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Independent Auditors' Report

To the shareholders of AS "Valmieras Stikla Šķiedra"

Report on the Audit of the Separate Financial Statements

Qualified Opinion on the Separate Financial Statements

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

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

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

Basis for Qualified Opinion on the Separate Financial Statements

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

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



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

Material Uncertainty Related to Going Concern

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

Key Audit Matters

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

Revenue recognition

Key audit matter

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

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

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

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

Our response

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

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



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

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

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

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

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



Reporting on Other Information – Separate Financial Statements

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Separate Financial Statements

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



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

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

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

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

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



Report on Other Legal and Regulatory Requirements

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

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

We confirm that:

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

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

KPMG Baltics AS
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A handwritten signature in blue ink, appearing to be 'Armine Movsisjana'.

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