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## Independent Auditors' Report

### To the shareholders of AS "Valmieras Stikla Šķiedra"

#### Report on the Audit of the Consolidated Financial Statements

##### *Disclaimer of Opinion on the Consolidated Financial Statements*

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

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

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

##### *Basis for Disclaimer of Opinion on the Consolidated Financial Statements*

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

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



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

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

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

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

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

#### *Auditors' Responsibility for the Audit of the Consolidated Financial Statements*

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

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

#### **Report on Other Legal and Regulatory Requirements**

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

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



We confirm that:

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

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

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

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