

## INDEPENDENT AUDITOR'S REPORT

To the stockholders of  
Joint Stock Company "Rīgas kuģu būvētava"

### Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "Rīgas kuģu būvētava", reg.No. 40003045892 ("the Company") set out on pages 7 to 32 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the possible effect of the matters and incomplete disclosure of information described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of AS "Rīgas kuģu būvētava" as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

### Basis for Qualified Opinion

We were appointed as auditors of the Company's financial statements for the year ended 31 December 2017 only in April 2018, and thus did not observe the counting of raw materials, base materials and consumables included in inventories at 31 December 2017 which are stated at EUR 1 850.7 thousand at that date (see also Note 15 to the financial statements). We were unable to obtain the necessary evidence by alternative means concerning the balance and valuation of these inventories. Consequently, we were unable to determine whether any adjustments were necessary to the value of inventories as at 31 December 2017, and the elements making up the profit and loss statement, statement of changes in equity for the year 2017 and net cash generated from operating activities in the statement of cash flows for the year 2017.

In 2017, the Company was operating at a loss and its cash flows from operating activities for the year 2017 were negative. In addition, the Company's further economic performance was significantly worse than expected and there have been significant changes that have adversely affected the Company, affecting the size and type of the Company's operating activity. These circumstances indicate that the carrying amount of the buildings and constructions, technological equipment and machinery, other fixed assets and equipment, as well as fixed assets under construction, included in the fixed assets, which as at 31 December 2017 comprise EUR 31 535.9 thousand, is likely to exceed its recoverable amount. The Company's management has performed an impairment test for fixed assets and has not detected impairment as at 31 December 2017. We were unable to ascertain the validity of the management's assumptions in predicting future cash flows, so we were unable to satisfy ourselves by other audit procedures concerning the possible impairment amount that might have been found necessary at 31 December 2017. In addition, in accordance with the Company's accounting policies (see Notes 1, 11 and 25), the Company accounts for docks included in the technological equipment and machinery at the revalued amount less accumulated depreciation. As a

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result of these matters, we were unable to ascertain also the revaluation reserve related to this group of assets of EUR 11 697.0 thousand as at 31 December 2017 and to determine which adjustments were necessary in respect of the recorded item in 2017.

The Company's investment in associate AS "Tosmares kuģubūvētava" is carried at EUR 3 630.6 thousand as at 31 December 2017, which, according to the Company's policy (see Notes 1, 12 to the financial statements) is accounted for by cost model. The results of AS "Tosmares kuģubūvētava" operations in the period ended 31 December 2017, as well as after the stated date, were worse than expected for the specified period, and there have been significant changes that have adversely affected the indicated company, indicating the possible decrease in investment value. In accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports for the test of impairment of assets, if such indications exist at the reporting date, management should estimate the asset's recoverable amount and recognize impairment losses, if any. However, such estimates have not been made in the Company's financial statements. We were unable to determine which adjustments in the financial statements were necessary in respect of the carrying amount of this investment, and the elements making up the net result for 2017 and shareholders' equity as at 31 December 2017.

The balance sheet as at 31 December 2017 includes the investment in associate SIA "REMARS GRANULA" in the amount of EUR 1 200.0 thousand, which is the cost of acquiring this investment (see Note 12), as well as the debts of the mentioned company in the amount of EUR 1 309.2 thousand (see Note 19) with significant delayed payment periods and for which no provision for impairment was made as at 31 December 2017. In our opinion, given the fact that there was no economic activity in the mentioned company in recent years, the value of that investment and receivables has decreased. We were not provided with sufficient information about the expected future cash flows from the investment and debts to assess their recoverability, we were unable to satisfy ourselves by other audit procedures concerning the recoverable amount of this investment and these debts. Consequently, we were unable to determine reliably the amount of any losses that might have been recognised as a result of impairment and which adjustments were necessary in respect of the carrying amount of the investment and mentioned debts in the Company's financial statements as at 31 December 2017, and the elements making up the net result for 2017 and shareholders' equity as at 31 December 2017. Similar situation existed as at 31 December 2015 and 31 December 2016, therefore the opinions of the previous auditors for the periods specified were modified in relation to this circumstance.

During the reporting year, the Company did not pay for a number of supplies of goods and services, as well as other payables, which were due in the reporting year or in previous years. In the annual report for 2017, the Company's management has not considered the amount of all related claims arising from these payables, as well as has not disclosed any relevant information in the annual report, therefore we were unable to satisfy ourselves concerning the possible recognition or non-recognition of the related claims in the Company's financial statements for the year ended 31 December 2017.

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our



audit of the 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 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.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 43 of the financial statements, which indicates that the Company incurred a net loss of EUR 308.2 thousand during the year ended 31 December 2017 and, as of that date, the Company's current liabilities exceeded its current assets by 3 651.0 thousand. As stated in Note 38, on 28 May 2018 the Riga City Vidzeme Suburb Court decided to initiate the legal protection process of AS "Rīgas kuģu būvētava", and according to the court ruling AS "Rīgas kuģu būvētava" has a deadline of 30 July 2018 for the elaboration and harmonization of the plan of remedial measures with its creditors, submitting a plan for the approval of the court. Future activity of the Company depends on the Company's ability 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 specified plan. These events and circumstances, along with other matters as set forth in Note 38, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements are based on going concern assumption and do not include any adjustments that might be required if the going concern assumption was not appropriate. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter**

We draw attention to Note 39 of the financial statements. The Company is the defendant in several lawsuits 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. Our opinion 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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* section, *Material Uncertainty Related to Going Concern* section and *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	Our response
Change of Chief Accountant and Chairman of the Board and decrease in the number of employees	
In 2017, changes were made to the Board of the Company, the Chairman of the Board of the Company changed, as well as there was a decrease in the number of employees during the	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> <li>• testing of controls in combination with detailed procedures for the main business</li> </ul>



Key audit matter	Our response
<b>Change of Chief Accountant and Chairman of the Board and decrease in the number of employees</b>	
<p>reporting year. In January 2018, the Chief Accountant of the Company changed.</p> <p>Based on the fact that the Chairman of the Board and Chief Accountant have changed, who are responsible for the preparation of the Company's financial statements, there is an increased risk of misstatement due to potential impact of this on the functioning of the controls and record keeping of the Company.</p> <p>Decrease in the number of employees can have a significant impact on the Company's ability to execute orders in a timely manner and qualitatively, as one of the determining factors for operating in the industry in which the Company operates is the specific knowledge of employees in ship repair, metal working, etc.</p> <p>With the decrease in the number of employees, the Company made appropriate changes to its internal control system while maintaining its functioning.</p>	<p>cycles, including revenue, purchases, payroll;</p> <ul style="list-style-type: none"> <li>• assessing the compensatory measures regarding changes in the internal control system to accommodate the change in personnel;</li> <li>• we specifically instructed our audit team on the need to maintain higher level of professional scepticism, focusing on the results of the tests of details;</li> <li>• interviewed the Company's management about how the reduction of the number of employees affects the Company's business model and the ability to ensure the execution of the work.</li> </ul>

#### Other Matter

Financial statements of AS "Rīgas kuģu būvētava" for the year ended 31 December 2016 were audited by another auditor; modified opinion was issued on 24 April 2017.

#### Reporting on Other Information

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

- information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on page 4 of the accompanying Annual Report,
- the Statement on Management Responsibility as set out on page 5 of the accompanying Annual Report,
- the Statement on Corporate Governance, as set out on page 6 of the accompanying Annual Report, prepared as a separate part of the annual report, indicating the website address on the Internet, where the Statement on Corporate Governance is available to the public in electronic form.

Our opinion on the financial statements does not cover the other information included in the Annual Report, 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 entity 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. We have nothing to report in this regard, except as described in *Basis for Qualified Opinion*.

#### **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 requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

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

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 on Corporate Governance includes the information required in section 56.<sup>1</sup>, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5 and if it includes the information stipulated in section 56.<sup>2</sup> second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement on Corporate Governance includes the information required in section 56.<sup>1</sup>, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5 and it includes the information stipulated in section 56.<sup>2</sup> 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 Financial Statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.



### **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

As part of an audit 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 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the 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 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.

**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 those charged with governance on 17 April 2018 to audit the financial statements of AS "Rīgas kuģu būvētava" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee and Council of the Company;
- as referred to in paragraph 37.<sup>6</sup> of the 'Law On the Annual Reports and Consolidated Annual Reports' 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 audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditor's report is Marija Jansone.

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**Marija Jansone**  
Member of the Board,  
The responsible Certified Auditor,  
Certificate No. 25

Riga, Latvia  
20 June 2018



**Andrejs Ponomarjovs**  
Chairman of the Board,  
Director General