477** | **60,257,442** | **55,903,504** |
| **Deferred tax asset** | 30 | 1,088,889 | **-** | **-** |
| **Total non-current assets** | | **70,831,560** | **60,437,764** | **55,948,602** |
| **Current assets** | | | | |
| **Inventories** | | | | |
| Raw materials | 7 | 9,099,129 | 6,116,823 | 6,083,661 |
| Work in progress | | 2,730,162 | 2,073,279 | 1,805,932 |
| Finished goods | 8 | 12,165,063 | 7,309,721 | 6,455,214 |
| Advance payments for inventories | | 79,470 | 39,304 | 21,145 |
| **Total inventories** | | **24,073,824** | **15,539,127** | **14,365,952** |
| **Accounts receivable** | | | | |
| Trade receivables | 9 | 12,537,181 | 9,215,705 | 8,531,710 |
| Other receivables | 10 | 942,704 | 850,167 | 829,201 |
| Deferred expenses | 11 | 214,350 | 349,271 | 443,717 |
| **Total accounts receivable** | | **13,694,235** | **10,415,143** | **9,804,628** |
| **Cash and cash equivalents** | 12 | **1,175,121** | **239,643** | **311,092** |
| **Total current assets** | | **38,943,180** | **26,193,913** | **24,481,672** |
| **TOTAL ASSETS** | | **109,774,740** | **86,631,677** | **80,430,274** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

| | Notes | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 13 | 34,011,197 | 34,011,197 | 34,011,197 |
| Other reserves | | 475,201 | - | - |
| Retained earnings | | 13,461,507 | 9,922,558 | 6,950,974 |
| **Total equity** | | **47,947,905** | **43,933,755** | **40,962,171** |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 25,714,109 | 20,052,660 | 23,454,053 |
| Finance lease | 15 | 130,773 | 110,093 | 27,246 |
| Deferred tax liabilities | 30 | 411,466 | 161,822 | - |
| Defined benefit obligation | 20 | 4,450,074 | - | - |
| Deferred income | 21 | 1,267,868 | 980,087 | - |
| Derivative | 34 | 1,625,836 | 2,472,990 | 2,417,725 |
| **Total non-current liabilities** | | **33,600,126** | **23,777,652** | **25,899,024** |
| **Current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 10,986,287 | 9,719,519 | 7,752,891 |
| Finance lease | 15 | 73,373 | 55,222 | 20,436 |
| Advance payments from customers | | 136,246 | 186,497 | 148,939 |
| Trade payables | 16 | 13,014,438 | 7,347,905 | 4,402,062 |
| Taxes and social security contributions | 17 | 753,660 | 609,744 | 671,955 |
| Other accounts payable | 18 | 548,764 | 499,296 | 349,294 |
| Accrued liabilities | 19 | 1,554,155 | 353,433 | 223,502 |
| Defined benefit obligation | 20 | 994,370 | - | - |
| Deferred income | 21 | 165,416 | 148,654 | - |
| **Total current liabilities** | | **28,226,709** | **18,920,270** | **13,569,079** |
| **Total liabilities** | | **61,826,835** | **42,697,922** | **39,468,103** |
| **TOTAL EQUITY AND LIABILITIES** | | **109,774,740** | **86,631,677** | **80,430,274** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

**AS VALMIERAS STIKLA ŠĶIEDRA**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE YEAR 2013**

| | Notes | 2013 LVL | 2013 EUR | 2012 LVL | 2012 EUR |
|---|---|---|---|---|---|
| Sales | 22 | 62,221,039 | 88,532,563 | 49,907,073 | 71,011,367 |
| Change in inventories | | 1,098,481 | 1,562,995 | 799,027 | 1,136,913 |
| Costs capitalized to non-current assets | | 96,141 | 136,796 | 102,547 | 145,910 |
| Other operating income | 23 | 1,079,100 | 1,535,421 | 292,249 | 415,833 |
| Raw materials and consumables | 24 | (33,771,349) | (48,052,301) | (26,114,233) | (37,157,206) |
| Personnel expenses | 25 | (10,704,943) | (15,231,761) | (8,345,330) | (11,874,334) |
| Depreciation and amortization | 26 | (6,032,971) | (8,584,144) | (5,092,176) | (7,245,513) |
| Other operating expenses | 27 | (9,750,240) | (13,873,342) | (7,482,197) | (10,646,207) |
| **Profit from operations** | | **4,235,258** | **6,026,227** | **4,066,960** | **5,786,763** |
| Interest and similar income | 28 | 617,961 | 879,280 | 1,639 | 2,332 |
| Interest and similar expenses | 29 | (1,175,621) | (1,672,757) | (1,244,945) | (1,771,397) |
| **Profit before tax** | | **3,677,598** | **5,232,750** | 2,823,654 | 4,017,698 |
| Corporate income tax | 30 | (90,864) | (129,287) | (113,729) | (161,822) |
| **PROFIT FOR THE YEAR** | | **3,586,734** | **5,103,463** | **2,709,925** | **3,855,876** |
| **Earnings per share** | 31 | **0.1501** | **0.2135** | **0.1134** | **0.1614** |
| **Other comprehensive income** | | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | | |
| Remeasurement of defined benefit obligation | 20 | 400,713 | 570,163 | - | - |
| Income tax relating to items that will not be reclassified subsequently | 30 | (80,143) | (114,033) | - | - |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | |
| Exchange differences on translating foreign operations | | 13,403 | 19,071 | - | - |
| **Other comprehensive income for the year, net of income tax** | | **333,973** | **475,201** | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **3,920,707** | **5,578,664** | **2,709,925** | **3,855,876** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2013

| | LVL | | | |
|---|---|---|---|---|
| | **Share capital** | **Retained earnings** | **Other reserves** | **Total** |
| **As of 1 January 2012** | **23,903,205** | **4,885,173** | **-** | **28,788,378** |
| Payment of dividends | - | (621,484) | - | (621,484) |
| Current year profit | - | 2,709,925 | - | 2,709,925 |
| **As of 31 December 2012** | **23,903,205** | **6,973,614** | **-** | **30,876,819** |
| Payment of dividends | - | (1,099,547) | - | (1,099,547) |
| Current year profit | - | 3,586,734 | - | 3,586,734 |
| Other comprehensive income | - | - | 333,973 | 333,973 |
| *Remeasurement of defined benefit obligation* | - | - | *400,713* | *400,713* |
| *Income tax relating to defined benefit obligation* | - | - | *(80,143)* | *(80,143)* |
| *Exchange differences on translating foreign operations* | - | - | *13,403* | *13,403* |
| **As of 31 December 2013** | **23,903,205** | **9,460,801** | **333,973** | **33,697,979** |

| | EUR | | | |
|---|---|---|---|---|
| | **Share capital** | **Retained earnings** | **Other reserves** | **Total** |
| **As of 1 January 2012** | **34,011,197** | **6,950,974** | **-** | **40,962,171** |
| Payment of dividends | - | (884,292) | - | (884,292) |
| Current year profit | - | 3,855,876 | - | 3,855,876 |
| **As of 31 December 2012** | **34,011,197** | **9,922,558** | **-** | **43,933,755** |
| Payment of dividends | - | (1,564,514) | - | (1,564,514) |
| Current year profit | - | 5,103,463 | - | 5,103,463 |
| Other comprehensive income | - | - | 475,201 | 475,201 |
| *Remeasurement of defined benefit obligation* | - | - | *570,163* | *570,163* |
| *Income tax relating to defined benefit obligation* | - | - | *(114,033)* | *(114,033)* |
| *Exchange differences on translating foreign operations* | - | - | *19,071* | *19,071* |
| **As of 31 December 2013** | **34,011,197** | **13,461,507** | **475,201** | **47,947,905** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

| | |
|---|---|
| Andris Oskars Brutāns | Jürgen Preiss-Daimler |
| Chairman of the Board | Chairman of the Council |

## STATEMENT OF CASH FLOWS
## FOR THE YEAR 2013

| | Notes | 2013 LVL | 2013 EUR | 2012 LVL | 2012 EUR |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Profit before tax | | 3,677,597 | 5,232,750 | 2,823,654 | 4,017,698 |
| Adjustments: | | | | | |
| Change in fair value of derivative | 28 | (595,383) | (847,154) | 38,840 | 55,264 |
| Depreciation and amortization | 26 | 6,032,971 | 8,584,144 | 5,092,176 | 7,245,513 |
| Loss from disposal of fixed assets | | 1,360 | 1,935 | 5,241 | 7,457 |
| Interest expenses | 29 | 1,175,621 | 1,672,757 | 1,063,951 | 1,513,866 |
| Interest income | 28 | (21,348) | (30,376) | (1,639) | (2,332) |
| Income on EU grants | | (155,033) | (220,592) | - | - |
| **Changes in operating assets and liabilities:** | | | | | |
| Inventories | | (1,878,633) | (2,673,054) | (824,513) | (1,173,176) |
| Accounts receivable and other assets | | (10,690) | (15,210) | (429,072) | (610,514) |
| Accounts payable and other liabilities | | 1,007,695 | 1,433,822 | 1,494,983 | 2,127,169 |
| Interest received | | 21,348 | 30,376 | 1,639 | 2,332 |
| **Cash provided by operating activities** | | **9,255,505** | **13,169,398** | **9,265,260** | **13,183,277** |
| **INVESTING ACTIVITIES** | | | | | |
| Purchase of fixed and intangible assets | | (8,695,362) | (12,372,386) | (7,375,300) | (10,494,106 ) |
| Acquisition of subsidiary | 5 | (3,089,141) | (4,395,452) | - | - |
| **Net cash used in investing activities** | | **(11,784,503)** | **(16,767,838)** | **(7,375,300)** | **(10,494,106)** |
| **FINANCING ACTIVITIES** | | | | | |
| Loans received | | 8,085,463 | 11,504,577 | 676,516 | 962,596 |
| Loans paid | | (3,810,243) | (5,421,488) | (3,020,643) | (4,297,988) |
| Change in credit line | | 593,959 | 845,127 | 1,335,768 | 1,900,627 |
| Dividends paid | | (1,099,547) | (1,564,515) | (621,484) | (884,292) |
| Finance lease paid | | (141,662) | (201,566) | (36,797) | (52,357) |
| Received EU funding | | 695,153 | 989,114 | 793,284 | 1,128,741 |
| Interest paid | | (1,136,667) | (1,617,331) | (1,066,819) | (1,517,947) |
| **Net cash provided by / (used in) financing activities** | | **3,186,456** | **4,533,918** | **(1,940,175)** | **(2,760,620)** |
| Net increase / (decrease) in cash and cash equivalents | | 657,458 | 935,478 | (50,215) | (71,449) |
| Cash and cash equivalents at the beginning of the year | | 168,422 | 239,643 | 218,637 | 311,092 |
| **Cash and cash equivalents at the end of the year** | 12 | **825,880** | **1,175,121** | **168,422** | **239,643** |

*The accompanying notes on pages 14 to 47 are an integral part of these consolidated financial statements.*

On behalf of the management the consolidated financial statements were signed on 28 March 2014 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

## 1. GENERAL INFORMATION

The Group consists of parent company AS Valmieras stikla šķiedra, which is registered as a joint stock company in the Commercial Register of the Republic of Latvia, and Valmiera Glas UK (previously – P-D Integrlas Technologies Ltd.), which is registered as limited liability company in the Commercial Register of United Kingdom. The principal activity of the Group is production of fibreglass and fibreglass products.

AS Valmieras stikla šķiedra obtained control over the subsidiary on 4 October 2013. The consolidated statement of profit and loss, statement of cash flows for 2013 and related notes includes the data of subsidiary for the period from 1 October 2013 to 31 December 2013. Comparative statement of profit and loss and statement of cash flows include the data of AS Valmieras Stikla Skiedra only and is therefore not fully comparable with current year information.

## 2. BASIS OF PREPARATION

***Statement of compliance***

The consolidated 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 at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

***Transition to IFRS***

These are the Group's first financial statements prepared in accordance with IFRSs since 2007. For periods from 1 January 2008 to and including the year ended 31 December 2012, AS Valmieras Stikla Skiedra prepared its financial statements in accordance with Latvian Law On Annual Reports as application of IFRSs was not mandatory. In 2013, the Company acquired subsidiary and, based on Latvian Law On Financial Instruments, was required to prepare consolidated financial statements in accordance with IFRS.

The accounting policies set out in the Note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2013, the comparative information presented in these financial statements for the year ended 31 December 2012 and in the preparation of an opening IFRS statement of financial position at 1 January 2012.

In preparing its opening IFRS statement of the financial position the Group has adjusted amounts reported previously in financial statements prepared in accordance with Latvian Law On Annual Reports. The only material adjustment relates to valuation of derivative financial instrument. Under Latvian Law On Annual Reports, the derivative financial instrument was stated at cost. The derivative financial instruments shall be stated at fair value for IFRS reporting purposes. An explanation of how the transition from Latvian Law On Annual Reports to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following table:

| | Under Latvian Law on Annual Reports | Adjustment for valuation of derivative financial instrument | Under IFRS |
|---|---|---|---|
| | LVL | LVL | LVL |
| **Statement of financial position 31.12.2012** | | | |
| **Equity** | | | |
| Share capital | 23,903,205 | - | 23,903,205 |
| Retained earnings | 5,962,877 | (1,699,187) | 4,263,690 |
| Current year profit | 2,748,765 | (38,840) | 2,709,925 |
| **Total equity** | **32,614,847** | **(1,738,027)** | **30,876,820** |
| Non-current liabilities | | | |
| Derivative financial instruments | - | 1,301,924 | 1,301,924 |
| Current liabilities | | | |
| Derivative financial instruments | - | 436,103 | 436,103 |
| **Total liabilities** | **28,270,242** | **1,738,027** | **30,008,269** |
| **Income statement for 2012** | | | |
| Interest and similar expenses | (1,206,105) | (38,840) | (1,244,945) |
| **Statement of cash flows for 2012** | | | |
| Profit before tax | 2,862,494 | (38,840) | 2,823,654 |
| Changes in fair value of financial instruments | - | 38,840 | 38,840 |
| **Statement of financial position 01.01.2012** | | | |
| **Equity** | | | |
| Share capital | 23,903,205 | | 23,903,205 |
| Retained earnings | 6,584,361 | (1,699,187) | 4,885,174 |
| **Total equity** | **30,487,566** | **(1,699,187)** | **28,788,379** |
| Non-current liabilities | | | |
| Derivative financial instruments | - | 1,405,053 | 1,405,053 |
| Current liabilities | | | |
| Derivative financial instruments | - | 294,134 | 294,134 |
| **Total liabilities** | **26,039,152** | **1,699,187** | **27,738,339** |

| | Under Latvian Law on Annual Reports EUR | Adjustment for valuation of derivative financial instrument EUR | Under IFRS EUR |
|---|---|---|---|
| **Statement of financial position 31.12.2012** | | | |
| **Equity** | | | |
| Share capital | 34,011,197 | - | 34,011,197 |
| Retained earnings | 8,484,408 | (2,417,725) | 6,066,682 |
| Current year profit | 3,911,140 | (55,264) | 3,855,876 |
| **Total equity** | **46,406,745** | **(2,472,990)** | **43,933,755** |
| Non-current liabilities | | | |
| Derivative financial instruments | - | 1,852,471 | 1,852,471 |
| Current liabilities | | | |
| Derivative financial instruments | - | 620,519 | 620,519 |
| **Total liabilities** | **40,224,930** | **2,472,990** | **42,697,920** |
| **Income statement for 2012** | | | |
| Interest and similar expenses | (1,716,133) | (55,264) | (1,771,397) |
| **Statement of cash flows for 2012** | | | |
| Profit before tax | 4,072,962 | (55,264) | 4,017,698 |
| Changes in fair value of financial instruments | - | 55,264 | 55,264 |
| **Statement of financial position 01.01.2012** | | | |
| **Equity** | | | |
| Share capital | 34,011,197 | - | 34,011,197 |
| Retained earnings | 9,368,702 | (2,417,725) | 6,950,976 |
| **Total equity** | **43,379,898** | **(2,417,725)** | **40,962,173** |
| Non-current liabilities | | | |
| Derivative financial instruments | - | 1,999,210 | 1,999,210 |
| Current liabilities | | | |
| Derivative financial instruments | - | 418,515 | 418,515 |
| **Total liabilities** | **37,050,378** | **2,417,725** | **39,468,103** |

***Standards and Interpretations issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities”** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements”** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 32 “Financial instruments: presentation”** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 20 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 36 “Impairment of assets”** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

***Standards and Interpretations issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at date of publication of these financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 9 “Financial Instruments” and subsequent amendments** (effective date 1 January 2018),

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **IFRIC 21 “Levies”** (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of all other standards revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

## 3. ACCOUNTING POLICIES

***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.

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.

***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, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

***Foreign currencies***

The functional currency of AS Valmieras Stikla Skiedra is Latvian Lat as Latvia is the primary economic environment in which the Company operate. Based on the requirements for listing in Riga Stock Exchange, the Group is also presenting these consolidated financial statements in Euro. Latvian Lat is pegged to the Euro at a fixed rate of 0.702804 Lats to 1 Euro. The functional currency of the subsidiary is GBP.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’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 these consolidated financial statements, the assets and liabilities of the subsidiary are translated into Latvian Lat using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

The applicable rates used for the translation to LVL as of 31 December were as follows:

| | 2013 | 2012 |
|---|---|---|
| GBP | 0.843 | 0.857 |
| RUB | 0.0156 | 0.0174 |
| SEK | 0.0805 | 0.0805 |
| USD | 0.515 | 0.531 |

***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:

| | Annual rate |
|---|---|
| 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 income statement 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. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

***Inventories***

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labor 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 at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from services is 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 services to be provided.

Interest income is recognized in the statement of profit and loss on an accrual basis of accounting using the effective interest rate method.

***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.

***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. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. 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; and
- remeasurement.

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 is recognized in equity when arises.

**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 loans and receivables*
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.

**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.

O*ther financial liabilities*

Other financial liabilities of the Group comprise of borrowings, trade and other payables. These financial liabilities are initially measured at fair value less transaction costs, and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

***Taxation***

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rate that have been enacted for the reporting year.

*Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. The deferred tax liability is calculated based on the tax rates that are expected to apply when temporary timing differences reverse. The principal temporary timing differences mainly arise from different accounting and tax depreciation rates of fixed assets and unused tax losses. Where a deferred tax asset arises, this is only recognized in the financial statements where its recoverability can be estimated with reasonable certainty.

***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 on hand 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 attached 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.

***Emission rights***

The Group is a participant of the EU $CO_2$ emission allowance trading scheme and receives an allocation of allowances for emission of greenhouse gas from the Latvian authorities. The Group records emission allowances received at cost, if any. If the actual emission exceeds the amount of allowance, the shortfall is recognized in current liabilities and profit and loss statement. Liabilities are measured based on additional allowances required and estimated purchase cost.

***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:

*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 utilisation 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 are lower than their carrying amounts. The Group’s management calculates and records an impairment loss on property, plant and equipment based on the estimates related to the expected future use, planned liquidation or sale of the assets. Taking into consideration the Group’s planned level of activities and the estimated market value of the assets, the Group’s management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary as of 31 December 2013.

*Recoverability of deferred tax assets on tax loss carried forward*
The Group assesses the availability of taxable profits during the period when tax losses carried forward can be used (see Note 30). 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 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 then an allowance is recorded. The Group's management has evaluated the net realisable value of inventories and considers that it is not necessary to make an additional significant allowance as of 31 December 2013.

*Allowance for doubtful and bad trade receivables*
The Group's management evaluates the carrying amount of trade receivable on individual basis and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The Group's management has evaluated the trade receivables and considers that it allowances provided are sufficient to cover the impairment loss as of 31 December 2013.

*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 and the discount rate.

## 4. OTHER INTANGIBLE ASSETS

| | Software licenses, patents, trade marks and other rights | | Software in acquisition process | | Total | |
|---|---|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** | **LVL** | **EUR** |
| HISTORICAL COST | | | | | | |
| **01.01.2012** | **152,405** | **216,854** | **22,277** | **31,697** | **174,682** | **248,551** |
| Additions | 11,320 | 16,107 | 88,019 | 125,240 | 99,339 | 141,347 |
| **31.12.2012** | **163,725** | **232,961** | **110,296** | **156,937** | **274,021** | **389,898** |
| Additions | 26,655 | 37,926 | - | - | 26,655 | 37,926 |
| **31.12.2013** | **190,380** | **270,887** | **110,296** | **156,937** | **300,676** | **427,824** |
| ACCUMULATED AMORTISATION | | | | | | |
| **01.01.2012** | **142,987** | **203,453** | **-** | **-** | **142,987** | **203,453** |
| Charge for the year | 4,303 | 6,123 | - | - | 4,303 | 6,123 |
| **31.12.2012** | **147,290** | **209,576** | **-** | **-** | **147,290** | **209,576** |
| Charge for the year | 6,941 | 9,876 | - | - | 6,941 | 9,876 |
| **31.12.2013** | **154,231** | **219,452** | **-** | **-** | **154,231** | **219,452** |
| NET CARRYING AMOUNT | | | | | | |
| **31.12.2012** | **16,435** | **23,385** | **110,296** | **156,937** | **126,731** | **180,322** |
| **31.12.2013** | **36,149** | **51,435** | **110,296** | **156,937** | **146,445** | **208,372** |

## 5. GOODWILL

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. The principal activities of the subsidiary is manufacturing of glass fibre products for aerospace industry, insulation and architecture.

Total cost of acquisition amounts to EUR 13,001,000 (LVL 9,137,155), which consists of consideration transferrable to the seller in amount of EUR 10,001,000 (LVL 7,028,743) and loan issued by the subsidiary to its previous shareholder in amount of EUR 3,000,000 (LVL 2,108,412), which was assigned to AS Valmieras Stikla Skiedra as a part of the acquisition transaction. Consideration in amount of EUR 6,000,000 (LVL 4,216,824) was paid during 2013. Remaining part of purchase consideration is payable in 2014.

Assets acquired and liabilities recognised at the date of acquisition, and resulting goodwill are as follows:

| | LVL | EUR |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 1,127,683 | 1,604,548 |
| Trade and other receivables | 4,402,281 | 6,263,881 |
| Inventories | 4,119,586 | 5,861,643 |
| **Non-current assets** | | |
| Plant and equipment | 1,642,851 | 2,337,567 |
| Deferred tax asset | 836,651 | 1,190,447 |
| **Current Payables** | | |
| Trade and other liabilities | (1,571,240) | (2,235,674) |
| Defined benefit obligations | (4,183,254) | (5,952,234) |
| **Fair value of identifiable net assets acquired** | **6,374,558** | **9,070,178** |
| **Consideration** | **9,137,155** | **13,001,000** |
| **Goodwill arising on acquisition** | **2,762,597** | **3,930,822** |

Goodwill arose in the acquisition of Valmiera Glass UK Ltd because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These and other benefits resulting from the acquisition are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition of subsidiary:

| | LVL | EUR |
|---|---|---|
| Consideration paid in cash | 4,216,824 | 6,000,000 |
| Acquired Cash and cash equivalents of the subsidiary | (1,127,683) | (1,604,548) |
| **Total** | **3,089,141** | **4,395,452** |

## 6. TANGIBLE FIXED ASSETS

| | Land | Buildings | Equipment and machinery | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | LVL | LVL | LVL | LVL | LVL | LVL |
| HISTORICAL COST | | | | | | |
| **01.01.2012** | **242,936** | **14,943,632** | **58,917,298** | **2,204,518** | **578,763** | **76,887,147** |
| Additions | - | - | - | - | 7,754,698 | **7,754,698** |
| Disposals | - | (116,867) | (2,250,091) | (34,563) | - | **(2,401,521)** |
| Transfers | 95 | 1,032,431 | 5,741,217 | 127,551 | (6,901,294) | **-** |
| **31.12.2012** | **243,031** | **15,859,196** | **62,408,424** | **2,297,506** | **1,432,167** | **82,240,324** |
| Additions | - | - | 25,013 | 16,476 | 7,577,359 | **7,618,848** |
| Acquisition through business combination | - | 2,603,638 | 9,244,830 | 770,440 | - | **12,618,908** |
| Disposals | - | (29,636) | (759,533) | (160,570) | - | **(949,739)** |
| Transfers | 20,824 | 546,515 | 5,514,244 | 356,254 | (6,437,837) | **-** |
| **31.12.2013** | **263,855** | **18,979,713** | **76,432,978** | **3,280,106** | **2,571,689** | **101,528,341** |
| | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | |
| **01.01.2012** | **-** | **7,105,490** | **28,866,800** | **1,960,087** | **-** | **37,932,377** |
| Charge for the year | - | 884,163 | 4,092,319 | 111,391 | - | **5,087,873** |
| Disposals | - | (116,867) | (2,244,966) | (34,447) | - | **(2,396,280)** |
| **31.12.2012** | **-** | **7,872,786** | **30,714,153** | **2,037,031** | **-** | **40,623,970** |
| Acquisition through business combination | - | 2,014,400 | 7,510,048 | 674,435 | - | **10,198,883** |
| Charge for the year | - | 979,668 | 4,887,545 | 158,816 | - | **6,026,029** |
| Disposals | - | (29,221) | (700,177) | (160,121) | - | **(889,519)** |
| **31.12.2013** | **-** | **10,837,633** | **42,411,569** | **2,710,161** | **-** | **55,959,363** |
| | | | | | | |
| NET CARRYING AMOUNT | | | | | | |
| **31.12.2012** | **243,031** | **7,986,410** | **31,694,271** | **260,475** | **1,432,167** | **41,616,354** |
| **31.12.2013** | **263,855** | **8,142,080** | **34,021,409** | **569,945** | **2,571,689** | **45,568,978** |

| | Land | Buildings | Equipment and machinery | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| HISTORICAL COST | | | | | | |
| **01.01.2012** | **345,667** | **21,262,872** | **83,831,762** | **3,136,747** | **823,506** | **109,400,554** |
| Additions | - | - | - | - | 11,033,941 | 11,033,941 |
| Disposals | - | (166,287) | (3,201,591) | (49,179) | - | (3,417,057) |
| Transfers | 135 | 1,469,017 | 8,169,016 | 181,489 | (9,819,657) | - |
| **31.12.2012** | **345,802** | **22,565,602** | **88,799,187** | **3,269,057** | **2,037,790** | **117,017,438** |
| Additions | - | - | 35,590 | - | 10,773,900 | 10,809,490 |
| Acquisition through business combination | - | 3,704,642 | 13,154,208 | 1,096,238 | - | 17,955,088 |
| Disposals | - | (42,168) | (1,080,718) | (228,471) | - | (1,351,357) |
| Transfers | 29,630 | 777,621 | 7,846,062 | 506,904 | (9,160,217) | - |
| **31.12.2013** | **375,432** | **27,005,697** | **108,754,329** | **4,667,171** | **3,659,184** | **144,416,813** |
| | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | |
| **01.01.2012** | **-** | **10,110,201** | **41,073,756** | **2,788,952** | **-** | **53,972,909** |
| Charge for the year | - | 1,258,051 | 5,822,845 | 158,495 | - | 7,239,391 |
| Disposals | - | (166,287) | (3,194,299) | (49,014) | - | (3,409,600) |
| **31.12.2012** | **-** | **11,201,965** | **43,702,302** | **2,898,433** | **-** | **57,802,700** |
| Acquisition through business combination | - | 2,866,233 | 10,685,835 | 959,635 | - | 14,511,703 |
| Charge for the year | - | 1,393,942 | 6,954,348 | 225,976 | - | 8,574,266 |
| Disposals | - | (41,578) | (996,260) | (227,832) | - | (1,265,670) |
| **31.12.2013** | **-** | **15,420,562** | **60,346,225** | **3,856,212** | **-** | **79,622,999** |
| | | | | | | |
| NET CARRYING AMOUNT | | | | | | |
| **31.12.2012** | **345,802** | **11,363,637** | **45,096,885** | **370,624** | **2,037,790** | **59,214,738** |
| **31.12.2013** | **375,432** | **11,585,135** | **48,408,104** | **810,959** | **3,659,184** | **64,838,814** |

The Group has pledged tangible fixed assets with a total carrying amount as of 31 December 2013 of LVL 43,421,550 (EUR 61,783,301) (2012: LVL 41,743,085 (EUR 55,472,743))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 2013 amounted to LVL 17,766,427 (EUR 25,279,348) (2012: LVL 9,043,568 (EUR 12,867,838)).

Equipment and machinery includes precious metal plates that are used in production, with net carrying amount as of 31 December 2013 of LVL 5,732,817 (EUR 8,157,064) (2012: LVL 5,979,128(EUR 8,507,533)). According to the metal prices quoted in London Stock Exchange as at 31 December 2013 the market price of the precious metals was LVL 8,863,293 (EUR 12,611,330) (2012: LVL 10,866,065 (EUR 15,461,018)). The average technical depletion of the plates in 2013 was 3.56% (2012: 2.79%).

The additions to property, plant and equipment include capitalised direct expenses related with development of fixed assets incurred on qualifying capital expenditure projects and capitalised based on the labour hours spent on those projects. The total amount of expenses capitalised to property, plant and equipment was LVL 96,141 (EUR 136 796) during 2013 (in 2012: LVL 102,547 (EUR 145,910).

The Group did not incur borrowing costs eligible for capitalisation during 2013 and 2012.

## 7. RAW MATERIALS

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Raw materials | 6,444,904 | 4,348,928 | 4,275,621 |
| Allowance for slow moving inventories | (50,000) | (50,000) | - |
| **Total** | **6,394,904** | **4,298,928** | **4,275,621** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Raw materials | 9,170,273 | 6,187,967 | 6,083,661 |
| Allowance for slow moving inventories | (71,144) | (71,144) | - |
| **Total** | **9,099,129** | **6,116,823** | **6,083,661** |

## 8. FINISHED GOODS

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Finished goods | 8,659,552 | 5,192,860 | 4,608,352 |
| Allowance for excess of net realizable value over cost | (109,897) | (55,559) | (71,602) |
| **Total** | **8,549,655** | **5,137,301** | **4,536,750** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Finished goods | 12,321,433 | 7,388,774 | 6,557,094 |
| Allowance for excess of net realizable value over cost | (156,370) | (79,053) | (101,880) |
| **Total** | **12,165,063** | **7,309,721** | **6,455,214** |

## 9. TRADE RECEIVABLES

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Trade receivables from related parties (see Note 33) | 1,228,922 | 3,280,584 | 2,257,778 |
| Trade receivables from third parties | 7,662,448 | 3,260,098 | 3,800,457 |
| Allowances for doubtful receivables | (80,189) | (63,848) | (62,115) |
| **Total** | **8,811,181** | **6,476,834** | **5,996,120** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Trade receivables from related parties (see Note 33) | 1,748,600 | 4,667,851 | 3,212,529 |
| Trade receivables from third parties | 10,902,680 | 4,638,702 | 5,407,563 |
| Allowances for doubtful receivables | (114,099) | (90,848) | (88,382) |
| **Total** | **12,537,181** | **9,215,705** | **8,531,710** |

Age of receivables that are past due but not impaired:

| | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| Days past due | LVL | EUR | LVL | EUR |
| 61-90 days | 253,733 | 361,029 | 39,818 | 56,656 |
| Over 90 days | 225,857 | 321,365 | - | - |
| **Total** | **479,590** | **682,394** | **39,818** | **56,656** |

## 10. OTHER RECEIVABLES

| | 31.12.2013<br>LVL | 31.12.2012<br>LVL | 01.01.2012<br>LVL |
|---|---|---|---|
| VAT overpayment | 500,632 | 447,567 | 416,803 |
| VAT on unpaid invoices | - | 139,059 | 148,376 |
| Other receivables | 183,428 | 33,191 | 40,535 |
| Allowance for doubtful receivables | (21,524) | (22,316) | (22,948) |
| **Total** | **662,536** | **597,501** | **582,766** |

| | 31.12.2013<br>EUR | 31.12.2012<br>EUR | 01.01.2012<br>EUR |
|---|---|---|---|
| VAT overpayment | 712,335 | 636,831 | 593,057 |
| VAT on unpaid invoices | - | 197,863 | 211,120 |
| Other receivables | 260,995 | 47,226 | 57,676 |
| Allowance for doubtful receivables | (30,626) | (31,753) | (32,652) |
| **Total** | **942,704** | **850,167** | **829,201** |

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

| | LVL | EUR |
|---|---|---|
| **Allowance as of 1 January 2012** | **85,064** | **121,035** |
| Decrease due to collection ( see Note 23) | (19,928) | (28,355) |
| Additional allowance provided (see Note 27) | 21,029 | 29,922 |
| **Allowance as of 31 December 2012** | **86,165** | **122,602** |
| Decrease due to collection ( see Note 23) | (3,998) | (5,689) |
| Additional allowance provided (see Note 27) | 19,546 | 27,812 |
| **Allowance as of 31 December 2013** | **101,713** | **144,725** |

## 11. DEFERRED EXPENSES

| | 31.12.2013<br>LVL | 31.12.2012<br>LVL | 01.01.2012<br>LVL |
|---|---|---|---|
| Precious metal plates reprocessing expenses | 47,916 | 119,247 | 212,895 |
| Insurance expenses | 74,029 | 62,596 | 57,759 |
| Other deferred expenses | 28,701 | 63,626 | 41,192 |
| **Total** | **150,646** | **245,469** | **311,846** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Precious metal plates reprocessing expenses | 68,178 | 169,673 | 302,922 |
| Insurance expenses | 105,334 | 89,066 | 82,184 |
| Other deferred expenses | 40,838 | 90,532 | 58,611 |
| **Total** | **214,350** | **349,271** | **443,717** |

## 12. CASH AND CASH EQUIVALENTS

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Cash in bank | 825,880 | 168,422 | 218,637 |
| **Total** | **825,880** | **168,422** | **218,637** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Cash in bank | 1,175,122 | 239,643 | 311,092 |
| **Total** | **1,175,122** | **239,643** | **311,092** |

## 13. SHARE CAPITAL

The registered share capital of Parent company as of 31 December 2013 and 2012 was LVL 23,903,205 (EUR 34,011,197).

The Parent company's paid-in share capital as of 31 December 2013 and 2012 consisted of 11,494,250 publicly listed bearer shares and 12,408,955 private placement ordinary shares, all with equal rights. The nominal value of each share is LVL 1 (EUR 1.423).

As of 31 December 2013 and 2012 the shareholders of the Parent company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

The Company is ultimately controlled by Jürgen Preiss-Daimler and Beatrix Preiss-Daimler. Vitrulan International GmbH has a significant influence over the Company. The ultimate beneficial owner of Virtulan International GmbH is Hans Peter Cordts.

| | 31.12.2013 | 31.12.2012 | 01.01.2012 |
|---|---|---|---|
| P-D Glasseiden Oschatz GmbH | 26.1% | 26.1% | 26.0% |
| Vitrulan International GmbH | 36.2% | 36.2% | 36.2% |
| P-D Management Industries –Technologies GmbH | 23.9% | 23.9% | 23.9% |
| Beatrix Preiss – Daimler | 4.5% | 4.5 % | 2.6% |
| VAS VSAA | 2.4% | 2.4 % | 2.4% |
| Other | 6.9% | 6.9 % | 8.9% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

## 14. BORROWINGS FROM CREDIT INSTITUTIONS

| | 31.12.2013 LVL | 31.12.2013 EUR | 31.12.2012 LVL | 31.12.2012 EUR |
|---|---|---|---|---|
| Non-current part: | | | | |
| Loan due within 2 to 5 years | 18,071,979 | 25,714,109 | 11,624,705 | 16,540,465 |
| Loan due after more than 5 years | - | - | 2,468,385 | 3,512,195 |
| **Total non-current part** | **18,071,978** | **25,714,109** | **14,093,090** | **20,052,660** |
| Current part: | | | | |
| Credit line | 4,408,095 | 6,272,154 | 3,814,135 | 5,427,025 |
| Loan | 3,313,112 | 4,714,,133 | 3,016,782 | 4,292,494 |
| **Total current part** | **7,721,207** | **10,986,287** | **6,830,917** | **9,719,519** |
| **Total** | **25,793,185** | **36,700,396** | **20,924,007** | **29,772,179** |

On 2 April 2001 the Group signed a credit line agreement with AS Swedbank to increase working capital. As of 31 December 2013 the credit line limit available was EUR 7,000,000 (LVL 4,919,628) (2012: EUR 6,000,000 (LVL 4,216,824)). The interest rate of the credit line is 3 month EURIBOR +1.85% for used amount and 0.5% for unused. The maturity date of the credit line is 16 July 2014. The credit line is secured by the inventories of the Group with the carrying amount as of 31 December 2013 of LVL 12,496,332 (EUR 17,780,679) (2012: LVL 10,893,338 (EUR 15,499,823)).

On 28 February 2012 the Group signed a credit line agreement with AS SEB banka in the amount of EUR 500,000 (LVL 351,402) as of 31 December 2012 and EUR 1,000,000 (LVL 702,804) as of 31 December 2013 to obtain financing for increase in working capital. The interest rate for the credit line is 3 month EURIBOR + 1.4%. Maturity date of the credit line is 12 February 2015.

As of 31 December 2013 the amount of available and not yet withdrawn credit lines was EUR 1,727,846 (LVL 1,214,337 (2012: EUR 1,072,975 (LVL 754,091)).

The Group has also signed several loan agreements with credit institutions:

| Date of agreement | Principal amount EUR | Annual interest rate | Maturity date | Unpaid amount 31.12.2013 EUR | Unpaid amount 31.12.2013 LVL |
|---|---|---|---|---|---|
| 05.06.2005 | 36,000,000 | 3 month EURIBOR +1.39%* | 30.12.2018 | 17,560,914 | 12,341,881 |
| 16.04.2008 | 5,000,000 | 3 month EURIBOR + 1.34% | 10.04.2016 | 1,666,656 | 1,171,333 |
| 06.11.2012 | 945,000 | 3 month EURIBOR + 1.894% | 06.11.2016 | 826,800 | 581,078 |
| 06.11.2012 | 385,000 | 3 month EURIBOR + 1.894% | 06.11.2017 | 302,700 | 212,738 |
| 20.12.2012 | 7,000,000 | 3 month EURIBOR + 2.164% | 20.12.2017 | 5,571,173 | 3,915,443 |
| 30.09.2013 | 7,500,000 | 3 month EURIBOR + 2.5% | 02.12.2019 | 4,500,000 | 3,162,618 |
| 30.12.2013 | 2,500,000 | 3 month EURIBOR +2.3 % | 03.12.2018 | - | - |
| | | | **Total** | **30,428,243** | **21,385,091** |

* The Group has signed an interest rate swap contract for the loan. As of 31 December 2013, the fair value of interest swap agreement amounts to a liability of EUR 1,625,836 (LVL 1,142,644) (2012: EUR 2,472,990 (LVL 1,738,027), which is presented as Derivative financial instrument in these consolidated financial statements.

The loans are secured by the assets of the Group with the carrying amount as of 31 December 2013 of LVL 73,562,640 (EUR 104,670,207) (2012: LVL 60,885,089 (EUR 86,631,677)).

## 15. FINANCE LEASE

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Non-current | 91,908 | 77,374 | 19,149 |
| Current | 51,567 | 38,810 | 14,362 |
| **Total** | **143,475** | **116,184** | **33,511** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Non-current | 130,773 | 110,093 | 27,246 |
| Current | 73,373 | 55,222 | 20,436 |
| **Total** | **204,146** | **165,315** | **47,682** |

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 based on finance lease agreements amounts to LVL 234,181 (EUR 333,210)).

## 16. TRADE PAYABLES

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Trade payables to related parties (see Note 33) | 3,295,095 | 267,421 | 93,142 |
| Trade payables to third parties | 5,851,505 | 4,896,716 | 3,000,645 |
| **Total** | **9,146,600** | **5,164,137** | **3,093,787** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Trade payables to related parties (see Note 33) | 4,688,498 | 380,506 | 132,529 |
| Trade payables to third parties | 8,325,940 | 6,967,399 | 4,269,533 |
| **Total** | **13,014,438** | **7,347,905** | **4,402,062** |

## 17. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Republic of Latvia: | | | |
| Natural resource tax | 6,399 | 4,284 | 4,093 |
| Social security contributions | 268,892 | 260,956 | 353,239 |
| Personal income tax | 146,847 | 163,064 | 114,717 |
| Enterprise risk duty | 241 | 227 | 204 |
| United Kingdom: | | | |
| Corporate income tax | 35,805 | - | - |
| Other tax | 71,491 | - | - |
| **Total** | **529,675** | **428,531** | **472,253** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Republic of Latvia: | | | |
| Natural resource tax | 9,106 | 6,096 | 5,824 |
| Social security contributions | 382,598 | 371,306 | 502,613 |
| Personal income tax | 208,944 | 232,019 | 163,228 |
| Enterprise risk duty | 343 | 323 | 290 |
| United Kingdom: | | | |
| Corporate income tax | 50,946 | - | - |
| Other tax | 101,723 | - | - |
| **Total** | **753,660** | **609,744** | **671,955** |

## 18. OTHER ACCOUNTS PAYABLE

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Salary | 351,787 | 341,390 | 237,759 |
| Other | 33,886 | 9,517 | 7,726 |
| **Total** | **385,673** | **350,907** | **245,485** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Salary | 500,548 | 485,755 | 338,301 |
| Other | 48,216 | 13,541 | 10,993 |
| **Total** | **548,764** | **499,296** | **349,294** |

## 19. ACCRUED LIABILITIES

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Accrual for vacations | 56,104 | 63,468 | 60,913 |
| Accruals for remuneration of management | 241,476 | 152,526 | 96,165 |
| Accruals for client bonuses | 270,758 | - | - |
| Other | 523,928 | 32,400 | - |
| **Total** | **1,092,266** | **248,394** | **157,078** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Accrual for vacations | 79,829 | 90,307 | 86,671 |
| Accruals for remuneration of management | 343,589 | 217,025 | 136,831 |
| Accruals for client bonuses | 385,254 | - | - |
| Other | 745,483 | 46,101 | - |
| **Total** | **1,554,155** | **353,433** | **223,502** |

## 20. RETIREMENT BENEFIT OBLIGATION

Valmiera Glass UK Ltd operates a defined benefit pension scheme for certain employees and for eligible employees, a scheme providing benefits based on final pensionable pay.

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 the company being invested by independent investment managers.

The valuation of retirement benefit obligation has been prepared by a qualified actuary. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on scheme assets, the rate of increase of pensions in payment (in turn related to the increase in price inflation) and the discount rate. The principal assumptions at 31 December 2013 date were:

| | **% p.a.** |
|---|---|
| Discount rate | 4.60 |
| Long-term rate of return on assets | 5.00 |
| Price inflation - RPI | 3.50 |
| Price inflation - CPI | 2.70 |
| Rate of increase in pensions' payment | |
| Fixed | 5.00 |
| RPI (max 5%) | 3.40 |
| CPI (max 5%) | 2.30 |

The fair value of the scheme assets, the present value of liabilities and expected rates of return assumed for each class at each balance sheet date are as follows:

| | **Rate %** | **31.12.2013 LVL** | **31.12.2013 EUR** |
|---|---|---|---|
| Equities | 6.95 | 3,007,824 | 4,279,748 |
| Corporate Bonds | 4.10 | 3,974,745 | 5,655,553 |
| Index Linked Gilts | 3.45 | 951,747 | 1,354,214 |
| Cash | 0.50 | 194,733 | 277,080 |
| **Total value of scheme assets** | | **8,129,049** | **11,566,595** |
| **Present value of scheme liabilities** | | **(11,955,426)** | **(17,011,039)** |
| **Deficit in the scheme** | | **(3,826,377)** | **(5,444,444)** |

Changes in pension scheme net deficit during the period:

| | **2013 LVL** | **EUR** |
|---|---|---|
| Remeasurement recognized in reserves | 400,713 | 570,163 |
| Interest expenses recognized in profit or loss | (43,836) | (62,373) |
| **Total** | **356,877** | **507,790** |

## 21. DEFERRED INCOME

| | 31.12.2013 LVL | 31.12.2012 LVL | 01.01.2012 LVL |
|---|---|---|---|
| Non-current part of EU grants for acquisition of fixed assets | 891,063 | 688,809 | - |
| Current part of EU grants for acquisition of fixed assets | 116,255 | 104,475 | - |
| **Total** | **1,007,318** | **793,284** | **-** |

| | 31.12.2013 EUR | 31.12.2012 EUR | 01.01.2012 EUR |
|---|---|---|---|
| Non-current part of EU grants for acquisition of fixed assets | 1,267,868 | 980,087 | - |
| Current part of EU grants for acquisition of fixed assets | 165,416 | 148,654 | - |
| **Total** | **1,433,284** | **1,128,741** | **-** |

Deferred income represents financing received from the funds of the European Union in relation of acquisition of one-stage fibre glass manufacturing technology and other fixed assets. As of 31 December 2013 the Group has complied with the requirements of the agreement with Investment and Development Agency of Latvia related to the received financing.

## 22. SALES AND BUSINESS SEGMENTS

Based on the type of its products the Group may be divided into two main divisions – unweaved products and weaved products business structure. Those divisions serve as the basis to report the primary segments of the Company – business segments.

| LVL | Weaved products | | Unweaved products | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Sales** | 42,467,431 | 32,784,754 | 19,753,608 | 17,122,319 | 62,221,039 | 49,907,073 |
| Segment operating expenses | (32,861,293) | (24,348,436) | (13,372,517) | (11,110,093) | (46,233,810) | (35,458,529) |
| Unallocated expenses | | | | | (11,751,971) | (10,381,584) |
| **Operating profit** | | | | | **4,235,258** | **4,066,960** |
| Interest income | | | | | 617,961 | 1639 |
| Interest expenses | | | | | (1,175,621) | (1,244,945) |
| **Profit before taxation** | | | | | **3,677,598** | **2,823,654** |
| Income tax expense | | | | | (90,864) | (113,729) |
| **Profit for the year** | | | | | **3,586,734** | **2,709,925** |

| EUR | Weaved products | | Unweaved products | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Sales** | 60,425,710 | 46,648,502 | 28,106,853 | 24,362,865 | 88,532,563 | 71,011,367 |
| Segment operating expenses | (46,757,408) | (34,644,703) | (19,027,377) | (15,808,238) | 65,784,785) | (50,452,941) |
| Unallocated expenses | | | | | (16,721,550) | (14,771,663) |
| **Operating profit** | | | | | **6,026,228** | **5,786,763** |
| Interest income | | | | | 879,279 | 2,332 |
| Interest expenses | | | | | (1,672,757) | (1,771,397) |
| **Profit before taxation** | | | | | **5,232,750** | **4,017,698** |
| Income tax expense | | | | | (129,287) | (161,822) |
| **Profit for the year** | | | | | **5,103,463** | **3,855,876** |

Net sales by geographical area:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Export sales: | | | | |
| European Union | 44,430,591 | 63,219,035 | 34,527,600 | 49,128,349 |
| North America | 8,640,632 | 12,294,512 | 6,330,409 | 9,007,361 |
| CIS | 5,110,914 | 7,272,175 | 4,298,464 | 6,116,163 |
| Other countries | 4,038,902 | 5,746,841 | 4,750,600 | 6,759,494 |
| **Total** | **62,221,039** | **88,532,563** | **49,907,073** | **71,011,367** |

## 23. OTHER OPERATING INCOME

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Sale of raw materials | 106,008 | 150,836 | 146,067 | 207,835 |
| Insurance indemnification | 2,184 | 3,107 | 11,574 | 16,468 |
| Income from rent of premises | 13,681 | 19,466 | 12,979 | 18,467 |
| Received bad debts (see Note 10) | 3,998 | 5,687 | 19,928 | 28,355 |
| Other | 953,229 | 1,356,325 | 101,701 | 144,708 |
| **Total** | **1,079,100** | **1,535,421** | **292,249** | **415,833** |

## 24. RAW MATERIALS AND COSUMABLES

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Raw materials | 22,288,621 | 31,713,850 | 15,794,856 | 22,474,055 |
| Natural gas | 3,583,750 | 5,099,217 | 3,243,297 | 4,614,796 |
| Electricity | 4,533,567 | 6,450,685 | 3,698,143 | 5,261,983 |
| Oxygen | 573,829 | 816,485 | 549,662 | 782,099 |
| Precious metal plates processing costs | 445,431 | 633,791 | 355,913 | 506,419 |
| Other | 2,346,151 | 3,338,273 | 2,472,362 | 3,517,854 |
| **Total** | **33,771,349** | **48,052,301** | **26,114,233** | **37,157,206** |

## 25. PERSONNEL EXPENSES

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Salaries | 7,687,602 | 10,938,473 | 6,170,051 | 8,779,192 |
| Social security contributions | 1,781,651 | 2,535,061 | 1,485,757 | 2,114,042 |
| Illness and vacation expenses | 674,294 | 959,434 | 467,842 | 665,679 |
| Accruals for remuneration of Board and Council | 241,476 | 343,589 | 152,527 | 217,026 |
| Insurance of employees | 58,815 | 83,686 | 41,094 | 58,471 |
| Other | 261,105 | 371,518 | 28,059 | 39,924 |
| **Total** | **10,704,943** | **15,231,761** | **8,345,330** | **11,874,334** |

The average number of employees of the Group was 1045 (2012: 856).

## 26. DEPRECIATION AND AMORTISATION

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Fixed asset depreciation based on straight line method | 5,776,361 | 8,219,021 | 4,870,019 | 6,929,412 |
| Depreciation of precious metal plates | 249,668 | 355,245 | 217,854 | 309,978 |
| Intangible asset amortization (see Note 4) | 6,942 | 9,878 | 4,303 | 6,123 |
| **Total** | **6,032,971** | **8,584,144** | **5,092,176** | **7,245,513** |

## 27. OTHER OPERATING EXPENSES

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Transportation | 4,232,732 | 6,022,635 | 3,402,003 | 4,840,614 |
| Sales commission | 919,580 | 1,308,444 | 1,007,541 | 1,433,602 |
| Service costs | 1,102,400 | 1,568,574 | 679,568 | 966,938 |
| Spare parts | 594,810 | 846,338 | 496,631 | 706,642 |
| Repair expenses | 538,677 | 766,468 | 434,725 | 618,558 |
| Business trips | 517,508 | 736,348 | 223,703 | 318,301 |
| Insurance | 223,228 | 317,625 | 203,285 | 289,248 |
| Leasing | 356,236 | 506,878 | 210,553 | 299,590 |
| Research and development expenses | 159,148 | 226,447 | 147,176 | 209,413 |
| Property tax | 49,700 | 70,717 | 49,810 | 70,873 |
| Communication | 75915 | 108,017 | 70,569 | 100,411 |
| Selling expenses | 133,259 | 189,610 | 61,759 | 87,875 |
| Office expenses | 154,188 | 219,390 | 47,280 | 67,273 |
| Labour safety and specific clothing | 54,717 | 77,855 | 48,032 | 68,343 |
| Audit and similar fees* | 24,601 | 35,004 | 19,698 | 28,028 |
| Allowance for doubtful receivables (Note 10) | 19,546 | 27,812 | 21,029 | 29,922 |
| Other | 618,596 | 880,184 | 358,835 | 510,576 |
| **Total** | **9,774,841** | **13,873,342** | **7,482,197** | **10,646,207** |

* Deloitte has performed audit of separate financial statements, subsidiary and consolidated financial statements. Total Fee for audit for 2013 was EUR 72,181 (LVL 50,729).

## 28. INTEREST AND SIMILAR INCOME

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Interest income | 22,578 | 32,126 | 1,639 | 2,332 |
| Net gain on changes in fair value of derivative | 595,383 | 847,154 | - | - |
| **Total** | **617,961** | **879,280** | **1,639** | **2,332** |

## 29. INTEREST AND SIMILAR EXPENSES

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Net loss on foreign exchange rate fluctuations | 59,568 | 84,758 | 140,516 | 199,936 |
| Interest expense | 1,111,249 | 1,581,165 | 1,063,951 | 1,513,866 |
| Other | 4,803 | 6,834 | 1,638 | 2,331 |
| Net loss due to change in fair value of derivative | - | - | 38,840 | 55,264 |
| **Total** | **1,175,621** | **1,672,757** | **1,244,945** | **1,771,397** |

## 30. CORPORATE INCOME AND DEFERRED TAX

### 30 (a) Corporate income tax components:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Corporate income tax and deferred tax recognized in profit or loss: | | | | |
| Corporate income tax | 50,296 | 71,565 | - | - |
| Deferred tax | 40,568 | 57,722 | 113,729 | 161,822 |
| **Total recognized in profit or loss** | **90,864** | **129,287** | **113,729** | **161,822** |
| **Changes in deferred tax recognized in reserves** | **80,143** | **114,033** | **-** | **-** |
| **Total** | **171,007** | **243,320** | **113,729** | **161,822** |

### 30 (b) Reconciliation of accounting profit to tax charges:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Profit before tax | 3,677,597 | 5,232,750 | 2,823,654 | 4,017,698 |
| Expected tax charge, applying parent company tax rate of 15% | (551,640) | (784,913) | (423,548) | (602,655) |
| Tax effect of tax rate in United Kingdom (23.25%) | (10,137) | (14,424) | - | - |
| Tax effect of non-deductible items | (45,093) | (64,160) | (44,316) | (63,056) |
| Tax credit received for new technological equipment* | 349,490 | 497,279 | 330,126 | 469,727 |
| Non-taxable income and tax credits | 9,019 | 12,833 | - | - |
| Change in unrecognized deferred tax asset | 157,497 | 224,098 | 24,009 | 34,162 |
| **Corporate income tax and deferred tax** | **(90,864)** | **(129,287)** | **(113,729)** | **(161,822)** |

* The tax base of new technological equipment purchased in 2013 is calculated by multiplying the acquisition cost with a coefficient of 1.5. Total amount of related tax credit not used as of 31 December 2013 is LVL 524,234 (EUR 745,918) (2012: LVL 495,189 (EUR 704,590)). If the equipment is disposed within 5 years from acquisition, taxable income in the year of disposal should be increased by the amount of credit previously recognized

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

Deferred tax on amounts recognized in profit and loss:

| | 31.12.2013 | | 31.12.2011 | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Deferred tax liabilities: | | | | |
| Temporary difference on depreciation of fixed assets | 3,649,914 | 5,193,360 | 3,266,110 | 4,647,257 |
| Change in fair value of derivative | 89,307 | 127,072 | - | - |
| **Total deferred tax liabilities** | **3,739,221** | **5,320,432** | **3,266,110** | **4,647,257** |
| Deferred tax assets: | | | | |
| Temporary difference on accrued liabilities | (115,988) | (165,036) | (37,259) | **(53,015)** |
| Allowance for inventories | (22,341) | (31,788) | (15,834) | (22,530) |
| Tax loss carry forward* | (3,154,215) | (4,488,044) | (3,099,288) | (4,409,890) |
| Tax discount (maturity – 2016) | (1,245,044) | (1,771,538) | (1,245,044) | (1,771,538) |
| **Total deferred tax assets** | **(4,537,588)** | **(6,456,406)** | **(4,397,425)** | **(6,256,973)** |
| **Net deferred tax asset** | **(798,367)** | **(1,135,974)** | **(1,131,315)** | **(1,609,716)** |
| Unrecognized deferred tax assets** | 1,087,547 | 1,547,440 | 1,245,044 | 1,771,538 |
| **Recognized deferred tax liability** | **289,180** | **411,466** | **113,729** | **161,822** |

* Tax losses have been incurred in 2006 - 2013 and can be used as follows:

| | Amount | | Year of expiry |
|---|---|---|---|
| | **LVL** | **EUR** | |
| | 9,560,039 | 13,602,710 | 2014 |
| | 5,960,789 | 8,481,439 | 2015 |
| | 5,507,269 | 7,836,138 | Unlimited |
| **Total** | **21,028,097** | **29,920,287** | |

** Deferred tax assets on tax loss and discounts are recognized only to the extent of the Group's ability to use related deferred tax assets, based on approved budgets and estimates of taxable income of the Group in the years where related tax benefits expire.

Deferred tax asset on retirement benefit obligations:

| | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Deferred tax asset on accumulated retirement benefit obligations, 20% | 765,275 | 1,088,889 | - | - |
| **Total** | **765,275** | **1,088,889** | **-** | **-** |

**31. EARNINGS PER SHARE**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Profit for the year | 3,586,734 | 5,103,463 | 2,709,925 | 3,856,841 |
| Average number of shares outstanding | 23,903,205 | 23,903,205 | 23,903,205 | 23,903,205 |
| **Earnings per share** | **0.1501** | **0.2135** | **0.1134** | **0.1614** |

## 32. MANAGEMENT REMUNERATION

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | LVL | EUR | LVL | EUR |
| Members of the Council: | | | | |
| Compensation | 158,438 | 225,437 | 121,540 | 172,936 |
| Social security payments | 16,336 | 23,244 | 10,912 | 15,526 |
| Members of the Board: | | | | |
| Compensation | 331,471 | 471,641 | 251,734 | 358,185 |
| Social security payments | 33,558 | 47,749 | 24,807 | 35,297 |
| Other management: | | | | |
| Salary | 377,688 | 537,401 | 312,164 | 444,169 |
| Social security payments | 81,477 | 115,931 | 71,962 | 102,393 |
| **Total** | **998,968** | **1,421,403** | **793,119** | **1,128,506** |

In 2013 and 2012 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

**Receivables from and payables to related parties**

| | 31.12.2013 Trade receivables LVL | 31.12.2013 Trade payables LVL | 31.12.2012 Trade receivables LVL | 31.12.2012 Trade payables LVL |
|---|---|---|---|---|
| **Controlling parties** | | | | |
| P-D Glasseiden Oschatz GmbH | 716,801 | 238,465 | 3,068,248 | 228,997 |
| P-D Management Industries – Technologies | - | 2,868,379 | - | 3,893 |
| **Entities controlled by the parties controlling the Group** | | | | |
| P-D Preiss –Daimler Consulting | - | 2,589 | - | 7,086 |
| P-D Tatneft Fiberglas Alabuga | 126,134 | - | 158,928 | 7,593 |
| P-D Industriegesellschaft GmbH Bratendorf | 49,190 | 58,769 | - | - |
| P-D Interglas Technologies GmbH | 14,890 | - | - | - |
| P-D Interglas AG | 181,612 | 8,385 | | |
| **Entities controlled by the party with significant influence over the Group** | | | | |
| VITRULAN Textile Glass GmbH | 21,963 | 115,932 | - | 19,148 |
| Vitrulan International GmbH | - | 2,081 | | |
| VITRULAN Technical Textiles GmbH | 118,332 | 495 | 53,408 | 704 |
| **Total** | **1,228,922** | **3,295,095** | **3,280,584** | **267,421** |

| | 31.12.2013 Trade receivables EUR | 31.12.2013 Trade payables EUR | 31.12.2012 Trade receivables EUR | 31.12.2012 Trade payables EUR |
|---|---|---|---|---|
| **Controlling parties** | | | | |
| P-D Glasseiden Oschatz GmbH | 1,019,916 | 339,305 | 4,365,724 | 325,833 |
| P-D Management Industries – Technologies | - | 4,081,336 | - | 5,539 |
| **Entities controlled by the parties controlling the Group** | | | | |
| P-D Preiss –Daimler Consulting | - | 3,684 | - | 10,082 |
| P-D Tatneft Fiberglas Alabuga | 179,473 | - | 226,134 | 10,804 |
| P-D Industriegesellschaft GmbH Bratendorf | 69,991 | 83,621 | - | - |
| P-D Interglas Technologies GmbH | 21,187 | - | - | - |
| P-D Interglas AG | 258,411 | 11,931 | - | - |
| **Entities controlled by the party with significant influence over the Group** | | | | |
| VITRULAN Textile Glass GmbH | 31,251 | 164,956 | - | 27,245 |
| Vitrulan International GmbH | - | 2,961 | - | - |
| VITRULAN Technical Textiles GmbH | 168,371 | 704 | 75,993 | 1,003 |
| **Total** | **1,748,600** | **4,688,498** | **4,667,851** | **380,506** |

**Transactions with related parties**

| | 2013 LVL | 2013 EUR | 2012 LVL | 2012 EUR |
|---|---|---|---|---|
| Sale of goods | 17,895,079 | 25,462,403 | 25,086,995 | 35,695,578 |
| Purchase of tangible fixed assets | 214,858 | 305,715 | 84,368 | 120,045 |
| Purchase of goods | 1,104,620 | 1,571,732 | 827,433 | 1,177,331 |
| Sales commissions | 911,219 | 1,296,548 | 1,007,541 | 1,433,602 |
| Purchase of services | 636,905 | 906,234 | 1,025,198 | 1,458,725 |
| Provision of services | 29,175 | 41,512 | 30,122 | 42,860 |

## 34. FINANCIAL RISK MANAGEMENT

Main financial instruments of the Group are loans, 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 arises due to its operating activities, i.e., trade receivables and payables; and derivative, which is used to minimize interest rate risk.

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

**Market risks**

*Interest rate risk*

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

The Group has signed an interest rate swap contract for one of its loans to minimize the risks associated with variable interest rate fluctuations. Based on the contract, the Group has agreed to exchange the floating

3 month EURIBOR interest payments and fixed payments calculated on agreed notional principal amount. 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 contract expires on 31 December 2018. As of 31 December 2013, total notional amount of interest rate swap contract is EUR 17,560,971 (LVL 12,341,921) (2012: EUR 21,073,113 (LVL 14,810,268). The fair value amounts to a liability of EUR 1,625,836 (LVL 1,142,644) (2012: EUR 2,472,989 (LVL 1,738,027)).

*Foreign currency risk*

The Group operates internationally and performs transactions in EUR, USD and GBP. As Latvian lat rate to EUR is fixed, the Group is mainly is exposed to foreign currency risk arising from USD and GBP fluctuations. Approximately 14% of total sales in 2013 resulted from contracts denominated in USD (2012: 12%).

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 carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | 31.12.2013 | | | 31.12.2012 | |
|---|---|---|---|---|---|
| **LVL** | **EUR** | **USD** | **GBP** | **EUR** | **USD** |
| Trade and other receivables | 6,143,589 | 1,498,683 | 788,888 | 4,722,844 | 1,419,554 |
| Loans and borrowings | (25,793,184) | - | - | (20,924,006) | - |
| Trade and other payables | (143,475) | - | - | (116,184) | - |
| Finance lease | (6,482,349) | (453,020) | (191,688) | (2,032,117) | (204,135) |
| **Balance sheet exposure, LVL** | **(26,275,419)** | **1,045,663** | **597,200** | **(18,349,463)** | **1,215,419** |

| | 31.12.2013 | | | 31.12.2012 | |
|---|---|---|---|---|---|
| **EUR** | **EUR** | **USD** | **GBP** | **EUR** | **USD** |
| Trade and other receivables | 8,741,539 | 2,132,434 | 1,122,486 | 6,720,002 | 2,019,843 |
| Loans and borrowings | (36,700,395) | - | - | (29,772,179) | - |
| Trade and other payables | (204,146) | - | - | (165,315) | - |
| Finance lease | (9,223,551) | (644,590) | (272,748) | (2,891,442) | (290,457) |
| **Balance sheet exposure, EUR** | **(37,386,553)** | **1,487,844** | **849,738** | **(26,108,934)** | **1,729,386** |

The above net position in USD and GBP is directly exposed and has direct sensitivity to a reasonably possible change in the exchange rate thus resulting in direct effect to Company's profit before tax. To reduce potential adverse effects of foreign currency changes, the Group uses derivative financial instruments for significant transactions in USD. There were no material open derivative contracts as of 31 December 2013 and 2012.

**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, and arises principally from the Group's trade receivables (including related parties) and cash at bank, which as at 31 December 2013 amounted to LVL 8,811,181 (EUR 12,537,181) and LVL 825,880 (EUR 1,175,122), respectively.

The Group has significant exposure of credit risk with its foreign 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 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 and investments. The main components of this allowance are a specific loss component that relates to exposure of each customer.

As at 31 December 2013 and 2012 the Group has significant credit risk exposure to a single customer – related party. Sales to this related party amounted to 26% of the total sales of the Group The receivable from his customer as of 31 December 2013 amounted to LVL 716,801 (EUR 1,019,916) or 8% of total trade receivables (2012: LVL 3,068,428 (EUR 4,365,724)). In respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

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.

**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, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through credit line. During the reporting period EUR 7 million credit line was available assigned by Swedbank AS and EUR 1 million credit line was available assigned by SEB banka AS to finance short-term working capital needs.

**Liquidity tables**

| **31.12.2013<br>LVL** | **Less than 6 months** | **6-12 months** | **From 1-2 years** | **From 2-5 years** | **Total** |
|---|---|---|---|---|---|
| Interest bearing loans | 2,271,559 | 6,339,015 | 7,956,298 | 11,334,726 | **27,901,598** |
| Finance lease liabilities | 45,954 | 45,954 | 51,567 | - | **143,475** |
| Trade accounts payable and other liabilities | 6,334,680 | 2,811,919 | - | - | **9,146,599** |
| **Total LVL** | **8,652,193** | **9196,888** | **8,007,865** | **11,334,726** | **37,191,672** |
| | | | | | |
| **EUR** | | | | | |
| Interest bearing loans | 3,232,137 | 9,019,606 | 11,320,792 | 16,127,861 | **39,700,396** |
| Finance lease liabilities | 65,387 | 65,387 | 73,373 | - | **204,147** |
| Trade accounts payable and other liabilities | 9,013,438 | 4,001,000 | - | - | **13,014,438** |
| **Total EUR** | **12,310,962** | **13,085,993** | **11,394,165** | **16,127,861** | **52,918,981** |

| **31.12.2012<br>LVL** | **Less than 6 months** | **6-12 months** | **From 1-2 years** | **From 2-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Interest bearing loans | 1,563,473 | 5,377,610 | 3,126,945 | 8,387,594 | 2,468,385 | **20,924,007** |
| Finance lease liabilities | 19,405 | 19,405 | 54,705 | 22,669 | - | **116,184** |
| Trade accounts payable and other liabilities | 5,164,137 | - | - | - | - | **5,164,137** |
| **Total LVL** | **6,747,015** | **5,397,015** | **3,181,650** | **8,410,263** | **2,468,385** | **26,204,328** |
| | | | | | | |
| **EUR** | | | | | | |
| Interest bearing loans | 2,224,622 | 7,651,649 | 4,449,242 | 11,934,471 | 3,512,195 | **29,772,179** |
| Finance lease liabilities | 27,611 | 27,611 | 77,838 | 32,255 | - | **165,315** |
| Trade accounts payable and other liabilities | 7,347,905 | - | - | | - | **7,347,905** |
| **Total EUR** | **9,600,138** | **7,679,260** | **4,527,080** | **11,966,726** | **3,512,195** | **37,285,399** |

Based on the assessment of the management, the carrying amount of the financial instruments of the Group approximates their fair values as of 31 December 2013 and 2012.

**Capital management**

The Group's objectives when managing capital are to safeguard its ability as a going concern and to maximize the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of borrowings, which are disclosed in Note 13, 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.

| | **31.12.2013** | | **31.12.2012** | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Interest bearing loans and borrowings | 27,901,598 | 39,700,396 | 20,924,007 | 29,772,179 |
| Less cash and cash equivalents | (825,880) | (1,175,121) | (168,422) | (239,643) |
| NET DEBT | **27,075,718** | **38,525,275** | **20,755,585** | **29,532,536** |
| Equity | **33,697,979** | **47,947,905** | **30,876,819** | **43,933,755** |
| TOTAL CAPITAL | 60,773,697 | 86,473,180 | 51,632,404 | 73,466,291 |
| **GEARING RATIO** | **80%** | **80%** | **67%** | **67%** |

## 35. COMMITMENTS

**(a) Land lease**

On 27 November 2001 the Group signed a land lease agreement on the lease of land where its production facilities are located. The term of the agreement is 25 years and is valid to 1 December 2026. The annual rent charge is 5% of the cadastral value, which amounts to LVL 916,014 (EUR 1,303,370) as of 31 December 2013 and 2012.

The total future rent payments (based on current cadastral value) are as follows:

| | **2013** | | **2012** | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Within 1 year | 45,801 | 65,169 | 45,801 | 65,169 |
| 2 to 5 years | 183,203 | 260,674 | 183,203 | 260,674 |
| More than 5 years | 320,604 | 456,178 | 366,405 | 521,347 |
| **Total** | **549,608** | **782,021** | **595,409** | **847,190** |

**b) Investment and inventory purchase**

Inventory, equipment and software purchases contracted but not yet fulfilled and therefore not recognized in the financial statements are as follows:

| | **2013** | | **2012** | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Within 1 year | 1,132,779 | 1,611,800 | 4,005,081 | 5,698,717 |
| 2 to 5 years | 2,106,585 | 2,997,400 | 2,281,836 | 3,246,760 |
| **Total** | **3,239,364** | **4,609,200** | **6,286,917** | **8,945,477** |

**c) Other operating lease**

The Group as a lessee has entered in operating lease agreements for premises and equipment. Total lease expenses in 2013 were LVL 339,144 (EUR 482,559) (2012: LVL 193,219 (EUR 274,926)). Total future lease payments are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **LVL** | **EUR** | **LVL** | **EUR** |
| Within 1 year | 253,445 | 360,620 | 91,824 | 130,654 |
| 2 to 5 years | 911,830 | 1,297,418 | 402,015 | 572,016 |
| **Total** | **1,165,275** | **1,658,038** | **493,839** | **702,670** |

## 36. EVENTS AFTER THE REPORTING DATE

On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. Since that date, the Parent Company has converted its accounting to the Euro. The conversion to the Euro was done using the official exchange rate set by the Bank of Latvia – 1 Euro/0.702804 Latvian Lat. The Group's financial statements for subsequent financial periods will be presented in the Euro.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

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