

AS "Rīgas kuģu būvētava"

Financial statements on six months of the year 2018

(unaudited)

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

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RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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	
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	
NACE code	3011, 3315	
Names and positions of the Board members	Einars Buks	Chairman of the Board
	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 - 30 June 2018	
Previous financial year	1 January - 30 June 2017	
Auditor's name and address	"Nexia Audit Advice" SIA LZRA Licence No. 134 Grecinieku street 9-3, Marija Jansone Sworn Auditor	

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 6 month 2018 the total net turnover of the Company was EUR 1998 308, including revenue form shipbuilding of EUR 133 660 and ship repair of EUR 1 801 007 (if compared to 6 month 2017, net turnover made up EUR 8 207 973, including shipbuilding of EUR 2 062 289 and ship repair of EUR 6 117 773).

The Company finished the financial year with gross losses of EUR 993 790 (in comparison net losses EUR 992 587 in 6 month 2017).

In 2018 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.

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.

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 coordination 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 behalf of the Company, this financial statements were signed on 31 August 2018:

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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 June 30, 2018 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 11 to 28. 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, 31 August 2018

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

PROFIT AND LOSS STATEMENT

		6 month 2018	6 month 2017
	Notes	EUR	EUR
Net turnover	2	1998 308	8 207 973
Costs of goods sold or costs of services provided	3	(3 291 033)	(8 402 898)
Gross profit or losses		(1 292 725)	(194 925)
Distribution expenses	4		(1 423)
Administrative expenses	5	(335 248)	(583 913)
Other operating income	6	832 990	426 845
Other operating expenses	7	(43 292)	(495 739)
		42 103	49 912
Other interest income and similar income	8		
incl.			
a)from other parties		42 103	49 912
		197 618	(193 344)
Other interest payable and similar expenses	9		
incl.			
a)to other parties		(197 618)	(193 344)
Profit or losses before corporate income tax		(993 790)	(992 587)
Profit and loss after the taxation			
Changes in deferred tax assets or liabilities			
Net profit (loss) for the financial year		(993 790)	(992 587)
Profit or losses per share		(0.0851)	(0.0850)

The accompanying notes on pages 11 to 28 are an integral part of these financial statements.

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

Alda Berziņa

Chief Accounting Officer

Riga, 31 August 2018

BALANCE SHEET

		30.06.2018	30.06.2017	31.12.2017
ASSETS	Notes	EUR		EUR
Non-current assets				
Intangible assets				
			5 371	
Other intangible assets		12 940		14 004
Total intangible assets	10	12 940	5 371	14 004
Fixed assets				
Real estate:				
a) lands, buildings and engineering structures		8 541 469	8 070 355	8 637 577
Technological equipment and devices		21 828 196	20 825 665	22 114 510
Other fixed assets		428 757	358 131	459 821
Fixed assets under construction		278 865	1 782 573	324 011
Advances for fixed assets		7 114	11 218	7 114
Total fixed assets	11	31 084 401	31 047 942	31 543 033
Non-current financial investments				
Investments in associates	12	4 830 590	4 830 590	4 830 590
Other securities and investments	13	235	235	235
Other loans and non-current receivables	14	1 624 206	1 630 182	1 624 207
Total non-current financial investments		6 455 031	6 461 007	6 455 032
Total non-current assets		37 552 372	37 514 320	38 012 069
Current assets				
Inventories				
Raw materials and consumables	15	1 663 065	2 401 825	1 850 738

Work in progress	16	64 909	287 949	12 228
Advances for inventories	17	159 417	119 138	115 578
Total inventories		1 887 391	2 808 912	1 978 544
Receivable				
Trade receivables	18	1 265 135	1 579 897	427 803
Receivables from associates	19	1 309 211	1 301 273	1 309 211
Other receivables	20	842 994	844 996	656 162
Prepaid expense	21	100 538	15 903	23 085
Accrued income	22	0	4 173 971	1 719 362
Total receivables		3 517 878	7 916 040	4 135 623
Cash and cash equivalents	23	583	304	69 250
Total current assets:		5 405 852	10 725 256	6 183 687
TOTAL		42 958 224	48 239 576	44 195 756

BALANCE SHEET

		30.06.2018	30.06.2017	31.12.2017
	Notes	EUR		EUR
EQUITY, PROVISIONS AND LIABILITIES				
Equity				
Share capital	24	16 340 950	16 340 950	16 340 950
Long-term investments revaluation reserve	25	11 599 693	11 794 138	11 697 050
Reserves				
Other reserves		266 962	266 962	266 962
Retained earnings				
Prior year's retained earnings		2 314 824	2 622 977	2 623 040
Net profit (loss) for the financial year		(993 790)	(992 587)	(308 216)
Total retained earnings		1 321 034	1 630 390	2 314 824
Total equity		29 528 638	30 032 440	30 619 786
Provisions				
Other provisions	26	552 686	1 699	552 686
Total provisions		552 686	1 699	552 686
Non-current liabilities				
Loans from credit institutions	27	721 306	1 710 310	740 396
Other loans	28	2 354 074	1 177 132	1 954 074
Deferred tax liabilities			2 752 048	-
Deferred income	29	494 127	530 187	494 127
Total non-current liabilities		3 569 507	6 169 677	3 188 597
Current liabilities				
Loans from credit institutions	27	2 602 617	2 802 617	2 602 617
Other loans	28	999 703	542 520	902 840

Advances from customers	30	5 085	2 732 841	1 237 464
Trade payables	31	2 275 586	2 837 159	2 432 362
Payables to associates	32	203 186	457 604	245 802
Taxes and statutory social insurance contributions	33	1 579 466	988 106	1 262 452
Other payables	34	1 263 545	693 615	629 706
Deferred income	29	36 060	72 120	72 120
Unpaid dividends	35	11 746	18 617	11 746
Accrued liabilities	36	330 400	890 561	437 578
		9 307 393	12 035 760	9 834 687
Total current liabilities				
Total liabilities		12 876 900	18 205 437	13 023 284
TOTAL		42 958 224	48 239 576	44 195 756

The accompanying notes on pages 11 to 28 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

Alda Berziņa

Chief Accounting Officer

Riga, 31 August, 2018

STATEMENT OF CHANGES IN EQUITY

	6 month 2018	6 month 2017
	EUR	EUR
Share capital		
Opening balance	16 340 950	16 340 950
Closing balance	<u>16 340 950</u>	<u>16 340 950</u>
Long-term investment revaluation reserve		
Opening balance	11 697 050	11 891 225
Prior year adjustments	(97 357)	(97 087)
Closing balance	<u>11 599 692</u>	<u>11 794 138</u>
Reserves		
Opening balance	266 962	266 962
Closing balance	<u>266 962</u>	<u>266 962</u>
Retained earnings		
Opening balance	2 314 824	2 623 040
Increase/decrease in retained earnings	(993 790)	(992 587)
Closing balance	<u>(1 321 034)</u>	<u>2 314 824</u>
Equity		
Opening balance	30 032 440	31 122 177

Closing balance	29 528 638	30 032 440
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Riga, 31 August, 2018

CASH FLOW STATEMENT (by direct method)

	6 month 2018	6 month 2017
Notes	EUR	EUR
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Revenue from the sale of goods and provision of services	2 219 579	7 704 421
Payments to suppliers, employees, other expenses of principal activity	(2 669 950)	(10 133 207)
Gross cash flow generated from/(used in) operating activities	(450 371)	(2 428 786)
Interest payments		(99 207)
Net cash flow generated from /(used in) operating activities	(497 521)	(2 527 993)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of fixed and intangible assets	(400)	(28 788)
Proceeds from sales of fixed assets and intangible investments	23 074	1 500
Repayment of loans	-	
Interest received	-	7 207
Net cash flow used in investing activities	22 674	(20 081)
CASH FLOW FROM FINANCING ACTIVITIES		
Loans received	425 000	2 612 927
Repayment of loans	(19 090)	(82 554)
Net cash flow from financing activities	405 910	(2 530 373)

Net foreign exchange gains/losses		-	
Net cash flow for the financial year		<u>(68 937)</u>	<u>(17 701)</u>
Cash and cash equivalents at the beginning of the financial year	23	<u>69 520</u>	<u>18 005</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	23	<u>583</u>	<u>304</u>

The accompanying notes on pages 11 to 28 are an integral part of these financial statements.

Einārs Buks

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Member of the Board

Alda Berziņa

Chief Accounting Officer

Riga, 31 August, 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 30 June 2018. 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.

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.

	30.06.2018.	31.12.2017.
	EUR	EUR
1 USD	1.16580	1,1993

1 RUB	73.1582	69,393
1 GPB	0.88605	0,8872

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	6 month 2018	6 month 2017
By operating activities		EUR	EUR
Ship repair	3011	1 801 007	6 117 773
Shipbulding	3011	133 660	2 062 289
Mechanical engineering	3315	63 641	27 017
Other works	3315	-	894
Total		1 998 308	8 207 973

3. Cost of goods sold or costs of services provided

	6 month 2018	6 month 2017
	EUR	EUR
Material costs and services from outside	863 061	1 008 995
Contragents services	320 307	2 515 488
Salary expenses	844 330	2 360 715
Social insurance	196 746	539 848
Electricity costs	273 247	317 458
Heat energy costs	63 992	476 269
Accrued liabilities for unused vacations	741	
Depreciation of fixed assets and intangible assets	459 897	643 258
Other costs	190 631	540 867
Real estate tax	78 081	
Total	3 291 033	8 402 898

4. Distribution expenses

	6 month 2018	6 month 2017
	EUR	EUR
Advertising expenses	-	(1 423)
Total	-	(1 423)

5. Administrative expenses

	6 month 2018	6 month 2017
	EUR	EUR
Salary expenses (administration)	165 910	255 923
Social insurance	48 046	59 716
Transportation costs, travelling allowances	27 126	177 353
Legal services	61 365	2 298
other	32 538	63 580
Office rent and utilities	263	5 451
Total	335 248	583 913

6. Other operating income

	6 month 2018	6 month 2017
	EUR	EUR
Income from rent and delivered utility services	291 383	277 400
Sale of materials	345 897	95 357
Tugboat services income		15 313
Income from projects financing	36 060	36 060
Income from chemical analysis	-	162
Other income	159 650	2 553
Total	832 990	426 845

7. Other operating expenses

	6 month 2018	6 month 2017
	EUR	EUR
Provisions for inventories	22 142	312 397
Medical services	8 658	44 463
Other expenses	8 510	135 088
Expenses according to court decisions**	3 982	3 791
Total	43 292	495 739

8. Other interest income and similar income

	6 month 2018	6 month 2017
	EUR	EUR
<i>from other parties</i>		
Interest income on loans issued	42 103	49 912
Total	42 103	49 912

9. Other interest payable and similar expenses

	6 month 2018	6 month 2017
	EUR	EUR
<i>to other parties</i>		
Interest expenses for loans	122 564	187 297
Penalties paid	75 054	6 047
Total	197 618	193 344

10. Intangible assets

	Software	Total
	EUR	EUR
Cost		
As of 01.01.2017.	<u>351 950</u>	<u>351 950</u>
As of 30.06.2017.	<u>351 950</u>	<u>351 950</u>
Acumulated amortizations		
As of 01.01.2017.	<u>(345 811)</u>	<u>(345 811)</u>
Calculated	(768)	(768)
As of 31.12.2016.	<u>(347 347)</u>	<u>(347 347)</u>
Net carrying amount		
As of 01.01.2017.	<u>6 139</u>	<u>6 139</u>
As of 31.12.2017.	<u>14 004</u>	<u>14 004</u>
Cost		
As of 01.01.2018.	<u>361 349</u>	<u>361 349</u>
Additions		
As of 30.06.2018.	<u>361 351</u>	<u>361 351</u>
Acumulated amortizations		
As of 01.01.2018.	<u>(347 345)</u>	<u>(347 345)</u>
Calculated	(1 064)	(1 064)
As of 30.06.2018.	<u>(348 409)</u>	<u>(348 409)</u>
Net carrying amount		
As of 01.01.2018.	<u>14 004</u>	<u>14 004</u>
As of 30.06.2018	<u>12 940</u>	<u>12 940</u>

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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 2017	13 367 516	18 550	32 971 287	756 556	1 775 879	49 198 788
Additions		3 306		1 227 038		1 230 344
Disposals	(270)	-	(30 690)	-	(13 965)	(44 655)
Reclassified		(10 638)	205 181	(201 022)	6 479	-
As of 30.06.2017.	12 819 933	11 218	33 145 778	1 782 572	1 768 393	50 384 477
Depreciations						
As of 01 01 2016	(5 443 292)	-	(11 904 057)	-	(1 386 592)	(18 733 941)
Calculated	(162 869)	-	(345 046)	-	(37 488)	(545 403)
Disposals	250	-	(26 077)	-	13 818	39 895
Relocated *	-	-	(97 087)	-	-	(97 087)
As of 30.06.2017.	(5 606 161)	-	(12 320 113)	-	(1 410 262)	(19 336 536)
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 30 06 2017	8 070 355	11 218	20 825 665	1 782 572	358 131	31 047 941
Cost/revaluation						
As of 01 01 2018	14 290 186	18 550	34 682 164	324 011	1 887 729	51 191 204
Additions					400	400
Disposals						
Reclassified			21 018	(45 145)	24 128	-
As of 30.06.2018.	14 290 186	7 114	34 682 182	278 865	1 912 257	51 191 604

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Depreciations

As of 01 01 2018	(5 652 609)	-	(12 567 656)	-	(1 427 908)	(19 648 173)
Calculated	(96 109)	-	(209 972)	-	(55 592)	(459 031)
Disposals	-	-	-	-	-	-
Relocated	-	-	*(97 358)	-	-	(97 358)
As of 30..06.2018.	(5 748 718)	-	(12 874 986)	-	(1 483 500)	(20 107 204)

Net carrying amount

As of 01 01 2018	8 637 577	7 114	22 114 510	324 011	459 821	31 543 033
As of 30.06.2018	8 541 468	7 114	21 828 196	278 865	428 757	31 084 401

Real Estate (buildings) cadastral value as of 30 june 2018 - 5 723 487 EUR (as of 30 June 2017 - 5 723 487 EUR).

Information about assets used as collaterals for borrowings included in Notes 27 and 37.

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

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12. Investments in associates

Shares in the capital of associates and their carrying values:

Name	30.06.2018	Participating interest	Equity	Profit/ (loss)
	EUR		30.06.2018	01 01 2018-30.06.2018
	EUR	%	EUR	EUR
JSC "Tosmares kugubuvetava"	3 630 590	49.72	-	-
LLC "Remars Granula"	1 200 000	49.80	207 859	(1 872)
Total	4 830 590			

Name	30.06.2017	Participating interest	Equity	Profit/ (loss)
	EUR		30.06 2017	01 01 2017-30.06 2017
	EUR	%	EUR	EUR
JSC "Tosmares kugubuvetava"	3 630 590	49.72	5 941 917	24 541
LLC "Remars Granula"	1 200 000	49.80	228 445	(15 749)
Total	4 830 590		6 206 642	8 792

13. Other securities and investments

Name enterprise	Parts or shares		30.06.2018		30.06.2017	
	30.06.2018	30.06.2017	Quantity	EUR	Quantity	EUR
"Baltic International Bank" JSC	7	7	33	235	33	235

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Total	7	7	33	235	33	235
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14. Other loans and non-current receivables

Name / Type of Loan	As of 31.12.2017	Interest accrued Reallocation at a short- term	Currency exchange rate change	As of 30.06.2018	Term of repayment
Loans to employees (students) *	43 389	-		43 388	2020-2029
Loans for Tosmares Kugubuvetava JSC shares **	1 110 818		-	1 110 818	2020
Loans (interest rate 5%)	470 000			470 000	2020
Total	1 624 207			1 624 206	

* 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.

15. Raw materials and consumables

6 month 2018

6 month 2017

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	EUR	EUR
Metal, non-ferrous metals, pipes	1 777 062	2 127 903
Metal ware	21 603	59 278
Technical rubber ware	1 769	28 395
Fuel	9 242	7 755
Other	228 689	553 794
Provisions for slow moving and obsolete stock	(375 300)	(375 300)
Total	1 663 065	2 401 825

16. Work in progress

	6 month 2018	6 month 2017
	EUR	EUR
Shipbuilding orders	-	100 720
Ship repair orders	52 857	186 340
Various	11 227	63
Mechanical engineering orders	825	826
Total	64 909	287 949

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

17. Advances for inventories

	6 month 2018	6 month 2017
	EUR	EUR
Payments for materials	159 417	119 138
Total	159 417	119 138

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18. Trade receivables

	6 month 2018	6 month 2017
	EUR	EUR
Book value of trade receivables	1 522 671	1 807 157
Provisions for bad and doubtful debts	(257 536)	(227 260)
Trade receivables, net	1265 135	1 579 897

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

Change in provisions

	Trade receivables	Total EUR
	EUR	
Provisions as of 31.12.2017.	257 536	257 536
Increase in provisions		
Provisions as of 30.06.2018.	257 536	257 536

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19. Receivables from associates

	30.06.2018	30.06.2017
	EUR	EUR
LLC "Remars Granula" debt for loan according to assignment agreement *	770 000	770 000
LLC "Remars Granula" loan **	539 211	531 273
Total	1 309 211	1 301 273

* 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.

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

20. Other receivables

	6 month 2018	6 month 2017
	EUR	EUR
Book value	842 994	844 996
Other receivables, net	842 994	844 996
Advance payments for services	496 367	308 603
Value added tax (Note 33)	45 537	125 782
Interests	286 847	203 790
Payments personal debts	-	168 213
Payment of salary	-	22 445
Other receivables	14 243	16 163
Total	842 994	844 996

21. Prepaid expenses

6 month 2018	6
EUR	month.2017

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	EUR	
Property insurance	11 835	13 115
Health insurance	13 547	-
Renovation costs of leased fixed assets	74 072	-
Other expenses	1 084	2 788
Total	100 538	15 903

22. Accrued income

	6 month 2017	6 month 2017
	EUR	EUR
Shipbuilding	-	2 750 994
Ship repair	-	1 422 977
Total		4 173 971

23. Cash and cash equivalents

	6 month. 2018	6 month 2017
	EUR	EUR
Cash at bank on current accounts	488	47
Cash on hand	95	257
Total	583	304

24. Share capital

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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

	6 month 2018	%	6 month 2017	%
	EUR		EUR	
Remars-Riga AS	8 146 872	49.86	8 146 872	49.86
Private persons	3 979 220	24.35	5 726 697	35.04
Other legal entities	4 214 858	25.79	2 467 381	15.10
Total	16 340 950	100	16 340 950	100

25.Long-term investments revaluation reserve

	6 month 2018	6 month 2017
	EUR	EUR
As at the beginning of the year	11 697 050	12 056 273
Decreasing long-term asset reevaluation reserve to the calculated depreciation amount	(97 358)	(97 087)
Total	11 599 692	11 794 138

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.

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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 30 June 2018, 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

	6 month 2018	6 month 2017
	EUR	EUR
		1 699
For shipbuilding projects	552 686	-
Total	552 686	1 699

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

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	6 month 2018	6 month 2017
	EUR	EUR
ABLV Bank JSC		
b) Short – term part	1 700 000	1 900 000
Baltikums bank JSC		
a) Long-term part	721 306	1 710 310
b) Short – term part	902 617	902 617
Total	3 323 923	4 512 927

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-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 30 June 2018 is EUR 5 838 569 1st stage mortgage agreement for floating dock No 170. The mortgaged property balance sheet value as of 30 June , 2018 is EUR 10 652 089.

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2. Commercial pledge on all assets of the Company at the time of pledging, as well as the following components of the all assets

28. Other loans

	6 month 2018	6 month 2017
	EUR	EUR
Long-term part (interest 4%)*	37 732	1 165 000
Total long-term part of leasing liabilities	1 342	12 132
International Fund (interest 6%)	2 315 000	-
Total long-term part	2 354 074	1 177 132
Short-term part **	994 326	520 531
Total short-term part of leasing liabilities	5 377	21 989
Total short-term part	999 703	542 520
Total	3 353 777	1 719 652

* 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

	6 month 2018	6 month 2017
	EUR	EUR
1) Financing in accordance with the signed agreement in 2013 with the Ministry of Environmental Protection and Regional Development for the	223 592	252 510

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project implementation "Measure of the Energy efficiency in the production buildings"

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.

	306 595	349 797
Total	530 187	602 307
Total long-term part	494 127	530 187
Total short-term part	36 060	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.

30. Advances from customers

	6 month 2018	6 month 2017
	EUR	EUR
For shipbuilding	-	2 006 300
For ship repair	-	726 511
Others	5 085	30
Total	5 085	2 732 841

31. Trade payables

	6 month 2018	6 month 2017
	EUR	EUR
Payables for services	1 777 710	1 856 438
Payables for materials	497 875	980 721
Total	2 275 585	2 837 159

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32. Payables to associates

	6 month 2018	6 month 2017
	EUR	EUR
Short-term part from Tosmares kugubuvetava JSC (interest rate 6 %)*	203 186	457 604
Payables for services	-	
Total	203 186	457 604

*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

	01.01.2018.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transfere d to other taxes	6 month 2018
	EUR	EUR	EUR	EUR	EUR	EUR
Social insurance payments	568 287	344 842		(218 163)		694 966
Value added tax	(15 683)	196 070		(123 432)	(102 492)	(45 537)
((Personal income tax	639 457	176 156		(130 316)		685 297
Real estate tax	53 518	156 353		(11 121)		198 750
Natural resources tax	736	129		(750)	(64)	51

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Risk duty	454	708	(761)	401
Customs duty on import				
Total	1 246 769	874 258	(484 543)	(102 556) 1 533 928
Tax debt	1 262 452			1 579 466
Tax overpayment *	(15 683)			(45 537)

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

34. Other payables

	30.06.2018	30.06.2017
	EUR	EUR
Salaries	751 612	347 121
Other accounts payable	472 261	241 250
Payments to personnel	13 931	4 450
Payments for credit cards		99 305
Retention from salaries	3 682	1 489
Interest paid	22 059	
Total	1 263 545	693 615

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35. Dividends unpaid

	6 month 2018	6 month 2017
	EUR	EUR
As at the beginning of the period	11 746	18 617
Dividends paid		
As at the end of the period	11 746	18 617

36. Accrued liabilities

	6 month 2018	6 month 2017
	EUR	EUR
For services	148 613	644 680
Accrued liabilities for unused annual leave expenses		
For the audit of financial statements	181 787	245 881
Total	330 401	890 561

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

37. 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 June 30, 2017 is EUR 431 394. Maximum guarantee claim is EUR 4 183 243 . Mortgaged floating dock 791, with the balance sheet value as of June 30, 2018

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is EUR 5 430 614. 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.

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 June 30, 2018 liabilities amounted to EUR 1 257 753. Total amount of secured claim is EUR 2 860 000. The pledged property balance sheet value as of June 30, 2018 is EUR 6 040 877. 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 June 30, 2018: tugboat „Orkāns” EUR 186 827 un marine crane „CELTNIS 24” EUR 381 162.

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.

38. 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.

Einārs Buks

Chairman of the Board

Jekaterina Meļņika

Member of the Board

Ainārs Tropiņš

Member of the Board

Alda Berziņa

Chief Accounting Officer

RIGAS KUGU BUVETAVA JSC REPORT OF SIX MONTH 2018

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

Riga, 31 August, 2018