

"Rīgas kuģu būvētava" JSC

2017 ANNUAL 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.*

TABLE OF CONTENTS

	PAGE
INFORMATION OF THE COMPANY	3
MANAGEMENT REPORT	4
STATEMENT OF MANAGEMENT RESPONSIBILITIES	5
STATEMENT ON CORPORATE GOVERNANCE	6
FINANCIAL STATEMENTS:	
PROFIT AND LOSS STATEMENT	7
BALANCE SHEET	8-9
STATEMENT OF CHANGES IN EQUITY	10
CASH FLOW STATEMENT	11
NOTES TO THE FINANCIAL STATEMENTS	12-32
INDEPENDENT AUDITOR'S REPORT	

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT
Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

INFORMATION ON THE COMPANY

Name of the company	Rīgas kuģu būvētava JSC	
Legal status of the company	Joint stock company	
Number, place and date of registration	40003045892, 5 December 1991, Companies register, Riga 40003045892, 26 August 2004, Commercial register, Riga	
Address	Gales street 2, Riga, LV-1015, Latvia	
Share capital of the Company	16 340 950 EUR	
Associates	Tosmares kuģubūvētava JSC (49.72%) Reg.No.42103022837 Generala Baloza Street 42/44, Liepaja, Latvia Remars Granula LLC (49.80%) Reg.No.54103022521 Gales street 2, Riga, Latvia	
Type of operations	Building and repair of ships, yachts, catamarans, roll trailers and technological equipment; Port services; Wood processing, manufacturing of furniture designed for various functional purposes	
NACE code	3011, 3315	
Names and positions of the Board members	Einars Buks Chairman of the Board from 07.08.2017 Janis Skvarnovics Chairman of the Board till 25.05.2017 Einars Buks Member of the Board till 06.08.2017 Jekaterina Melnika Member of the Board Ainars Tropins Member of the Board from 07.08.2017	
Names and positions of the Council	Vasilijs Melniks Chairman of the Council Aleksandrs Cernavskis Deputy Chairman of the Council Linards Baumanis Member of the Council Valentina Andrejeva Member of the Council Gaidis Andrejs Zeibots Member of the Council	
Financial year	1 January - 31 December 2017	
Previous financial year	1 January - 31 December 2016	
Auditor's name and address	"Nexia Audit Advice" SIA LZRA Licence No. 134 Grecinieku street 9-3, Riga, LV-1050 Latvia Marija Jansone Sworn Auditor Certificate No. 25	

MANAGEMENT REPORT

Company profile

JSC "Rīgas kuģu būvētava" (hereinafter – the Company) is established more than 100 years ago and is one of the largest shipyards in the region of the Baltic sea, which provides ship repair and other services. The company is Latvia's leading mechanical engineering enterprise.

Company operates and carries out manufacturing procedures in accordance with international standards of quality control - ISO 9001:2015, ISO 14001:2015 un LVS OHSAS 18001:2007.

Company development and financial results during financial year

In 2017 the total net turnover of the Company was EUR 12 853 528, including revenue from shipbuilding of EUR 2 430 657 and ship repair of EUR 10 315 549 (if compared to 2016, net turnover made up EUR 20 757 784, including shipbuilding of EUR 4 999 084 and ship repair of EUR 15 521 797).

The Company finished the financial year with gross losses of EUR 1239978 (in comparison there was a gross profit of EUR 1 212 811 in 2016), net losses amounted EUR 308 216 (there was a net profit in 2016 of EUR 169 807).

In 2017 the Company performed the repair works of 49 ships (in comparison there were 71 ships in 2016); 5 ship hulls were built and floated out (in 2016 the number of the built ship hulls was 3).

Suppliers of goods, service providers as well as suppliers of raw materials have not favourably changed in 2017 and were originated in the countries of Western Europe, Estonia, Lithuania and Latvia. The main customers of ship repair works were ship owners from the Scandinavian countries, Western Europe and Latvia, while main customers of shipbuilding services came from Scandinavian countries.

In 2017 Company continued the investment programme, which was launched during preceding years, by making investments in the modernization of Company's production facilities, thereby promoting the competitiveness of the Company. There was 2,5 million EUR invested in 2017 (in comparison – 1,7 million EUR in 2016).

Company's research works and development activities

The Board of the Company in cooperation with the Council of the Company continues market research activities, participates in international exhibitions and support programmes in order to uptake new production sectors and new markets, thereby ensuring a better use of production capacities and an increase in labour productivity in the Company.

Financial risk management

The policy of financial risk management of the Company is described in the Note 42 to the financial report.

Future development of the Company

Assessing the current market situation and the options of the Company, the Board of the Company will continue the work to improve financial flow, increase the amount of the ships to be repaired, improve marketing activities, optimize resources for eliminating costs of sales by re-organizing internal structure units and attracting professional employees. The Board of the company plans to participate in procurements of manufacturing metal construction and other procurements.

Also, in 2018 the Board of the Company will continue the begun environment conservation measures, as well as continue to renovate Company's industrial buildings, floating docks, cranes, tugs, and other fixed assets.

Subsequent events

On May 21, 2018, with the decision of the First Debt Recovery Division of the State Tax Debt Recovery Administration of the State Revenue Service the Company has been prohibited from registering, re-registering, renewing and amending the commercial pledge in the Commercial Pledge Register of the Enterprise Register.

On May 28th, 2018, Riga Vidzeme district court decided to accept the application of the legal protection proceedings submitted by the Company and initiated a civil proceeding; there was a deadline until July 30th, 2018 for drafting and co-ordination of the plan of measures of the legal protection proceedings with creditors.

There were no other events during the time period between the last day of the financial and the date of signing the annual statement, which could favourably affect the Company's financial position on the December 31st, 2017.

Proposal for covering of Company's losses

Board of the Company suggests to profits from previous years to cover Company's losses of the financial year.

On behalf of the Company, this financial statements were signed on 15 June 2018:

Einārs Buks
Chairman of the Board

Jekaterina Meļņika
Member of the Board

Ainārs Tropiņš
Member of the Board

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The management of Rigas kugu buvetava JSC (the Company) is responsible for preparation of the financial statements. The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as of December 31, 2017 and the results of its operations and cash flows for the period 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 financial statements as presented on pages 12 to 32. The management also confirms that the requirements of the legislation of the Republic of Latvia have been complied with and that the financial statements have been prepared on a going concern basis.

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

On behalf of the management:

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

Riga, 15 June, 2018

STATEMENT ON CORPORATE GOVERNANCE

Joint Stock Company „Rīgas kuģubūvētava”, hereinafter referred to as the RKB, Corporate Governance Report on 2017, hereinafter referred to as the Report, is made according to AS „Nasdaq Riga”, hereinafter referred to as the “Stock Exchange, Corporate Governance Principles and Recommendations on their Implementation” issued in 2010. The Report has been prepared by the RKB Management Board and reviewed by the Council of the RKB.

The Principles of Corporate Governance are maximum suitable for business operations of the company and RKB complied with most of them in 2017. Accordingly to the Principle „comply or explain” the Report includes the disclosure which principle is not complied or complied partially as well as explanation of circumstances why the principles is not complied.

The Report has been submitted to the Stock Exchange immediately after Annual Report for 2017 was approved and published on Stock Exchange website.

The Company’s Audit Committee has not worked actually in 2017. The functions of the Company’s Audit Committeewere performed by the Council.

Chairman of the Board E.Buks

Member of the Board J.Meļņika

Member of the Board A.Tropiņš

Riga, 15 June, 2018

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

PROFIT AND LOSS STATEMENT

		2017	2016
	Notes	EUR	EUR
Net turnover	2	12 853 528	20 757 784
Costs of goods sold or costs of services provided	3	(14 093 506)	919 544 973)
Gross profit or losses		(1 239 978)	1 212 811
Distribution expenses	4	(3 590)	(8 585)
Administrative expenses	5	(1 168 270)	(968 175)
Other operating income	6	1942206	1 220 791
Other operating expenses	7	(2155426)	(941 182)
Other interest income and similar income incl.	8	100 652	101 500
a)from other parties		100 652	101 500
Other interest payable and similar expenses incl.	9	(535 858)	(351 606)
a)to other parties		(535 858)	(351 606)
Profit or losses before corporate income tax		(3 060 264)	265 554
Profit and loss after the taxation		(3 060 264)	265 554
Changes in deferred tax assets or liabilities		2 752 048	(95 747)
Net profit (loss) for the financial year		(308 216)	169 807
Profit or losses per share		(0.026)	0.014

The accompanying notes on pages 12 to 32 are an integral part of these financial statements.

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

Alda Berziņa
Chief Accounting Officer

Riga, 15 June, 2018

BALANCE SHEET

	Notes	31.12.2017 EUR	31.12.2016 EUR
ASSETS			
Non-current assets			
Intangible assets			
Other intangible assets		14 004	6 139
Total intangible assets	10	14 004	6 139
Fixed assets			
Real estate:			
a) lands, buildings and engineering structures		8 637 577	8 233 224
Technological equipment and devices		22 114 510	21 067 230
Other fixed assets		459 821	389 287
Fixed assets under construction		324 011	756 556
Advances for fixed assets		7 114	18 550
Total fixed assets	11	31 543 033	30 464 847
Non-current financial investments			
Investments in associates	12	4 830 590	4 830 590
Other securities and investments	13	235	235
Other loans and non-current receivables	14	1 624 207	1 630 182
Total non-current financial investments		6 455 032	6 461 007
Total non-current assets		38 012 069	36 931 993
Current assets			
Inventories			
Raw materials and consumables	15	1 850 738	1 979 608
Work in progress	16	12 228	107 542
Advances for inventories	17	115 578	191 658
Total inventories		1 978 544	2 278 808
Receivable			
Trade receivables	18	427 803	1 578 586
Receivables from associates	19	1 309 211	1 293 464
Other receivables	20	656 162	922 793
Prepaid expense	21	23 085	9 986
Accrued income	22	1 719 362	3 435 816
Total receivables		4 135 623	7 240 645
Cash and cash equivalents	23	69 250	18 005
Total current assets:		6 183 687	9 537 458
TOTAL		44 195 756	46 469 451

BALANCE SHEET

	Notes	31.12.2017 EUR	31.12.2016 EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	24	16 340 950	16 340 950
Long-term investments revaluation reserve	25	11 697 050	11 891 225
Reserves			
Other reserves		266 962	266 962
Retained earnings			
Prior year's retained earnings		2 623 040	2 453 233
Net profit (loss) for the financial year		(308 216)	169 807
Total retained earnings		2 314 824	2 623 040
Total equity		30 698 469	31 122 177
Provisions			
Other provisions	26	552 686	1 699
Total provisions		552 686	1 699
Non-current liabilities			
Loans from credit institutions	27	740 396	-
Other loans	28	1 954 074	1 201 756
Deferred tax liabilities		-	2 752 048
Deferred income	29	494 127	566 247
Total non-current liabilities		3 188 597	4 520 051
Current liabilities			
Loans from credit institutions	27	2 602 617	1 900 000
Other loans	28	902 840	534 132
Advances from customers	30	1 237 464	2 560 300
Trade payables	31	2 432 362	2 950 466
Payables to associates	32	245 802	551 343
Taxes and statutory social insurance contributions	33	1 262 452	936 814
Other payables	34	629 706	817 554
Deferred income	29	72 120	72 120
Unpaid dividends	35	11 746	18 617
Accrued liabilities	36	437 578	484 178
		9 834 687	10 825 524
Total current liabilities		9 834 687	10 825 524
Total liabilities		13 023 284	15 345 575
TOTAL		44 195 756	46 469 451

The accompanying notes on pages 12 to 32 are an integral part of these financial statements.

Einārs Buks

Chairman of the Board

Alda Berziņa

Chief Accounting Officer

Riga, 15 June, 2018

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

STATEMENT OF CHANGES IN EQUITY

	2017	2016
	EUR	EUR
Share capital		
Opening balance	16 340 950	16 340 950
Closing balance	16 340 950	16 340 950
Long-term investment revaluation reserve		
Opening balance	11 891 225	12 056 273
Prior year adjustments	(194 175)	(165 048)
Closing balance	11 697 050	11 891 225
Reserves		
Opening balance	266 962	266 962
Closing balance	266 962	266 962
Retained earnings		
Opening balance	2 623 040	2 453 233
Increase/decrease in retained earnings	(308 216)	169 807
Closing balance	2 314 824	2 623 040
Equity		
Opening balance	31 122 177	31 117 418
Closing balance	30 619 786	31 122 177

The accompanying notes on pages 12 to 32 are an integral part of these financial statements.

Einārs Buks	Jekaterina Meļņika	Ainārs Tropiņš
Chairman of the Board	Member of the Board	Member of the Board
<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p style="text-align: center;">Alda Berziņa Chief Accounting Officer</p> <p style="text-align: center;">Riga, 15 June, 2018</p> </div> </div>		

CASH FLOW STATEMENT (by direct method)

	Notes	2017 EUR	2016 EUR
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Revenue from the sale of goods and provision of services		14 731 022	19 978 887
Payments to suppliers, employees, other expenses of principal activity		(16 580 824)	(19 568 085)
Gross cash flow generated from/(used in) operating activities		(1 749 802)	410 802
Interest payments		(187 237)	(191 515)
Net cash flow generated from /(used in) operating activities		(2 037 039)	219 287
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of fixed and intangible assets		(303 438)	(146 779)
Proceeds from sales of fixed assets and intangible investments		1 500	111
Repayment of loans		-	23 841
Interest received		7 207	18 543
Net cash flow used in investing activities		(294 731)	(104 284)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans received		3 913 060	50 000
Repayment of loans		(1 529 775)	(279 201)
Net cash flow from financing activities		2 383 285	(229 021)
Net foreign exchange gains/losses		-	(3)
Net cash flow for the financial year		51 515	(114 195)
Cash and cash equivalents at the beginning of the financial year	23	18 005	132 200
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	23	69 520	18 005

The accompanying notes on pages 12 to 32 are an integral part of these financial statements.

Einārs Buks	Jekaterina Meļņika	Ainārs Tropiņš									
Chairman of the Board	Member of the Board	Member of the Board									
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center; border-top: 1px solid black; padding-top: 5px;">Alda Berziņa</td> <td style="width: 33%;"></td> <td style="width: 33%;"></td> </tr> <tr> <td style="text-align: center; padding-top: 5px;">Chief Accounting Officer</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center; padding-top: 10px;">Riga, 15 June , 2018</td> <td></td> <td></td> </tr> </table>			Alda Berziņa			Chief Accounting Officer			Riga, 15 June , 2018		
Alda Berziņa											
Chief Accounting Officer											
Riga, 15 June , 2018											

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of accounting policies

General principles

Financial statements are prepared in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports and Latvian Accounting Standards.

The financial statements have been prepared on the initial cost basis, except for floating docks (included in property, plant and equipment) which are reflected at their revalued amounts.

The financial statements cover the period from 1 January to 31 December 2017. The income statement is prepared in accordance with the function of expense method. The cash flow statement has been prepared under direct cash flow method.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied also during the previous reporting year, unless otherwise stated.

Accounting and valuation principles

Financial statement items are valued according to the following accounting principles:

- a) it is assumed that the Company will continue its activities;
- b) unless specified separately, the same valuation methods are used as in the previous year;
- c) valuation is made with sufficient care, including:
 - profit is recognized only if earned before the end of financial year;
 - all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
 - all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.
- d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment and day of invoice issue or receipt. Expenses are reconciled with the revenues in the financial year.
- e) The sections of the items of Assets and Equity, Provisions and Liabilities are measured and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offsetted.
- f) Transactions are reflected with account of their economic intention and matter and not with account of their legal form.

Deferred tax

In context of the changes of corporate tax regulation, the procedure for calculating corporate income tax has completely changed and the basis for calculating deferred tax liabilities has disappeared. In order to ensure compliance with the requirement of the law for a true and clear view, the Company reflects the impact of corporate income tax reform on the financial statements as follows:

- When preparing the annual report for the financial year in which it became known that the new corporate income tax regulation as a result of the corporate income tax reform will apply in the next reporting year, the balance of deferred tax liability relating to deductible temporary differences between the balance sheet asset or liability the value of items in the financial statements and their value for the purpose of calculating corporate income tax as it was calculated in accordance with the previous corporate income tax regulation. Deferred tax liabilities excluded from the balance sheet are stated in the income statement line "Revenue or charges from changes in deferred tax assets or liabilities".

Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia. All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year.

Foreign currency conversion in euro(continuation)

The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2017.	31.12.2016.
	EUR	EUR
1 USD	1,1993	1,0541
1 RUB	69,393	64,3
1 GBP	0,8872	0,8562

Income recognition and revenue

Revenue contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:

Sales of goods - after significant ownership risk and rewards have been passed to the buyer;

Rendering of services - under the percentage of completion method;

Income from fines and penalties - at the moment of receiving the payments;

Interest income - on an accrual basis;

Dividends - at the moment of acquiring legal rights to receive them.

Rendering of services, ship repairs and construction

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date, which is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the balance sheet date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the statement of profit and loss.

Intangible investments and fixed assets

Assets acquired in financial lease are depreciated over their expected useful life on the same basis as owned assets of the Company.

The floating docks are recognized at their fair value, on the basis of the periodic independent evaluation of evaluator, minus the accumulated depreciation and impairment losses.

During revaluation accumulated depreciation is taken out from initial asset value. The net amount is included in revalued value. Revaluations are performed with sufficient regularity, but not less frequently than every 5 years, such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

The increase in value occurred as a result of the revaluation is recognized within the equity in “non-current investment revaluation reserve”, but decrease in value is written off from in above mentioned reserve in previous years included value increase of respective fixed asset (minus deferred tax), including excess in Income statement. In revenues in Income statement is recognised at the time of the fixed asset liquidation.

Investment property

Investment property is land, buildings, constructions or their parts that the Company owns (as owner or renter acc. to financial leasing) to get rent or to wait prices rising (appreciation), or for both purposes, but not to use for production of goods, services production, for administrative purposes or to sell in course of economic activity.

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the Company, and the cost of an asset can be measured reliably.

Investment property (continuation)

An investment property initially is estimated under its acquisition value. Transaction costs are included in the initial estimation. Subsequent to initial recognition, investment property is presented at acquisition value, less accumulated depreciation and accumulated impairment losses.

In 2017 annual report in order to improve the quality of the prepared balance sheet and in compliance with the requirements of the Law on Annual Accounts and Consolidated Annual Report and the Cabinet Regulation No. 775 issued on the basis of law, a reclassification of the items has been made, adding investment properties to the item - plots of land, buildings and civil engineering structures. Reclassification has no impact on the financial result.

In 2017 the re-classification of items has been made, by adding investment properties to the item – parcels of land, buildings, engineering structures.

Investments in subsidiaries and associates and other financial investments

Investments in subsidiaries (i.e. where the Company holds more than 50% of interest in the share capital or otherwise controls the investee company) are measured initially at cost. Control is achieved where the Company has the power to govern the financial and operating policies of the investee company.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but is not control or joint control over those policies. Investments in associates are initially measured at cost.

Other financial investments represent investments in the share capital of another company which does not exceed 20% of the company's total share capital.

Subsequent to initial recognition, all investments are stated at historical cost less any accumulated impairment losses. The carrying amounts of investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised in the statement of profit and loss.

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 first-in, first-out FIFO 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.

Financial assets**Loans**

Loans are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are stated at amortised cost, using the effective interest rate method. Differences between the principal amount and the repayable value are gradually recognised in the statement of profit and loss over the period of the loan.

Loans are classified as current receivables if the maturity term does not exceed 12 months from the end of reporting period.

At each balance sheet date the Company assesses whether there is objective evidence that the carrying amount of loans may not be recoverable. The Company assesses each loan individually. If there is objective evidence that an impairment loss has incurred, the amount of the loss is recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment loss is recognised in the statement of profit and loss as Other operating expenses.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the statement of profit and loss as other operating expenses. If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of profit and loss.

Financial assets (continuation)

Trade receivables are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current accounts with banks and short-term deposits held at call with banks with the initial maturity of less than 90 days.

Accrued income

Accrued income represents earned revenue for services that were provided during the reporting period but invoiced during the next reporting period.

Deferred income Payments received before the balance sheet date, but relating to the following year or subsequent years, are shown as deferred income of future periods.

Prepaid expenses

Expenses paid before the balance sheet date, that relate to the next reporting periods, are recognised as deferred expenses.

Dividends

Dividends are recorded in the financial statements of the Company in the period in which they are approved by the Company's shareholders.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all borrowings are stated at amortised cost, using the effective interest rate method. Differences between the proceeds and the redemption value are gradually recognised in the statement of profit and loss over the period of the borrowing.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

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 such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the statement of profit or loss in the period in which they incurred.

Leases

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership associated with the asset are classified as finance leases. All other leases are classified as operating leases.

The Company as lessor

When the Company's assets are leased out under an operating lease, income from operating leases is recognised in the statement of profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and reduce the amount of income recognised over the lease term. If the Company is a lessor in a finance lease arrangement, it recognises the asset in the balance sheet as a receivable at an amount equal to the present value of the lease payments. Lease income is recognised over the term of the lease on the basis of constant periodic rate of return.

The Company as lessee

Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

If the Company is a lessee in a finance lease arrangement, it recognises in the balance sheet the asset 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 statement of 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 Company will obtain ownership by the end of the lease term.

Grants and government assistance

Grants received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in the income statement on straight-line basis over the useful life of the assets acquired. Other grants and financial support to cover the expenses are recognized as an income in the period when the respective funding has been received and all material conditions in respect of the grants received has been fulfilled.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities if payment is due within one year or less. Otherwise, they are classified as non-current liabilities.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed for example under an insurance contract the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Expenses relating to any provision are presented in the statement of profit and loss net of any reimbursement.

Accrual for unused employee vacations

Accrual for unused vacations is computed by multiplying employees' average salary for the last 6 months by the number of unused vacation days at the end of the reporting year, additionally calculating employers' mandatory social insurance contributions.

Corporate income tax

Current corporate income tax calculated in accordance with tax regulations of the Republic of Latvia applying a rate of 15% on taxable income generated by the Company during the taxation period.

Events after the reporting date

Post-year-end events that provide additional information about the Company's position at the balance sheet date (restated events) are reflected in the balance sheet. Post-year-end events that are not restated events are disclosed in the notes to the financial statements only when material.

Use of estimates and critical judgments

The legislation of the Republic of Latvia requires that in preparing the financial statements the management of the Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of off-balance sheet assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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:

Allowance for doubtful trade receivables

The Company's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary.

Net realisable value of inventories

The Company'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.

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 Company'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 Company'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 Company'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.

Revaluation of floating docks

Use of estimates and critical judgments (continuation)

The Company's management evaluates whether there have been significant changes in the fair values floating docks which are carried at their revalued amounts.

Carrying amounts of issued loans

The Company's management evaluates the carrying amounts of issued loans and evaluates their recoverability, making an allowance for doubtful loans, if necessary.

The carrying amounts of investments in associate

The Company's management reviews the carrying amounts of the investments in associates and assesses whenever indications exist that the assets' recoverable amounts are lower than their carrying amounts. The Company's management calculates and records an impairment loss on investments in associates based on the expected future returns of the assets.

The determination of ship buildings construction contract stage of completion

At each balance sheet date the Company's management evaluates the stage of completion of unfinished construction contracts and the associated revenue and costs.

2. Net turnover

	NACE2 CODES	2017	2016
By operating activities		EUR	EUR
Ship repair	3011	10 315 549	15 521 797
Shipbuilding	3011	2 430 657	4 999 084
Mechanical engineering	3315	106 428	226 078
Other works	3315	894	10 825
Total		12 853 528	20 757 784
		2017	2016
Geographical markets:		EUR	EUR
Germany		474 230	5 349 535
Denmark		2 037 649	4 106 682
Sweden		230 263	2 057 196
Russia		984 727	1 800 580
Greece		1 579 902	1 713 454
Cyprus		277 565	1 124 409
Monako		288 859	1 079 197
Norway		661 781	935 230
Estonia		584 111	679 362
Antigua		-	561 982
Bulgaria		242 626	556 627
The Netherlands		527 053	295 880
Belgium		3 847 223	204 034
England		52 055	79 892
Lithuania		-	64 777
Finland		68 376	61 864
Panama		262 500	40 999
Republic of the Marshall Island		7 955	33 549
Latvia		467 582	12 535
Spain		15 082	-
Italy		212 086	-
Liberia		31 903	-
Total		12 853 528	20 757 784

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

3. Cost of goods sold or costs of services provided

	2017	2016
	EUR	EUR
Material costs and services from outside	1 385 699	3 848 955
Contragents services	4 879 613	6 308 997
Salary expenses	3 963 402	4 543 289
Social insurance	906 195	1 033 581
Electricity costs	573 335	1 079 665
Heat energy costs	813 337	714 119
Accrued liabilities for unused vacations	(65 602)	53 833
Depreciation of fixed assets and intangible assets	703 128	1 043 254
Other costs	778 043	763 927
Real estate tax	156 356	155 353
Total	14 093 506	19 544 973

4. Distribution expenses

	2017	2016
	EUR	EUR
Advertising expenses	3 590	5 585
Total	3 590	8 585

5. Administrative expenses

	2017	2016
	EUR	EUR
Remuneration of the Council members	197 238	221 044
Remuneration of the Board members	333 461	129 732
Remuneration to the member of the Audit Committee	6 000	-
Salary expenses (administration)	127 380	165 758
Social insurance	153 379	165 758
Representative vehicle maintenance expenses	30 531	34 267
Transportation costs, travelling allowances	202 945	111 519
Legal services	2 954	68 522
Depreciation of fixed assets	28 944	36 552
Representation costs	34 808	30 612
Communication costs	24 358	23 047
Office rent and utilities	8 208	10 322
Insurance	3 064	3 357
Annual report audit expenses	15 000	15 500
Total	1 168 270	968 175

6. Other operating income

	2017	2016
	EUR	EUR
Income from rent and delivered utility services	545 317	558 125
Net income from exchange rate fluctuations	-	1 627
Sale of materials	569 107	285 201
Written-off accounts payable	219 812	205 966
Tugboat services income	21 112	54 550
Income from projects financing	72 120	72 120
Income from chemical analysis	664	1 352
Income from cession agreement*	462 268	-
Other income	51 806	41 850
Total	1 942 206	1 220 791

*In accordance with the Assignment agreement from December 31st, 2017, the right to claim in the amount of 462 268,40 EUR is transferred to the Company, resulting in a reduction of other borrowings.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

7. Other operating expenses

	2017	2016
	EUR	EUR
Net losses from disposal of fixed assets	6 996	4 090
Leased fixet assets maintenance costs	451 588	516 350
Provisions for inventories	-	5 300
Material purchase costs	486 333	248 913
Costs on tugboat services	75 336	33 647
Representation costs 60%	53 958	48 663
Medical services	11 344	10 655
Material allowances and gifts	340	12 708
Warranty repairs costs	1 465	9 000
Burial expenses	1 799	2 773
Donations	-	9 787
Net loss from sale of foreign currency	7 262	190
Provisions for bad and doubtful debts	30 276	7 810
Provisions for shipbuilding project payables*	552 686	-
Other expenses	109 534	31 296
Expenses according to court decisions**	366 509	-
Total	<u>2 155 426</u>	<u>941 182</u>

*On December 31st, 2017, reserves were created to cover liabilities for shipbuilding projects which were handed over to the customers in 2018.

** Amounts, which were paid to creditors in accordance to court decisions.

8. Other interest income and similar income

	2017	2016
	EUR	EUR
<i>from other parties</i>		
Interest income on loans issued	<u>100 652</u>	<u>101 500</u>
Total	<u>100 652</u>	<u>101 500</u>

9. Other interest payable and similar expenses

	2017	2016
	EUR	EUR
<i>to other parties</i>		
Interest expenses for loans	305 767	217 611
Penalties paid	206 454	116 214
Bank charges for guarantees	12 736	4 150
State fee	<u>10 901</u>	<u>13 631</u>
Total	<u>535 858</u>	<u>351 606</u>

10. Intangible assets

	Software EUR	Total EUR
Cost		
As of 01.01.2016.	351 950	351 950
As of 31.12.2016.	351 950	351 950
Acumulated amortizations		
As of 01.01.2016.	(296 492)	(296 492)
Calculated	(49 319)	(49 319)
As of 31.12.2016.	(345 811)	(345 811)
Net carrying amount		
As of 01.01.2016.	55 458	55 458
As of 31.12.2016.	6 139	6 139
Cost		
As of 01.01.2017.	351 950	351 950
Additions	9 401	9 401
As of 31.12.2017.	361 351	361 351
Acumulated amortizations		
As of 01.01.2017.	(345 811)	(345 811)
Calculated	(1 536)	(1 536)
As of 31.12.2017.	(347 347)	(347 347)
Net carrying amount		
As of 01.01.2017.	6 139	6 139
As of 31.12.2017.	14 004	14 004

RIGAS KUGU BUVETAVA JSC
2017 ANNUAL REPORT

11. Fixed assets

	Land, buildings and engineering structures** EUR	Advances for fixed assets EUR	Technological equipment and devices EUR	Fixed assets under construction EUR	Other Fixed assets EUR	Total EUR
Cost/revaluation						
As of 01 01 2016	13 631 709	9 562	32 248 592	525 090	1 740 465	48 155 418
Additions	11 356	8 988	-	1 144 539	-	1 164 883
Disposals	(270)	-	(116 523)	-	(4 720)	(121 513)
Reclassified	33 721	-	839 218	(913 073)	40 134	-
As of 31 12 2016	13 676 516	18 550	32 971 287	756 556	1 775 879	49 198 788
Depreciations						
As of 01 01 2016	(5 118 279)	-	(11 169 257)	-	(1 305 498)	(17 593 034)
Calculated	(325 263)	-	(652 985)	-	(85 814)	(1 064 062)
Disposals	250	-	112 360	-	4 720	117 330
Relocated *	-	-	*(194 175)	-	-	(194 175)
As of 31 12 2016	(5 443 292)	-	(11 904 057)	-	(1 386 592)	(18 733 941)
Net carrying amount						
As of 01 01 2016	8 513 430	9 562	21 079 335	525 090	434 967	30 562 384
As of 30 06 2016	8 233 224	18 550	21 067 230	756 556	389 287	30 464 847
Cost/revaluation						
As of 01 01 2017	13 676 516	18 550	32 971 287	756 556	1 775 879	49 198 788
Additions	-	3 306	-	2 056 647	-	2 011 077
Disposals	-	-	(34 297)	-	(33 240)	(67 537)
Reclassified	613 670	(14 742)	1 745 174	(2 489 192)	145 090	-
As of 31 12 2017	14 290 186	7 114	34 682 164	324 011	887 729	51 191 204
Depreciations						
As of 01 01 2017	(5 443 292)	-	(11 904 057)	-	(1 386 592)	(18 733 941)
Calculated	(209 317)	-	(498 797)	-	(71 244)	(779 358)
Disposals	-	-	29 373	-	29 928	59 031
Relocated	-	-	*(194 175)	-	-	(194 175)
As of 31 12 2017	(5 652 609)	-	(12 567 656)	-	(1 427 908)	(19 648 173)
Net carrying amount						
As of 01 01 2017	8 233 224	18 550	21 067 230	756 556	389 287	30 464 847
As of 31 12 2017	8 637 577	7 114	22 114 510	324 011	459 821	31 543 033

Real Estate (buildings) cadastral value as of 31 December 2017 - 5 723 487 EUR (as of 31 December 2016 - 5 723 487 EUR).

Information about assets used as collaterals for borrowings included in Notes 27 and 39.

* Depreciation of the Reporting Period for which the long-term investment revaluation reserve is being reduced.

** Re-classified from the sub-item "investment properties" to "land, buildings and engineering structures" carried out in real estate in the reporting year, the residual value of which is EUR 520 171 as at 31 December 2017. Reclassification has no impact on the financial result.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

Financial result of disposed, eliminated and sold fixed assets:

	2017	2016
	EUR	EUR
Initial cost	67 537	121 512
Accumulated depreciation	(59 301)	(117 330)
Residual value	8 236	4 182
Revenue from selling the fixed assets	1 240	92
Profit from disposal of fixed assets	(6 966)	(4 090)

12. Investments in associates

Shares in the capital of associates and their carrying values:

Name	31 12 2017	Participating interest	Equity 31 12 2017	Profit/ (loss) 01 01 2017- 31 12 2017
	EUR	%	EUR	EUR
JSC "Tosmares kugubuvetava"	3 630 590	49.72	-	-
LLC "Remars Granula"	1 200 000	49.80	209 731	(17 640)
Total	4 830 590			

Name	31 12 2016	Participating interest	Equity 31 12 2016	Profit/ (loss) 01 01 2016- 31 12 2016
	EUR	%	EUR	EUR
JSC "Tosmares kugubuvetava"	3 630 590	49.72	5 941 916	21 899
LLC "Remars Granula"	1 200 000	49.80	227 371	(16 824)
Total	4 830 590		6 169 287	5 075

The consolidated annual report for the year 2017 will not be drawn up.

* The financial data of JSC "Tosmares kuģubūvētava" for 2017 are not available at the moment of preparation of the financial report. The market value of the held JSC "Tosmares kuģubūvētava" shares at the moment of preparation of the financial statements is considerably lower than the carrying amount of the investment.

13. Other securities and investments

Name enterprise	Parts or shares		31.12.2017		31.12.2016	
	31.12.2017	31.12.2016	Quantity	EUR	Quantity	EUR
"Baltic International Bank" JSC	7	7	33	235	33	235
Total	7	7	33	235	33	235

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

14. Other loans and non-current receivables

Name / Type of Loan	As of 31.12.2016	Interest accrued Reallocation at a short- term	Currency exchange rate change	As of 31.12.2017	Term of repayment
Loans to employees (students) *	49 364	-	(5 975)	43 389	2020-2029
Loans for Tosmares Kugubuvetava JSC shares **	1 110 818	207 816	-	1 110 818	Year 2020
Loans (interest rate 5%)	470 000	38 755		470 000	Year 2020
Total	1 630 182	246 571	(5 975)	1 624 207	

On 31 December 2017, the amount which must be repaid after 5 years: 24 286 EUR.

* Loans for students are with a rate of 0%, the collateral is a guarantee.

**Debt for JSC "Tosmares kuģubūvētava" shares is at a 5% rate. The debt is secured by shares of JSC "Tosmares kuģubūvētava", which, in case of non-payment, will be transferred to the Company's property. The Company calculates interest on unpaid debts - as of 31 December 2017, the debt on interest is EUR 207 816, which is reflected in the item "Other debtors" and has not been paid.

15. Raw materials and consumables

	31.12.2017 EUR	31.12.2016 EUR
Metal, non-ferrous metals, pipes	1 696 728	1 680 018
Metal ware	56 948	63 431
Technical rubber ware	28 896	29 535
Cables	28 111	30 938
Equipment	32 916	33 491
Varnish and paint	11 623	15 078
Wire cables	8 370	11 240
Fuel	9 622	9 637
Coveralls	1 058	1 297
Household goods	1 659	2 899
Timbering	612	1 387
Other	349 495	475 957
Provisions for slow moving and obsolete stock	(375 300)	(375 300)
Total	1 850 738	1 979 608

Change in allowance for obsolete and slow moving inventories:

	2017 EUR	2016 EUR
At the beginning of the reporting year	375 300	370 000
Charged to statement of profit and loss	-	5 300
Net change to statement of profit and loss	-	(5 300)
At the end of the reporting year	375 300	375 300

16. Work in progress

	31.12.2017 EUR	31.12.2016 EUR
Shipbuilding orders	-	96 170
Ship repair orders	11 403	8 327
Various	-	2 226
Mechanical engineering orders	825	819
Total	12 228	107 542

Work in progress contains orders with up to 10% (zero cycle) performed from total contractual value.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

17. Advances for inventories

	31.12.2017 EUR	31.12.2016 EUR
Payments for materials	115 578	191 658
Total	115 578	191 658

18. Trade receivables

	31.12.2017 EUR	31.12.2016 EUR
Book value of trade receivables	685 339	1 805 846
Provisions for bad and doubtful debts	(257 536)	(227 260)
Trade receivables, net	427 803	1 578 586

Provisions for bad and doubtful debts have been made 100% of their book value.

Change in provisions

	Trade receivables EUR	Total EUR
Provisions as of 31.12.2016.	227 260	227 260
Increase in provisions	30 276	30 276
Provisions as of 30.06.2017.	257 536	257 536

19. Receivables from associates

	31.12.2017 EUR	31.12.2016 EUR
LLC "Remars Granula" debt for loan according to assignment agreement *	770 000	770 000
LLC "Remars Granula" loan **	310 642	310 642
LLC "Remars Granula" loan %**	228 569	212 822
Total	1 309 211	1 293 464

* Debt related to assignement (cession) agreement signed with SEB bank JSC, Rigas kugu buvetava JSC and Remars Granula LLC. The debt is secured by a commercial pledge on LLC Remars Granula stock, tangible fixed assets and claim rights on all assets at the time of pledging, as well as the following components of the all assests. The amount secured is 2 297 938 EUR. The book value of the assets pledged on 31.12 2017 constitutes 2 437 254 EUR. No security has been received.

** Loan interest rate 5%, repayment term on demand.

20. Other receivables

	31.12.2017 EUR	31.12.2016 EUR
Book value	656 162	922 793
Other receivables, net	656 162	922 793
Advance payments for services	391 977	372 321
Value added tax (Note 33)	15 683	297 772
Interests	246 570	168 893
Payments personal debts	482	44 980
Payment of salary	-	23 652
Other receivables	1 450	15 175
Total	656 162	922 793

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

21. Prepaid expenses

	31.12.2017	31.12.2016
	EUR	EUR
Travelling allowances	-	343
Property insurance	16 164	9 643
Health insurance	1 984	-
Renovation costs of leased fixed assets	105	-
Car insurance	3 414	-
Other expenses	1 418	-
Total	23 085	9 986

22. Accrued income

	31.12.2017	31.12.2016
	EUR	EUR
Shipbuilding	1 719 362	2 935 632
Ship repair	-	500 184
Total	1 719 362	3 435 816

23. Cash and cash equivalents

	31.12.2017	31.12.2016
	EUR	EUR
Cash at bank on current accounts	69 021	8 887
Cash on hand	499	9 118
Total	69 520	18 005

24. Share capital

Rigas kugu buvetava JSC was founded in 1991. Share capital of the Company is 16 340 950 EUR, which is comprised of 11 672 107 ordinary shares, nominal value of one share is 1.40 EUR. Currently there are in total 11 672 107 shares of which 10 000 000 shares are publicly traded and 1 672 107 shares are in closed issue.

The joint stock company is public and its shares are quoted on exchange market NASDAQ RIGA JSC on the secondary list. All shares give equal rights for receiving dividends, liquidation quotes and voting rights at the shareholders meeting. 1 share gives 1 voting right.

Amendments to the Statutes:

1. Increase of the share capital up to EUR 15 651 590 on 30 December, 1998.
2. Increase of the share capital up to EUR 16 607 912 on 30 December, 1999.
3. Denomination of the share capital was done in May 2015. The share capital after the denomination is 16 340 950 EUR. Number of shares is 11 672 107, the nominal value of one share is 1.40 EUR.

JSC "Rigas kugu buvetava" shareholders

	31.12.2017	%	31.12.2016	%
	EUR		EUR	
Remars-Riga AS	8 146 872	49.86	8 146 872	49.86
Private persons	6 087 081	37,25	5 726 697	35.04
Other legal entities	2 106 997	12,89	2 467 381	15.10
Total	16 340 950	100	16 340 950	100

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

25. Long-term investments revaluation reserve

	31.12.2017	31.12.2016
	EUR	EUR
As at the beginning of the year	11 891 225	12 056 273
Decreasing long-term asset reevaluation reserve to the calculated depreciation amount	(194 175)	(194 174)
Increase in long-term asset reevaluation reserve to the deferred tax amount	-	29 126
Total	<u>11 697 050</u>	<u>11 891 225</u>

Based on certified appraisers valuation report, Company performed revaluation of floating docks. In 2007 Baltic Kontor LLC performed valuation of the Company's real estate (three floating docks) and as a result of the valuation estimated fair value of three floating docks which as of 20.12.2017 amounted to 17 107 000 EUR.

Company's management considers that floating docks value increase is permanent and it is appropriate to value assets at their fair value. Difference arising from revaluation for the amount of 12 056 273 EUR was recognized in equity under Long-term investments revaluation reserve that was decreased by the related deferred tax liability.

Subsequently in 2012, 2014 and 2016 certified appraisers performed floating docks' revaluation and concluded that estimated value does not significantly differ from previously evaluated value and no amendments into value of floating docks was recognized. In performing valuation the appraisers used a cost approach including adjustments for the docks technical condition, age and technological usefulness of the assets. The values obtained were compared to available information in the market for the similar assets.

As of 31 December 2017, the revaluation reserve is reduced by an amount equal to the difference between the depreciation calculated on the basis of the revaluated value of the fixed asset and the depreciation calculated on the basis of the acquisition value of the fixed asset.

26. Other provisions

	31.12.2017	31.12.2016
	EUR	EUR
For shipbuilding projects	<u>552 686</u>	<u>1 699</u>
Total	<u>552 686</u>	<u>1 699</u>

On December 31st, 2017, reserves were created to cover liabilities for shipbuilding projects which were handed over to the customers in 2018.

27. Loans from credit institutions

	31.12.2017	31.12.2016
	EUR	EUR
ABLV Bank JSC		
b) Short – term part	1 700 000	1 900 000
Baltikums bank JSC		-
a) Long-term part	740 396	-
b) Short – term part	902 617	-
Total	<u>3 343 013</u>	<u>1 900 000</u>

1. On December 28, 2017 the Company had concluded with ABLV Bank JSC amendments to the October 18, 2013 Creditline contract No. 13-FP-0207 for current assets needs. The repayment term is December 30 2018. The interest rate is 7%. Mortgage agreement on real estate properties was signed. Pledged real estate net book value as of December 31, 2017 is EUR 5 897 180. The maximum amount secured claims is EUR 2 470 000.

2. a) On March 28, 2017 the Company had concluded with Baltikums Bank JSC Creditline contract No. KLJ-

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

39-2017 for purchase of the steel with a total credit limit of EUR 1 000 000. The repayment term is March 27, 2018. The interest rate is 6,5%. The maximum amount secured claims is EUR 1 500 000.

b) On March 31, 2017 the Company had concluded with Baltikums Bank JSC Creditline contract No. KLJ-40-2017 for issuance of guarantees with a total credit limit of EUR 2 500 000. The repayment term is March 29, 2019. The interest rate is 3,0%. The maximum amount secured claims is EUR 3 750 000.

c) On March 31, 2017 the Company had concluded with Baltikums Bank JSC Creditline contract No. OJ-38/2017 for current assets needs with a total credit limit of EUR 1 000 000. The repayment term is March 29, 2019. The interest rate is 6,5%. The maximum amount secured claims is EUR 1 500 000.

As security was signed:

1. Mortgage on real estate. The value of the pledged immovable property as at 31 December 2017 is EUR 5 897 180. 1st stage mortgage agreement for floating dock No 170. The mortgaged property balance sheet value as of December 31, 2017 is EUR 10 728 800.

2. Commercial pledge on all assets of the Company at the time of pledging, as well as the following components of the all assets Pledged real estate net book value as of December 31, 2017 is EUR 3 637 148.

28. Other loans

	31.12.2017	31.12.2016
	EUR	EUR
Long-term part (interest 4%)*	37 732	1 182 663
Total long-term part of leasing liabilities	1 342	18 893
International Fund (interest 6%)	1 915 000	-
Total long-term part	1 954 074	1 201 756
Short-term part **	902 840	510 350
Total short-term part of leasing liabilities	16 284	23 782
Total short-term part	2 817 840	534 132
Total	2 856 914	1 735 888

* Company received a loan from legal entities, repayment term is 2021.

** Company received a loan from legal entities.

No assets are pledged as collateral.

Part of leasing liabilities of December 31, 2017 is EUR 17 626.

29. Deferred income

	31.12.2017	31.12.2016
	EUR	EUR
1) Financing in accordance with the signed agreement in 2013 with the Ministry of Environmental Protection and Regional Development for the project implementation "Measure of the Energy efficiency in the production buildings"	328 196	371 398
2) Financing in accordance with an agreement signed in 2012 with the Latvian Investment and Development Agency about the EU co-financed project Rigas kugu buvetava JSC Heating system reconstruction.	238 051	266 969
Total	566 247	638 367
Total long-term part	494 127	566 247
Total short-term part	72 120	72 120

In 2013 there was a funding in amount of 279 278 EUR received, in 2014 there was a funding in amount of 564 027 EUR received.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

30. Advances from customers

	31.12.2017	31.12.2016
	EUR	EUR
For shipbuilding	1 237 406	2 544 200
For ship repair	-	15 191
Others	58	909
Total	1 237 464	2 560 300

31. Trade payables

	31.12.2017	31.12.2016
	EUR	EUR
Payables for services	1 850 020	1 895 808
Payables for materials	582 342	1 054 658
Total	2 432 362	2 950 466

32. Payables to associates

	31.12.2017	31.12.2016
	EUR	EUR
Short-term part from Tosmares kugubuvetava JSC (interest rate 6 %)*	230 672	546 438
Payables for services	15 130	4 905
Total	245 802	551 343

*In 2014 Company received loan from Tosmares kugubuvetava JSC, repayment term is 2018. No collateral has been provided.

33. Taxes and statutory social insurance contributions

	01.01.2017.	Calculated	Calculated	penalty and	(Paid)/	Transfere	31.12.2017
	EUR	EUR	EUR	delay fees	repaid	d to other	EUR
				EUR	EUR	taxes	
					EUR	EUR	EUR
Social insurance payments	293 691	1 532 102	11 129	-	(312 626)	(956 009)	568 287
Value added tax	(297 772)	(1 060 535)	-	-	-	1 342 624	(15 683)
Personal income tax	620 485	882 297	54 567	-	(531 270)	(386 662)	639 457
Real estate tax	20 911	156 346	8 812	-	(132 551)	-	53 518
Natural resources tax	1 550	3 122	38	-	(3 961)	(13)	736
Risk duty	177	2 032	6	-	(1 761)	-	454
Customs duty on import	-	4	-	-	(4)	-	-
Total	639 042	1 515 368	74 552	74 552	(982 173)	(20)	1 246 769
Tax debt	936 814						1 262 452
Tax overpayment *	(297 772)						(15 683)

* The overpayment of taxes is included in Other receivables (Note 20).

34. Other payables

	31.12.2017	31.12.2016
	EUR	EUR
Salaries	405 759	296 595
Other accounts payable	201 888	511 760
Payments to personnel	-	1 598
Payments for credit cards	-	5 774
Retention from salaries	-	1 827
Interest paid	22 059	-
Total	629 706	817 554

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

35. Dividends unpaid

	31.12.2017	31.12.2016
	EUR	EUR
As at the beginning of the period	18 617	25 680
Dividends paid	(6 871)	(7 063)
As at the end of the period	11 746	18 617

36. Accrued liabilities

	31.12.2017	31.12.2016
	EUR	EUR
For services	242 299	222 797
Accrued liabilities for unused annual leave expenses	180 279	245 881
For the audit of financial statements	15 000	15 500
Total	437 578	484 178

Sworn auditor has not provided any other services to the Company except the revision of the annual report

37. Staff costs and number of employees

	2017	2016
	EUR	EUR
Total remuneration to personnel		
Salary	4 627 481	5 059 823
Social insurance payments	1 059 574	1 151 524
Total	5 687 055	6 211 347

	2017	2016
	EUR	EUR
Incl. Personnel salary (production department)		
Salary	3 963 402	4 543 289
Social insurance payments	906 195	1 033 581
Total	4 869 597	5 576 870

	2017	2016
	EUR	EUR
Incl. Administration		
Salary	127 380	165 758
Social insurance payments	28 500	36 773
Total	155 880	202 531

	2017	2016
	EUR	EUR
Incl. Remuneration of the Board members		
Salary	333 461	129 732
Social insurance payments	78 663	30 604
Total	412 124	160 336

	2017	2016
	EUR	EUR
Incl. Remuneration of the Council members		
Salary	197 238	221 044
Social insurance payments	44 982	50 566
Total	242 220	271 610

	2017	2016
	EUR	EUR
Incl. Remuneration to the member of the Audit Committee		
Remuneration to the member of the Audit Committee	6 000	-
Social insurance payments	1 234	-
Total	7 234	-

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

	2017	2016
Average number of employees during reporting year	<u>446</u>	<u>491</u>

38. Subsequent events

On May 21, 2018, with the decision of the First Debt Recovery Division of the State Tax Debt Recovery Administration of the State Revenue Service RS the Company has been prohibited from registering, re-registering, renewing and amending the commercial pledge in the Commercial Pledge Register of the Enterprise Register.

On May 28th, 2018, Riga Vidzeme district court decided to accept the application of the legal protection proceedings submitted by the Company and initiated a civil proceeding; there was a deadline until July 30th, 2018 for drafting and co-ordination of the plan of measures of the legal protection proceedings with creditors.

There were no other events during the time period between the last day of the financial and the date of signing the annual statement, which could favourably affect the Company's financial position on the December 31st, 2017.

39. Off-balance sheet commitments and significant contracts

1. The Company has concluded agreements for land and pier lease with Riga Free Port authority. The agreement is valid till 31.08.2028. The Company has the priority to extend the agreement term.

2. On the December 28, 2010 there was issued ship covered bond No.EH 28.12.2010/KO about floating dock deposit in the favour of UniCreditBank JSC and bond is valid until the secured obligations are fully met. Ship bond is issued as a guarantee for Eiroholdings LTD obligations, that results from credit line agreement Nr. EH 01.07.2008/CL dated on July 1, 2008; credit line obligations as of December 31, 2017 is EUR 544 894. Maximum guarantee claim is EUR 4 183 243 . Mortgaged floating dock 791, with the balance sheet value as of December 31, 2017 is EUR 5 476 341. At the date of approval of these financial statements Management considers that there is low probability that the settlement of the obligation resulting from the above mentioned agreement likely.

3. On December 12, 2014 between Rigas kugu buvetava JSC and ABLV Bank JSC was signed mortgage agreement No. 14-FP-0328/01 for the first mortgage on Rigas kugu buvetava JSC real estate - as security for Remars- Riga JSC liabilities that are resulting from December 12, 2014 credit agreement No. 14-FP-032. As of December 31, 2017 liabilities amounted to EUR 1 344 283. Total amount of secured claim is EUR 2 860 000. The pledged property balance sheet value as of December 31, 2017 is EUR 6 100 569. At the date of approval of these financial statements Management considers that there is low probability that the settlement of the obligation resulting from the above mentioned agreement is likely.

4. On December 14, 2017 there was issued ship covered bond No.2 per tugboat „Orkāns” and ship covered bond No.3 per marine crane „CELTNIS 24” pledge in the favour JSC „Latvenergo” as security JSC „Rīgas kuģu būvētava” obligations and they are valid until the honouring of the obligations in the full amount. Obligations claim is EUR 190 000 un EUR 270 000. The pledged property balance sheet value as of December 31, 2017: tugboat „Orkāns” EUR 189 687 un marine crane „CELTNIS 24” EUR 385 018.

5. Several litigation proceedings have been commenced against the Company regarding recovery of claims. Preliminary hearings and discovery proceedings on these actions are in progress. The ultimate outcome of these matters cannot presently be determined and, accordingly, no provision for any effects on the Company that may result has been made in the financial statements.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

40. Transactions with related parties

	Type of relationship	Goods or services sold	Purchased goods or services	Other transactions
		EUR	EUR	EUR
Remars-Riga JSC	Significant influence	482 899	1 623 230	1 650
Tosmares kugubuvetava JSC	Associated company	354 076	42 501	54 120
Remars-Granula LTD	Associated company	0	0	23 730
Total		836 975	1 655 731	79 500

41. Proposal for covering of Company's losses

There is a proposal to use retained profits from previous years to cover Company's losses of the financial year.

42. Risk management

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation. The Company manages its liquidity risk by using the cash and the bank credit line.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables and cash at bank.

The Company has significant exposure of credit risk with its foreign customers. The Company's policy is to ensure that cooperation is carried out with customers having appropriate credit history. In accordance with construction and repair agreements Customers are required to pay part of agreement amount in advance. If necessary, provisions for doubtful receivables are made. Receivables in the financial statements are presented at net value of receivables nominal value and provisions for doubtful receivables.

Interest rate risk

The Company is exposed to interest rate risk due to borrowings with variable interest rates. No instruments for risk hedging are used.

43. Use of going concern assumption

The company has concluded year 2017 with a net loss of EUR 308.2 thousand and as at 31 December 2017 the Company's current liabilities exceed its current assets by EUR 3 651.0 thousand.

The capability of the Company to continue its activities depends on the financial performance in forthcoming periods and from Company's management ability to ensure the Company's profitable operations and to cover short-term liabilities as well as depending on the ability of the Company to reconcile the legal protection plan, as well as to cover liabilities to credit institutions and other creditors within the specified time limits, observing all conditions of the plan specified. The financial statements of the Company are prepared on the basis of the assumption of continued operation.

RIGAS KUGU BUVETAVA JSC 2017 ANNUAL REPORT

Gales street 2, Riga, LV-1015, Latvia, Reg. No. 40003045892

44. Future development of the Company

When assessing the current market situation and the options of the Company, the Board of the Company will continue the work to improve financial flow, increase the amount of the ships to be repaired, improve marketing activities, optimize resources for eliminating costs of sales by re-organizing internal structure units and attracting professional employees. The Board of the company plans to participate in procurements of manufacturing metal construction and other procurements.

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

Alda Berziņa
Chief Accounting Officer

Riga, 15 June, 2018