

## **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 9 to 35 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2018,
- 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 described in paragraphs (a) - (c) of the *Basis for Qualified Opinion – Inability to obtain sufficient appropriate audit evidence* section and except for the effect of the matters described in paragraphs (d) - (e) of the *Basis for Qualified Opinion – Disagreement with management* 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 2018, 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 – Inability to obtain sufficient appropriate audit evidence**

- (a) 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. For this reason, we expressed a qualified opinion in our auditor's report for the period mentioned in relation to this circumstance. Inventories as at December 31, 2017 also impact financial performance for the year 2018. We were not invited to participate in and did not observe the counting of raw materials, base materials and consumables included in inventories at 31 December 2018 and were unable to obtain the necessary evidence by alternative means concerning the balance and valuation of these inventories at that date in the amount of EUR 1 421.8 thousand. Consequently, we were unable to determine whether any adjustments were necessary to the value of inventories as at 31 December 2018, and the elements making up the profit and loss statement, statement of changes in equity for the year 2018 and net cash generated from operating activities in the statement of cash flows for the year 2018.



- (b) In 2018, the Company was operating at a loss and its cash flows from operating activities for the year 2018 were negative. In addition, 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, is likely to exceed its recoverable amount. The Company's management has performed an impairment test for fixed assets and has recognized impairment of buildings and technological equipment included in fixed assets as at 31 December 2018 in the amount of EUR 5 118.5 thousand (see Notes 11 and 25 to the financial statements). We were unable to ascertain the reasonableness of the assumptions used by management in reviewing the impairment of buildings and constructions, technological equipment and machinery, other fixed assets and equipment, as well as fixed assets under construction, included in the fixed assets, and the sufficiency of the impairment of buildings and technological equipment included in fixed assets recognized in these financial statements as at 31 December 2018 in the amount of EUR 5 118.5 thousand, therefore, we were unable to determine the amount of the impairment that would have been recognized as at 31 December 2018 and 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 2018 comprise EUR 25 428.2 thousand, by other audit procedures. There were indications of possible impairment of fixed assets as at 31 December 2017, and therefore we expressed a qualified opinion in our auditor's report for the period mentioned in relation to this circumstance.
- (c) The Company's investment in associate AS "Tosmares kuģubūvētava" is carried at EUR 3 630.6 thousand as at 31 December 2018, which, according to the Company's policy (see Notes 1, 12 to the financial statements) is accounted for by cost model and as of the same date a debt for the shares of AS "Tosmares kuģubūvētava" of EUR 1 110.8 thousand and accrued interest of EUR 264.0 thousand are included in the Company's balance sheet under the item "Other loans and other long-term receivables" (see Note 14 to the financial statements). In August 2018, a court decision declared the insolvency proceedings of AS "Tosmares kuģubūvētava" indicating a possible decrease in the value of this investment. In accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' for the impairment testing of assets, if such indications exist at the reporting date, the management should estimate the recoverable amount of the assets and recognize an impairment loss, if any. However, such estimates have not been made in the Company's financial statements. We were unable to determine what adjustments were necessary in the financial statements in respect of the carrying amount of the investment in associate AS "Tosmares kuģubūvētava" and debt for the shares of AS "Tosmares kuģubūvētava", and for the interest on the debt, and the elements making up the net result for 2018 and shareholders' equity as at 31 December 2018. There were indications of possible impairment of investment in this associate as at 31 December 2017, and therefore we expressed a qualified opinion in our auditor's report for the period mentioned in relation to this circumstance.

#### **Basis for Qualified Opinion – Disagreement with management**

- (d) In 2018, the Company wrote off investment in associate SIA "REMARS GRANULA" in the amount of EUR 1 200.0 thousand (see Note 12), and also made provisions for doubtful debtor – debt of associate SIA "REMARS GRANULA" in the amount of EUR 1 325.0 thousand (incl., debt as of 31.12.2017 - EUR 1,309.2 thousand) (see Note 19). In our opinion, the



recoverability of this investment and these debts was questionable in the past and, as a result, the auditors' reports on the financial statements for 2017 and 2016 were qualified in relation to this circumstance. If the impairment losses on this investment and these receivables were recognized in full at the time when their recoverability was in doubt, the Company's assets as at 31 December 2017 would be by EUR 2 509.2 thousand lower, retained earnings as at 31 December 2017 would be by EUR 2 509.2 thousand lower and the loss for 2018 would be by EUR 2 525.0 thousand lower.

- (e) The Company's balance sheet as at 31 December 2018 includes the receivables in the item "Other loans and other long-term receivables" in the amount of EUR 470.0 thousand and item "Other receivables" in the amount of EUR 335.3 thousand. Given that this debtor has been suspended from business in February 2019, the recoverability of this debtor's amounts receivable is doubtful. If the impairment loss on these receivables was recognized in full, the Company's assets as at 31 December 2018 would be by EUR 805.3 thousand lower and the loss for 2018 would be by EUR 805.3 thousand higher.

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 Notes 38 and 43 of the financial statements, which indicate that the Company incurred a net loss of EUR 6 644.8 thousand during the year ended 31 December 2018 and, as of that date, the Company's current liabilities exceeded its current assets by EUR 11 183.1 thousand. On 16 August 2019, the Riga City Vidzeme Suburb Court approved the Action Plan of the Company's Legal Protection Proceedings and announced the Company's Legal Protection Process with a term of two years from 16 August 2019. The Company's future performance depends on the Company's ability to execute the legal protection plan and to meet its obligations to its creditors within the specified terms, subject to all provisions of the said plan. These events and circumstances 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 these matters.



## 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 – Inability to obtain sufficient appropriate audit evidence* section and *Basis for Qualified Opinion – Disagreement with management* section, *Material Uncertainty Related to Going Concern* 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 accounting personnel and decrease in the number of employees	
<p>During the reporting year there was a decrease in the number of employees, and after the end of the reporting year the Company's accounting personnel changed</p> <p>Due to the fact that the accounting personnel responsible for the preparation of the Company's financial statements has changed, 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 may have a significant impact on the Company's ability to provide certain activities, 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 and metal working.</p>	<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 cycles, including revenue, purchases, payroll;</li> <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>

## Reporting on Other Information

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

- information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 4-6 of the accompanying Annual Report,
- the Statement on Management Responsibility as set out on page 7 of the accompanying Annual Report,
- the Statement on Corporate Governance, as set out on page 8 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 – Inability to obtain sufficient appropriate audit evidence* and *Basis for Qualified Opinion – Disagreement with management*.

#### **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 25 June 2018 to audit the financial statements of AS "Rīgas kuģu būvētava" for the year ended 31 December 2018. Our total uninterrupted period of engagement is two years, covering the period ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Council of the Company;
- as referred to in paragraph 37.<sup>6</sup> of the Law on Audit Services of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No. 537/2014. We also remained independent of the audited entity in conducting the audit.

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

SIA "Nexia Audit Advice"

The Firm of Sworn Auditors, Licence No. 134



**Marija Jansone**

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



**Andrejs Ponomarjovs**

Chairman of the Board,  
Director General

Riga, Latvia  
17 December 2019