

"Rīgas kuģu būvētava" JSC

ANNUAL REPORT

for the 12 months period ended 31 December 2016

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

CONTENTS

General Information	3
Report of the Management	4
Statement of Management responsibility	5
Statement on Corporate Governance	6
Financial statements	
Profit or loss statement	7
Balance sheet	8-9
Statement of changes in equity	10
Cash flow statement	11
Notes to the financial statements	12 - 27
Independent Auditor's Report	28 - 32

Rīgas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

INFORMATION ON THE COMPANY

Name of the company	Rīgas kuģu būvētava AS
Legal status of the company	Joint stock company
Number, place and date of registration	40003045892, August 26, 2004, Commercial register, Riga 000304589, December 5, 1991, Companies register, Riga
Address	Gales street, Riga, LV-1015 Latvia
Share capital of the Company	16 340 950 EUR
Type of operations	Building and repair of ships, yachts, catamarans, roll trailers and technological equipment; Port services; Wood processing, manufacturing of furniture designed for various functional purposes etc.
Associates	Tosmares kugubuvetava JSC (49.72%) Reg.No. 42103022837 Generala Baloza Street 42/44, Liepaja, Latvia Remars Granula LTD (49.80%) Reg.Nr. 54103022521 Gales Street 2, Riga, LV-1015, Latvia
Members of the Board	Janis Skvarnovics - Chairman of the Board Einars Buks - Member of the Board Jekaterina Melnika - Member of the Board
Members of the Council	Vasilijs Melniks - Chairman of the Council Aleksandrs Cernavskis - Deputy Chairman of the Council Linards Baumanis - Member of the Council Valentina Andrejeva - Member of the Council Gaidis Andrejs Zeibots - Member of the Council
Financial year	1 January - 31 December, 2016
Auditor's name and address:	Orients Audit & Finance SIA License No. 28 Gunara Astras str.8b Riga LV-1082 Latvia Certified auditor in charge Natalija Zaiceva Certificate No.138

REPORT OF THE MANAGEMENT

Company profile

In 2016 JSC Rigas kugu būvētava performed the repair of 71 ship, what is by 2 ships more than in 2015, when repair of 69 ships were performed. Such results were achieved providing ship hulls reinforcement and insulation works during 2016 winter months without using the docks. In 2016 3 ship hulls were built and floated out, which is less than initially planned, caused due to objective circumstances when customers were not able to attract funds for project implementation in planned time.

As a new segment of our production range is industrial metal constructions. The Company's Board and specialists dedicated a lot of time and energy to get the company certified and receive real orders for this market sector. In 2016, upon receipt of positive references, the Company delivered an order, which consisted of 2 metal reels with a diameter of 8.5 meters and 7 metal reels with a diameter of 5.7 meters. Currently under negotiation is receipt of the next orders. This new production sector allows maintaining at the high level Company's technical personnel's professional qualification, as well as to align workforce capacity during the winter months and generate extra revenue.

JSC Rīgas kuģu būvētava products and services, as well as the principal raw material suppliers have not changed. Shipbuilding customers are mainly from Scandinavian countries, ship repair – Western ship service agencies and shipping companies. The main materials and spare parts suppliers are the companies registered in Latvia and in the European Union.

Company development and financial results during reporting year

In 2016 the total net turnover of Joint-Stock Company Rigas kugu būvētava was EUR 20 757 784, including revenue from ship repair of EUR 15 521 797 and shipbuilding of EUR 4 999 084 (if compared to 2015, net turnover made up EUR 21 198 560, including shipbuilding of EUR 3 530 025 and ship repair of EUR 17 342 867).

The Company finished the reporting year with gross profit of EUR 1 212 811 (in 2015 - gross profit made EUR 1 686 357), in 2016 net profit amounted EUR 169 807 (2015 - net profit of EUR 222 182). In 2016 Joint-Stock Company Rigas kugu būvētava continued the investment programme, which was launched during preceding years. In 2016 investments amounted 1.7 million EUR.

Purchased fixed assets: a CNC Press Brake HPAT 220-3000, an RPD-200C Light Machine Gun, a JDN Mini 1000 air hoist, a JDN Profi 2Ti air hoist, an HDS 8/17 Hot Water High-Pressure Cleaner, a CARPARI HDD 50/2C Vertical Multistage Electric Pump + V3015 Flexible High-Speed Doors, an IL 80/220-30/2 pump, weighbridge of 60t with weighting indicator, support beams crane with lifting capacity of 30t and six basket lifts.

Company's research work and development activities

The Company Management Board in cooperation with the its Council continues the market research activities, participates in international exhibitions and support programmes to uptake new production sectors and new markets in order to ensure better use of production capacities and increase in labour productivity at the Company. Certification of the Company according to new and additional standards will open up new opportunities to offer our products and services in new markets.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Note 43.

Further development of the Company

Upon evaluation of the existing market situation and the Company's opportunities, the Management Board continues performs the actions to increase the number of the built and repaired ships at the plant, as well as to get engaged more actively in the broader uptake of the market of industrial metal structures.

To achieve the set objectives the Company's Management Board reviewed the agency contracts concluded earlier, assessed their effectiveness and concluded contracts with those agents, who gives a real contribution to the development of the Company's production. New agency contracts were concluded in markets, where traditionally we were not actively represented. In 2016 the Management Board will continue expansion of the launched course of development with a focus on the environmental protection arrangements, as well as continue investing in the updating of production equipment of the Company, thereby enhancing competitiveness of the Company and contributing to the business development.

Circumstances and events after the end of the reporting year

No subsequent events occurred after the balance sheet date which would require adjustments or disclosure in the financial statements for 2016.

Proposals on distribution of the Company's profit

The Management Board of AS "Rīgas kuģu būvētava" proposes to retain 2016 net profit of EUR 169 807 for further development of the Company.

These financial statements were signed on 19th April 2017 on the Company's behalf by:

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Meļņika
Member of the Board

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

Management report

The management of Rigas kugu buvetava JSC (the Company) is responsible for preparation of the financial statements.

The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as of December 31, 2016 and the results of its operations and cash flows for the year 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 6 to 27. 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:

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Meļņika
Member of the Board

Riga, 24 April 2017

Statement on Corporate Governance

Corporate Governance Report of the joint stock company Rigas kugu buvetava (hereafter – Report) is prepared in accordance with the joint stock company Nasdag Riga corporate governance principles and recommendations on their implementation version of June 1, 2010. The report prepared by the joint stock company Rigas kugu buvetava, the Management Board and reviewed by the joint stock company Rigas kugu buvetava Council.

Corporate governance principles were adjusted to the Company's operation and in 2016 the joint stock company Rigas kugu buvetava complied with most of them. Under the principle of "comply and explain", the report also provides information about those principles that the company does not comply or partially comply and the circumstances that justify the non-compliance.

This report is submitted to the Exchange together with the audited 2016 accounting publication of the Stock Exchange's website.

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Meļņika
Member of the Board

Riga 24 April 2017

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

INCOME STATEMENT

	Notes	2016 EUR	2015 EUR
Net turnover	(2)	20 757 784	21 198 560
Costs for goods sold or costs of services provided	(3)	(19 544 973)	(19 512 203)
Gross profit		1 212 811	1 686 357
Distribution expenses	(4)	(8 585)	(19 827)
Administrative costs	(5)	(968 175)	(1 069 549)
Other operating income	(6)	1 220 791	1 682 027
Other operating expenses	(7)	(941 182)	(1 630 704)
Interest and similar income incl.	(8)	101 500	78 805
<i>a) from group companies</i>		<i>0</i>	<i>0</i>
<i>a) from other parties</i>		<i>101 500</i>	<i>78 805</i>
Interest and similar expenses incl.	(9)	(351 606)	(407 802)
<i>a) from group companies</i>		<i>0</i>	<i>0</i>
<i>b) for other parties</i>		<i>351 606</i>	<i>407 802</i>
Profit before corporate income tax		265 554	319 307
Corporate income tax	(10)	0	0
Profit after corporate income tax		265 554	319 307
Changes in deferred tax assets or liabilities	(10)	(95 747)	(97 125)
Net profit		169 807	222 182
Profit per share		0,014	0,019

Notes on pages 12 to 27 are an integral part of these financial statements

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Melnika
Member of the Board

Marina Pudova
Chief Accounting Officer

Riga 24 April 2017

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

BALANCE SHEET

		31.12.2016. EUR	31.12.2015. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	6 139	55 458
Total intangible assets:		6 139	55 458
Fixed assets:			
Immovable properties:			
a) lands, buildings and engineering structures		7 764 941	8 022 928
b) investment properties		468 283	490 502
Technological equipment and machinery		21 067 230	21 079 335
Other fixed assets		389 287	434 967
Fixed assets under construction		756 556	525 090
Advances for fixed assets		18 550	9 562
Total fixed assets:	(12)	30 464 847	30 562 384
Non-current financial investments:			
Investments in associates	(13)	4 830 590	4 830 590
Other securities and investments	(14)	235	235
Other loans and non-current receivables	(15)	1 630 182	1 158 614
Total non-current financial investments:		6 461 007	5 989 439
Total non-current investments:		36 931 993	36 607 281
Current assets			
Inventories			
Raw materials and consumables	(16)	1 979 608	1 933 874
Work in progress	(17)	107 542	165 823
Advances for inventories	(18)	191 658	164 437
Total inventories:		2 278 808	2 264 134
Account receivable:			
Trade receivables	(19)	1 578 586	1 702 607
Receivables from associates	(20)	1 293 464	1 277 673
Other receivables	(21)	922 793	1 276 418
Deferred expenses	(22)	9 986	28 678
Accrued income	(23)	3 435 816	1 062 734
Total receivables:		7 240 645	5 348 110
Cash and bank:	(24)	18 005	132 200
Total current assets:		9 537 458	7 744 444
<u>Total assets</u>		<u>46 469 451</u>	<u>44 351 725</u>

Notes on pages 12 to 27 are an integral part of these financial statements

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

BALANCE SHEET

	Notes	31.12.2016. EUR	31.12.2015. EUR
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(25)	16 340 950	16 340 950
Non-current investments revaluation reserve	(26)	11 891 225	12 056 273
Reserves:			
Other reserves		266 962	266 962
Retained profit or uncovered losses brought forward from previous year		2 453 233	2 231 051
Current year profit or losses		169 807	222 182
Total equity:		31 122 177	31 117 418
Provisions:			
Other provisions	(27)	1 699	1 643
Total provisions:		1 699	1 643
Liabilities:			
Non-current liabilities:			
Loans from banks	(28)	0	1 900 000
Other borrowings	(29)	1 201 756	1 225 079
Deferred tax liabilities		2 752 048	2 685 427
Deferred income	(35)	566 247	638 367
Total non-current liabilities:		4 520 051	6 448 873
Current liabilities:			
Loans from banks	(28)	1 900 000	0
Other borrowings	(29)	534 132	792 569
Advances from customers	(30)	2 560 300	1 589 864
Trade payables	(31)	2 950 466	2 686 385
Payables to associates	(32)	551 343	472 203
Taxes and state social insurance payments	(33)	936 814	275 239
Other creditors	(34)	817 554	452 692
Deferred income	(35)	72 120	72 120
Unpaid dividends	(36)	18 617	25 680
Accrued liabilities	(37)	484 178	417 039
Total current liabilities:		10 825 524	6 783 791
Total liabilities:		15 345 575	13 232 664
<u>Total equity, provisions and liabilities</u>		46 469 451	44 351 725

Notes on pages 12 to 27 are an integral part of these financial statements

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Melnika
Member of the Board

Marina Pudova
Chief Accounting Officer

Riga 24 April 2017

STATEMENT OF CHANGES IN EQUITY

	2016	2015
	EUR	EUR
Notes		
Share capital		
Opening balance	16 340 950	16 607 912
Prior year adjustments	0	0
Increase/decrease in share capital	0	(266 962)
Closing balance	<u>16 340 950</u>	<u>16 340 950</u>
Stock (share) premium account		
Opening balance	0	0
Prior year adjustments	0	0
Increase/decrease in share capital	0	0
Closing balance	<u>0</u>	<u>0</u>
Long-term investment revaluation reserve		
Opening balance	12 056 273	12 056 273
Increase/decrease of long-term investment revaluation reserve	(165 048)	0
Closing balance	<u>11 891 225</u>	<u>12 056 273</u>
Fair value reserve of financial instruments		
Opening balance	0	0
Prior year adjustments	0	0
Increase/decrease of the fair value reserve of financial instruments	0	0
Closing balance	<u>0</u>	<u>0</u>
Reserves		
Opening balance	266 962	0
Prior year adjustments	0	0
Increase/decrease of the balance of the reserves	0	266 962
Closing balance	<u>266 962</u>	<u>266 962</u>
Retained earnings		
Opening balance	2 453 233	2 231 051
Prior year adjustments	0	0
Increase/decrease in retained earnings	169 807	222 182
Closing balance	<u>2 623 040</u>	<u>2 453 233</u>
Equity		
Opening balance	31 117 418	30 895 236
Prior year adjustments	0	0
Closing balance	<u>31 122 177</u>	<u>31 117 418</u>

Notes on pages 12 to 27 are an integral part of these financial statements

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Melnika
Member of the Board

Marina Pudova
Chief Accounting Officer

Riga 24 April 2017

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

CASH FLOW STATEMENT (direct method)

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities			
Revenue from the sale of goods and provision of services		19 978 887	23 295 613
Payments to suppliers, employees, other expenses of principal activity		<u>(19 568 085)</u>	<u>(22 523 355)</u>
Gross cash flow generated from operating activities		410 802	772 258
Interest payments		(191 515)	(299 298)
Corporate income tax payments		<u>0</u>	<u>(79)</u>
Net cash flow generated from operating activities		219 287	472 881
Cash flow from investing activities			
Acquisition of fixed assets and intangible assets		(146 779)	(595 505)
Proceeds from sale of fixed assets and intangible investments		111	240 317
Loans issued		0	(493 841)
Repayment of loans		23 841	2 441
Interest received		<u>18 543</u>	<u>15 748</u>
Net cash flow generated from investing activities		(104 284)	(830 840)
Cash flow from financing activities			
Loans received		50 000	860 000
Repayment of loans		<u>(279 201)</u>	<u>(435 000)</u>
Net cash flow generated from financing activities		(229 201)	425 000
Net foreign exchange gains/losses		3	32
Net increase / (decrease) in cash and cash equivalents		<u>(114 195)</u>	<u>67 073</u>
Cash and cash equivalents at the beginning of the financial year	(24)	132 200	65 127
Cash and Cash equivalents at the end of the financial year	(24)	<u>18 005</u>	<u>132 200</u>

Notes on pages 12 to 27 are an integral part of these financial statements

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Melnika
Member of the Board

Marina Pudova
Chief Accounting Officer

Riga 24 April 2017

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of accounting policies

General principles

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

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

The financial statements cover the period from 1 January to 31 December 2016.

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.

Change of accounting policy and correction of fundamental errors

Due to the new Law On the Annual Financial Statements and Consolidated Financial Statements (Law) the entry into force in 2016, the below mentioned norms of accounting policy were changed.

a) Measurement and classification of investment property, biological assets and non-current assets held for sale

Starting with 2016, the investment property, biological assets and non-current investments held for sale could not be measured at their fair value with the effect through income statement. Investment property and non-current biological assets (draft animals and productive animals, perennial plantings) shall be further classified under fixed assets and are subject to the fixed assets recognition and measurement policy. Current biological assets (animals and non-perennial crops for sale) and non-current investments held for sale shall be further classified as the inventories. If revaluation reserves for investment property or biological assets have been recognized in financial statements, they shall be written off and included as income in the income statement for the financial year or in the prior years retained earnings, without correcting the comparatives.

The investment properties held by the Company have been previously evaluated at costs less depreciation and impairment losses.

b) The deferred tax assets and liabilities recognition - derogations from the provisions of Law

As per 2016 entities are no longer required to evaluate and recognize the deferred tax assets or liabilities. Pursuant to transition regulations previously recognized deferred tax assets or liabilities shall be written off at the beginning of the financial year to the retained earnings without correcting the comparatives.

If the Company does not recognize deferred tax assets or liabilities, its financial reports may not give clear and fair presentation of its financial position and operating results. Therefore, the Company is using a derogation clause of the Law which allows applying of International Financial Reporting Standards (IFRS) for the deferred tax accounting. If the Company had applied the changes adopted by the Law regarding non-recognition of deferred tax, the effect on net profit and equity would have been as follows:

	Policy change effect			Total previous years
	Reporting year	Year 2015	Before year 2015	
	EUR	EUR	EUR	EUR
Changes in deferred tax	0	97 125	2 588 302	2 685 427
Effect on net profit	0	97 125	2 588 302	2 685 427
Effect on equity on 01/01/2016				2 685 427

c) Depreciation of fixed assets revaluation reserves

Due to enactment of the Law, fixed assets revaluation reserves may be reduced (depreciated) for a respective part of the annual depreciation of a revaluated fixed assets. Depreciation of the reserve shall be recognized in the income Statement as income. The Company did not depreciate the fixed assets revaluation reserves previously. Change of the policy shall not be recognized with retrospective effect, but reducing the amount of reserves as at beginning of 2016 during the residual useful life of fixed assets.

The effect of the depreciation of fixed assets revaluation reserves is the following:

	Policy change effect	
	Reporting year	Year 2015
	EUR	EUR
Proceeds from non-current assets revaluation reserve depreciation	194 175	0
The effect on profit before Enterprise income tax	194 175	
Enterprise Income Tax	(29 126)	
The effect on net profit	165 049	0
The effect on equity on 01/01/2016	165 049	

d) Measurement of intangible assets

Due to enactment of the Law, goodwill and other intangible assets with an indefinite useful life shall be depreciated during their projected useful life, but not exceeding 10 years. The Company recognized the above assets at acquisition cost less impairment losses. The change of policy shall be applied retrospectively.

Considering that the Company has no goodwill and other intangible assets with an indefinite useful life, these changes of the Law do not affect the Company's financial statements.

e) Accounting of grants received

Due to enactment of the Law, grants received to cover the costs incurred in the financial year shall be recognized as income when grants are received and all conditions for acquiring of the grants are fulfilled. The Company has previously recognized revenues from the grants received when the Company acquired the right to receive.

Considering that during 2015 and 2016 the Company received no grants with not matching periods of granting and actual receipt, these changes of the Law do not affect the financial reports of the Company.

e) Changes in classification of items and disclosure of information in the balance sheet, income statement, cash flow statement and statement of changes in equity

Due to enactment of the Law, the structural form of the balance sheet, income statement and cash flow statement has been changed. A new structural form of the statement of changes in equity has been also introduced. Moreover, to improve a clear and fair presentation, the Company performed reclassification of certain types of assets, liabilities, revenue and costs. Prior year comparatives were classified in the financial statements according to the principles of the financial year and are comparable. Reclassification does not affect the financial results.

	31.12.2015	31.12.2015	Amount EUR
	Adjusted Name of line item	Prior adjustments Name of line item	
Leasing liabilities	Other borrowings	Leasing liabilities	42 216
Floating docks	Technological equipment and machinery	Floating docks	16 562 568
Reclassified income and expenses	2015 Name of line item	2015 Name of line item	Amount EUR
Expenses from real estate tax	Costs for goods sold	Other taxes	134 211

k) Disclosure of information in the notes to financial statement

Due to enactment of the Law, the scope of information disclosed in the notes to financial statement has been changed by defining different criteria depending on the size of a company. Based on the law requirements, the Company is classified as a large entity. Financial statements reflect all information as defined by the Law, as well as additional information to provide the fair and clear presentation.

Except the above mentioned, the accounting policies and valuation methods used by the Company are consistent with those used in the previous reporting year.

Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia.

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2016. EUR	31.12.2015. EUR
1 USD	1,0541	1,0887
1 RUB	64,3	80,6736
1 GBP	0,8562	0,73395

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; and
- 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

Intangible investments and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements the intangible and fixed assets are recognized at purchase cost or revalued amount less depreciation.

The difference arising from revaluation (by deducting the deferred tax) is recognized in equity under “Non-current investment revaluation reserve”, but reduction of value of fixed assets is written-off against the reserve to the extent of residual value of respective fixed assets revalued in prior year and including the surplus in the income statement. Fixed assets revaluation reserves are reclassified as revenue in the Income statement at a respective part of the annual depreciation of a revaluated fixed asset, but in case of disposal or liquidation of fixed assets, the reserves are written-off to the Income statement in full.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the fixed assets:

The Company capitalizes its fixed assets valued over EUR 150 and with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 100 is recognized by 100 % after commissioning.

The residual value and useful life of an asset is reviewed and adjusted, if necessary, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the carrying amount and the sales proceeds of the asset and is recognised in the statement of profit or loss.

Construction in progress represents property, plant and equipment under construction and is stated at historical cost. This includes the cost of construction and other directly attributable expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Depreciation of Leasehold improvements is calculated during estimated useful life of improvement or during the rent period, depending on which of these periods shorter.

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.

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.

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.

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 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 borrowings.

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

Corporate income tax includes current and deferred taxes.

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.

Deferred income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred income tax assets and liabilities are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from different rates of accounting and tax depreciation of property, plant and equipment, certain non-deductible provisions and accruals as well as from tax losses carried forward.

Deferred tax assets are only recognised in these financial statements where their recoverability is foreseen with reasonable certainty.

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. The Company's management has evaluated the trade receivables and considers that it is not necessary to make an additional significant allowance as of 31 December 2016.

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. The Company's management has evaluated the net realisable value of inventories and considers that it is not necessary to make an additional significant allowance as of 31 December 2016.

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. Taking into consideration the Company's planned level of activities and the estimated market value of the assets, the Company's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary as of 31 December 2016.

Revaluation of floating docks

The Company's management evaluates whether there have been significant changes in the fair values floating docks which are carried at their revalued amounts. The management considers that the fair values of the revalued assets approximate their carrying amounts, and, therefore, no significant adjustments to the carrying amounts of the are necessary as of 31 December 2016.

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 Company's management has evaluated the issued loans and considers that it is not necessary to make an additional significant allowance as of 31 December 2016.

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 Company's management considers that no significant adjustments to the carrying values of the investments in associates are necessary as of 31 December 2016.

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. Based on the assessment made as of 31 December 2016 and information available at the date of these financial statements, the Company's management considers that the no additional significant adjustments in relation to construction contracts are necessary as of 31 December 2016.

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(2) Revenue		2016 EUR	2015 EUR
a) By operating activities	NACE2 codes		
Ship repair	3011	15 521 797	17 342 867
Shipbuilding	3011	4 999 084	3 530 025
Mechanical engineering	3315	226 078	323 434
Other works	3315	10 825	2 234
		<u>20 757 784</u>	<u>21 198 560</u>
b) By location			
Germany		5 349 535	1 732 461
Denmark		4 106 682	3 914 881
Sweden		2 057 196	143 689
Russia		1 800 580	1 637 358
Greece		1 713 454	1 898 631
Cyprus		1 124 409	2 441 529
Monaco		1 079 197	722 580
Norway		935 230	1 205 254
Estonia		679 362	27 369
Antigua		561 982	0
Bulgaria		556 627	925 026
The Netherlands		295 880	186 340
Belgium		204 034	1 504 812
England		79 892	0
Lithuania		64 777	6 932
Finland		61 864	281 996
Panama		40 999	0
Republic of the Marshall Islands		33 549	1 532 458
Latvia		12 535	1 041 044
Poland		0	1 097 997
Singapore		0	897 251
Iceland		0	0
		<u>20 757 784</u>	<u>21 197 608</u>
(3) Costs for goods sold or costs of services provided			
		2016 EUR	2015 EUR
Material costs (raw materials and materials, value of goods, services from outside)		3 848 955	3 457 591
Subcontractor Services		6 308 997	7 558 515
Salary expenses		4 543 289	3 789 864
State mandatory social insurance payments		1 033 581	858 516
Electricity costs		1 079 665	1 146 661
Heat energy costs		714 119	640 886
Accrued liabilities for unused vacations		53 833	1 817
Depreciation of fixed assets		1 043 254	1 228 087
Other costs		763 927	697 048
Utility expenses		155 353	133 218
		<u>19 544 973</u>	<u>19 512 203</u>
(4) Distribution expenses			
		2016 EUR	2015 EUR
Advertising expenses		8 585	19 827
		<u>8 585</u>	<u>19 827</u>
(5) Administrative costs			
		2016 EUR	2015 EUR
Salary expenses		165 758	145 210
Remuneration of the Board members		129 732	168 717
Remuneration of the Council members		221 044	228 796
State mandatory social insurance payments		117 943	113 951
Office expenses		10 322	10 649
Representation costs		30 612	21 026
Depreciation of fixed assets		36 552	40 918
Transportation costs		111 519	118 637
Representative vehicle maintenance expenses		34 267	59 511
Insurance		3 357	3 657
Legal services		68 522	123 070
Communication costs		23 047	18 407
Annual report audit expenses		15 500	17 000
		<u>968 175</u>	<u>1 069 549</u>

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(6) Other operating income	2016	2015
	EUR	EUR
Rental income	558 125	635 736
Net revenue from sale of foreign currency	1 627	0
Net revenue from fluctuations in currency exchange rates	0	11 715
Sale of materials	285 201	393 874
Proceeds from the sale of quotas	0	209 677
Written-off accounts payable	205 966	134 330
Net income from sales of fixed assets	0	87 648
Tugboat services income	54 550	81 318
Income from EU fund projects	72 120	72 120
Revenue from chemical analysis	1 352	875
Other revenue	41 850	54 734
	<u>1 220 791</u>	<u>1 682 027</u>
(7) Other operating expenses	2016	2015
	EUR	EUR
Net losses from disposal of fixed assets	4 090	0
Leased fixet assets maintenance costs	516 350	711 429
Provisions for inventories	5 300	370 000
Material purchase costs	248 913	353 347
Costs on tugboat services	33 647	39 660
Representation costs 60%	48 663	33 571
Medical services	10 655	13 151
Material allowances and gifts	12 708	12 704
Warranty repairs costs	9 000	10 000
Funeral expenses	2 773	4 895
Donations	9 787	3 219
Net loss from sale of foreign currency	190	336
Provisions for bad and doubtful debts	7 810	56 152
Other costs	31 296	22 240
	<u>941 182</u>	<u>1 630 704</u>
(8) Interest and similar income	2016	2015
	EUR	EUR
from other parties		
Interest income on loans issued	101 500	78 751
Penalties received	0	54
	<u>101 500</u>	<u>78 805</u>
(9) Interest and similar expenses	2016	2015
	EUR	EUR
to other parties		
Interest expenses for loans	217 611	231 500
Penalties paid	116 214	126 139
Bank charges for guarantees	4 150	49 154
State fee	13 631	1 009
	<u>351 606</u>	<u>407 802</u>
(10) Corporate income tax		
a) Components of corporate income tax	2016	2015
	EUR	EUR
Corporate income tax according to the tax return	0	0
Changes in deferred income tax	(95 747)	(97 125)
	<u>(95 747)</u>	<u>(97 125)</u>
b) Movement and components of deferred tax		
Deferred tax liabilities at the beginning of the financial year	2 685 427	2 588 302
Deferred tax charged to the income statement	95 747	97 125
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation	(29 126)	0
Deferred tax liabilities (asset) at the end of the financial year	<u>2 752 048</u>	<u>2 685 427</u>

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

c) Deferred tax liabilities and (asset) are attributable to the following temporary differences	31.12.2016. EUR	31.12.2015. EUR
Temporary difference on depreciation of fixed and intangible assets	22 054 513	21 601 937
Gross deferred tax liabilities	22 054 513	21 601 937
Temporary difference on accruals for annual leave	0	(192 048)
Provisions for warranty repairs	(1 999)	(1 643)
Provisions for slow moving and obsolete stock	(375 300)	(370 000)
Tax losses carried forward	(3 330 222)	(3 135 391)
Gross deferred tax assets	(3 707 521)	(3 699 082)
Net deferred tax liability (assets)	18 346 992	17 902 855
Deferred tax liabilities	2 752 048	2 685 427

(11) Intangible assets	Software	EUR
Cost		
01.01.2015	344 716	344 716
Purchase	7 679	7 679
Disposals	(445)	(445)
31.12.2015	351 950	351 950
Accumulated amortisation		
01.01.2015	(249 159)	(249 159)
Calculated	(47 778)	(47 778)
Disposals	445	445
31.12.2015	(296 492)	(296 492)
Net carrying amount		
01.01.2015	95 557	95 557
31.12.2015	55 458	55 458
Cost		
01.01.2016	351 950	351 950
Purchase	0	0
Disposals	0	0
31.12.2016	351 950	351 950
Accumulated amortisation		
31.12.2016	(296 492)	(296 492)
Calculated	(49 319)	(49 319)
Disposals	0	0
31.12.2016	(345 811)	(345 811)
Net carrying amount		
01.01.2016	55 458	55 458
31.12.2016	6 139	6 139

Rigas kugu būvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(12) Fixed assets

	Buildings, constructions	Advance payments	Leasehold improve- ments	Equipment and machines	Floating docks	Unfinished con- struction	Other Fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2015	12 704 691	7 114	845 227	3 358	31 712 522	329 054	1 495 772	47 097 738
Purchase	0	20 491	0	0	0	2 019 096	0	2 039 587
Disposals	(88)	0	0	(3 358)	(918 407)	0	(60 054)	(981 907)
Reclassified	81 879	(18 043)	0	0	1 454 477	(1 823 060)	304 747	0
31.12.2015	12 786 482	9 562	845 227	0	32 248 592	525 090	1 740 465	48 155 418
Depreciation								
01.01.2015	(4 462 909)	0	(321 203)	0	(11 094 739)	0	(1 290 242)	(17 169 093)
Calculated	(300 733)	0	(33 522)	0	(849 089)	0	(71 405)	(1 254 749)
Disposals	88	0	0	0	774 571	0	56 149	830 808
31.12.2015	(4 763 554)	0	(354 725)	0	(11 169 257)	0	(1 305 498)	(17 593 034)
Net carrying amount	0	0	0	0	0	0	0	0
01.01.2015	8 241 782	7 114	524 024	0	20 617 783	329 054	205 530	29 925 287
31.12.2015	8 022 928	9 562	490 502	0	21 079 335	525 090	434 967	30 562 384
Cost/ revaluation	0	0	0	0	0	0	0	0
01.01.2016	12 786 482	9 562	845 227	0	32 248 592	525 090	1 740 465	48 155 418
Purchase	0	8 988	11 356	0	0	1 144 539	0	1 164 883
Disposals	(270)	0	0	0	(116 523)	0	(4 720)	(121 513)
Reclassified	33 721	0	0	0	839 218	(913 073)	40 134	0
31.12.2016	12 819 933	18 550	856 583	0	32 971 287	756 556	1 775 879	49 198 788
Depreciation	0	0	0	0	0	0	0	0
01.01.2016	(4 763 554)	0	(354 725)	0	(11 169 257)	0	(1 305 498)	(17 593 034)
Calculated	(291 688)	0	(33 575)	0	(652 985)	0	(85 814)	(1 064 062)
Disposals	250	0	0	0	112 360	0	4 720	117 330
Relocated *	0	0	0	0	(194 175)	0	0	(194 175)
31.12.2016	(5 054 992)	0	(388 300)	0	(11 904 057)	0	(1 386 592)	(18 733 941)
Net carrying amount	0	0	0	0	0	0	0	0
01.01.2016	8 022 928	9 562	490 502	0	21 079 335	525 090	434 967	30 562 384
31.12.2016	7 764 941	18 550	468 283	0	21 067 230	756 556	389 287	30 464 847

Real estate (buildings) cadastral value as of 31.12.2016: 5 723 487 EUR (31.12.2015: 5 723 487 EUR).

Information about assets used as collaterals for borrowings included in Notes 28. and 41.

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

Financial result of disposed, eliminated and sold fixed assets:	2016 EUR	2015 EUR
Initial cost	121 512	978 994
Accumulated depreciation	(117 330)	(831 253)
Residual value	4 182	147 741
Proceeds from sale/elimination of fixed assets	92	235 390
Profit/loss from sale/elimination of fixed assets	(4 090)	87 649

Had not the revaluation been performed the value of equipment and machines would be the following:	After revaluation	Without revaluation
Net carrying amount	21 067 230	7 077 553

Pursuant to Section 6 Part 5 of the Corporate Income Tax Law, when defining the taxable corporate income, the results of revaluation of balance sheet items and off-balance sheet items shall not be taken into account, except revaluation of assets due to change of foreign currency rates.

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(13) Investments in associates

a) movement of investments

Name	Net carrying value	Participating	Equity	Profit/ (loss)
	31.12.2016 EUR	interest %	31.12.2016 EUR	2016 EUR
Tosmares kugubuvetava JSC	3 630 590	49.72	5 941 916	21 899
Remars Granula LTD	1 200 000	49.80	227 371	(16 824)
Total	4 830 590	100	6 169 287	5 075

Name	Net carrying value	Participating	Equity	Profit/ (loss)
	31.12.2015 EUR	interest %	31.12.2015 EUR	2015 EUR
Tosmares kugubuvetava JSC	3 630 590	49.72	5 980 698	145 453
Remars Granula LTD	1 200 000	49.80	244 195	(9 866)
Total	4 830 590	100	6 169 287	135 587

The consolidated annual report for the year 2016 will not be drawn up.

(14) Other active assets

Name	Stock value		31.12.2016		31.12.2015	
	2016	2015	Q-ty	EUR	Q-ty	EUR
Baltic International Bank JSC	7	7	33	235	33	235
Total	7	7	33	235	33	235

(15) Other loans and non-current receivables

Name / Type of Loan	31.12.2015	Loans issued in 2016	Disposals	Interest accrued Reallocation at a short-term	Reclassified debt	Currency exchange rate change	31.12.2016	Term of repayment
Loans to employees (students) *	47 796					1 568	49 364	2020-2029
Loans for Tosmares kugubuvetava JSC shares **	1 110 818			151 503			1 110 818	2020
Loans (interest rate 6%)				17 390	470 000		470 000	year 2020
Total	1 158 614			168 893	470 000	1 568	1 630 182	

On 31 December 2016, the amount which must be repaid after 5 years: 25 083 EUR.

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

** Loans for JSC "Tosmare shipyard" shares are with a rate of 6% and in the case of non-repayment, the security shall be shares

Change in allowance for obsolete and slow moving inventories:

	2016 EUR	2015 EUR
At the beginning of the reporting year	370 000	0
Charged to statement of profit and loss	5 300	370 000
Released to statement of profit and loss	0	0
Net change to statement of profit and loss*	(5 300)	(370 000)
Inventory write-off during the reporting year	0	0
At the end of the	375 300	370 000

(16) Raw materials and consumables

	31.12.2016. EUR	31.12.2015. EUR
Metal, non-ferrous metals, pipes	1 680 018	1 549 021
Metal ware	63 431	67 532
Technical rubber ware	29 535	58 095
Cables	30 938	31 442
Equipment	33 491	29 864
Varnish and paint	15 078	18 473
Wire cables	11 240	8 648
Fuel	9 637	7 778
Coveralls	1 297	7 622
Household goods	2 899	3 938
Timbering	1 387	2 171
Other	475 957	519 290
Provisions for slow moving and obsolete stock	(375 300)	(370 000)
Total	1 979 608	1 933 874

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(17) Work in progress	31.12.2016. EUR	31.12.2015. EUR
Shipbuilding orders	96 170	137 070
Ship repair orders	8 327	24 608
Mechanical engineering orders	2 226	2 512
Various	819	1 633
Total	107 542	165 823

In this item are reflected orders with percentage of completion less than 10% (zero cycle) of the contract value.

(18) Advance payments	31.12.2016 EUR	31.12.2015 EUR
For goods	191 658	164 436
Total	191 658	164 436

(19) Trade receivables	31.12.2016. EUR	31.12.2015. EUR
Book value of trade receivables	1 805 846	2 319 072
(Provisions for bad and doubtful debts)	(227 260)	(616 465)
	1 578 586	1 702 607

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

Change in provisions

	Trade receivables	Other receivables	Total
Provisions as of 31.12.2015.	616 465	46 748	663 213
Increase in provisions	7 810	0	7 810
Decrease in provisions	(397 015)	(46 748)	(443 763)
Provisions as of 31.12.2016.	227 260	0	227 260

(20) Receivables from associates	31.12.2016 EUR	31.12.2015 EUR
Remars Granula LTD debt for loan according to assignment agreement*	770 000	770 000
Remars Granula LTD loan **	523 464	507 673
	1 293 464	1 277 673

* Debt related to assignment agreement (cession) signed with JSC SEB Bank, JSC Rigas kugu buvetava and Remars Granula LTD, secured by a commercial pledge, no interest charged. Secured claim amount - 2 297 938 EUR. The book value of the assets pledged on 31/12/16 constitutes 2424 578 EUR (not audited).

** Loan interest rate 5%, repayment term on demand. No collateral received.

(21) Other receivables	31.12.2016. EUR	31.12.2015. EUR
Book value	922 793	1 323 166
Provisions established	0	(46 748)
Other receivables, net	922 793	1 276 418

Short-term loans (interest rate 6 %)	0	500 531
Advance payments for services	372 321	419 789
Value added tax overpaid	297 772	158 738
Interests	168 893	95 036
Payments personal debts	44 980	76 862
Payment of salary	23 652	22 259
Other receivables	15 175	3 203
Total	922 793	1 276 418

(22) Deferred expenses	31.12.2016. EUR	31.12.2015. EUR
Travelling allowances	343	12 964
Property insurance	9 643	11 004
Renovation costs of leased fixed assets	0	3 358
Health insurance	0	1 034
Other expenses	0	318
Total	9 986	28 678

(23) Accrued income	31.12.2016 EUR	31.12.2015 EUR
Shipbuilding	2 935 632	721 103
Ship repair	500 184	141 898
Mechanical engineering orders	0	199 733
Total	3 435 816	1 062 734

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(24) Cash and bank	31.12.2016. EUR	31.12.2015. EUR
Cash at bank on current accounts	8 887	115 019
Cash on hand	9 118	17 181
	18 005	132 200

(25) Share capital

Rigas kugu buvetava JSC was founded in 1991. Share capital of the Company is 16 340 950 EUR, which is comprised of 11 672 107 ordinary shares, nominal value of one share is 1 LVL (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 JSC NASDAQ Riga 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, the nominal value of one share is 1.40 EUR.

Rigas kugu buvetava JSC shareholders:

	31.12.2016	%	31.12.2015	%
Remars-Riga JSC	8 146 872	49,86%	8 146 872	49,86%
Individuals	5 726 697	35,05%	5 102 817	31,22%
Other legal entities	2 467 381	15,10%	3 091 261	18,92%
Total	16 340 950	100%	16 340 950	100%

(26) Non-current investments revaluation reserve

Based on certified appraisers valuation report, Company performed revaluation of floating docks. In 2007 Baltic Kontor LTD 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 20.12.2007. 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 highest value. Difference arising from revaluation for the amount of 12 056 273 EUR was recognized in equity under Long-term investments revaluation reserve that was decreased by the related deferred tax liability. Subsequently in 2012, 2014 and 2016 certified appraisers performed floating docks' revaluation and concluded that estimated value does not significantly differ from previously evaluated value and no amendments into value of floating docks was recognized. In performing valuation the appraisers used a cost approach including adjustments for the docks technical condition, age and technological usefulness of the assets. The values obtained were compared to available information in the market for the similar assets.

As of 31 December 2016, 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.

	2016 EUR	2015 EUR
As at the beginning of the year	12 056 273	12 056 273
Decreasing long-term asset reevaluation reserve to the calculated depreciation amount	(194 174)	0
Increase in long-term asset reevaluation reserve to the deferred tax amount	29 126	0
Total	11 891 225	12 056 273

(27) Provisions

	31.12.2016	31.12.2015
Provisions for warranty repairs	1699	1 643
Total	1 699	1 643

In accordance with the concluded agreements, the Company provides to the customers free of charge guarantee repair in accordance with universal agreement conditions during 6 months for the executed qualitative repair works and for the quality of materials during 12 months. The Board has created the provisions taking as a basis the experience of the previous years to execute such kind of the repair works.

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(28) Loans from banks

Loans from banks	31.12.2016 EUR	31.12.2015 EUR
ABLV Bank JSC		
long-term part	0	1 900 000
short-term part	1 900 000	0
Total	1 900 000	1 900 000

1. On October 28, 2015 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 October 18, 2017. The interest rate is 4,5% + 6 months EURIBOR. Mortgage agreement on real estate properties was signed. Pledged real estate net book value as of December 31, 2016 is 5 537 175 EUR.

2. On December 8, 2014 there was signed the Bank Guarantee limit Agreement with JSC Baltic International Bank No. 05/10/14. As of December 31, 2016 the total Guarantee limit available is 3 514 000 EUR, used Guarantee limit is 1 930 200 250 EUR. As security 1st stage mortgage agreement for floating dock No 170 was signed. The mortgaged property balance sheet value as of December 31, 2016 is 10 344 129 EUR.

3. According to the JSC Baltic International Bank Client service agreement NR.952 / 01/14 and the Annex "The request for payment cards" No.1 concluded on the December 8, 2014, Company received a corporate payment cards with a total credit limit of EUR 60 000.

As collateral on November 17, 2015 entered into a pledge agreement No. 8/12/15 per tug "Nikolay Nechiporenko" pledge. The book value of the mortgaged property shall draw up a EUR 100 098.

(29) Other borrowings

	31.12.2016 EUR	31.12.2015 EUR
Total long-term part of leasing liabilities	18 893	42 216
Long-term part (interest 6%)**	1 182 863	1 182 863
Total short-term part of leasing liabilities	23 782	29 660
Short-term part (interest rate 4,5%)*	510 350	762 909
Total	1 735 888	2 017 648

*In 2014 Company received a loan from private person, repayment term is 2017.

**In 2014 Company received a loan from international Fund, repayment term is 2018.

No assets are pledged as collateral.

(30) Advances from customers

	31.12.2016. EUR	31.12.2015. EUR
For shipbuilding	2 544 200	1 418 000
For ship repair	15 191	105 000
Others	909	66 864
Total	2 560 300	1 589 864

(31) Trade payables

	31.12.2016. EUR	31.12.2015. EUR
Payables for services	1 895 808	2 059 145
Payables for materials	1 054 658	627 240
Total	2 950 466	2 686 385

(32) Payables to associates

	31.12.2016. EUR	31.12.2015. EUR
Current		
Short-term part from Tosmares kugubuvetava JSC (interest rate 6 %)	546 438	472 203
Tosmares kugubuvetava JSC debt for services	4 905	0
Total	551 343	472 203

In 2014 Company received loan from Tosmares kugubuvetava JSC, repayment term is 2017. No collateral has been provided.

(33) Taxes and social insurance payments

Taxes and social insurance payments in 2016

	01.01.2016	Calculated Calculated EUR	Calculated penalty and delay fees EUR	(Paid)/ repaid EUR	Transferred to other taxes EUR	31.12.2016 EUR
Social insurance payments	138 649	1 663 970	4 570	(192 141)	(1 321 357)	293 691
Value added tax	(158 738)	(1 599 928)	0	21 993	1 438 901	(297 772)
Personal income tax	131 036	957 747	44 342	(395 096)	(117 544)	620 485
Corporate income tax	0	0	0	0	0	0
Real estate tax	4 552	156 346	2 999	(142 986)	0	20 911
Natural resources tax	842	4 173	0	(3 465)	0	1 550
Risk duty	160	2 173	0	(2 156)	0	177
Total	116 501	1 184 481	51 911	(713 851)	0	639 042
Tax debt	275 239					936 814
Tax overpayment*	(158 738)					(297 772)

*The overpayment of taxes is included in Other receivables (Note 21).

Rigas kugu buvetava JSC
ANNUAL REPORT
for the 12 months period ended 31 December 2016

(34) Other creditors	31.12.2016.	31.12.2015.
	EUR	EUR
Salaries	296 595	248 362
Other accounts payable	511 760	200 506
Payments for credit cards	5 774	2 181
Payments to personnel	1 598	893
Retention from salaries	1 827	750
Total	817 554	452 692
	<hr/>	<hr/>
(35) Deferred income	31.12.2016	31.12.2015
	EUR	EUR
1) Financing in accordance with the signed agreement in 2012 with the Ministry of Environmental Protection and Regional Development for the project implementation "Measure of the Energy efficiency in the production buildings"	371 398	414 600
2) Financing in accordance with an agreement signed in 2012 with the government agency LIAA about the EU co-financed project "Rigas kugu buvetava JSC Heating system reconstruction"	266 969	295 887
Total	638 367	710 487
	<hr/>	<hr/>
Total long-term part	566 247	638 367
Total short-term part	72 120	72 120
	<hr/>	<hr/>
(36) Dividends unpaid	31.12.2016	31.12.2015
	EUR	EUR
As at the beginning of the period	25 680	32 540
Dividends calculated	0	0
Dividends paid	0	0
Written-off (older than 10 years)	(7 063)	(6 860)
As at the end of the period	18 617	25 680
	<hr/>	<hr/>
(37) Accrued liabilities	31.12.2016.	31.12.2015.
	EUR	EUR
Accrued trade payables	238 297	224 991
Accrued unused annual leave expenses	245 881	192 048
Total	484 178	417 039
	<hr/>	<hr/>
(38) Fees paid to auditors	2016	2015
	EUR	EUR
For the audit of financial statements	15 500	17 000
	<hr/>	<hr/>
	15 500	17 000
	<hr/>	<hr/>
No other services from sworn auditors company, except audit of financial statements, were not provided.		
(39) Staff costs and number of employees	2016	2015
	EUR	EUR
Salary	5 059 823	4 332 587
Social insurance payments	1 151 524	972 467
Total	6 211 347	5 305 054
	<hr/>	<hr/>
Tajā skaitā		
Incl. Personnel salary (production department)		
Salary	4 543 289	3 789 864
Social insurance payments	1 033 581	858 516
Total	5 576 870	4 648 380
	<hr/>	<hr/>
Incl. Administration		
Salary	165 758	145 210
Social insurance payments	36 773	32 549
Total	202 531	177 759
	<hr/>	<hr/>
Incl. Remuneration of the Board members		
Salary	129 732	168 717
Social insurance payments	30 604	44 629
Total	160 336	213 346
	<hr/>	<hr/>
Incl. Remuneration of the Council members		
Salary	221 044	228 796
Social insurance payments	50 566	36 773
Total	271 610	265 569
	<hr/>	<hr/>
Average number of employees during reporting year	491	425
	<hr/>	<hr/>

(40) Subsequent events

Except the above mentioned facts, there are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2016.

(41) Off-balance liabilities

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

2. On the December 28, 2010 there was issued ship covered bond No.EH 28.12.2010/KO about floating dock deposit in the favour of UniCreditBank JSC and bond is valid until the secured obligations are fully met. Ship bond is issued as a guarantee for Eiroholdings LTD obligations, that results from credit line agreement Nr. EH 01.07.2008/CL dated on July 1, 2008; credit line obligations as of December 31, 2016 is EUR 839 994. Maximum guarantee claim is EUR 4 183 243 . Mortgaged floating dock 791, with the balance sheet value as of December 31, 2016 EUR 5 139 945. 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 December 31, 2016 liabilities amounted to EUR 1 641 615. Total amount of secured claim is EUR 2 860 000. The pledged property balance sheet value as of December 31, 2016 is EUR 6 031 778. 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.

(42) Transactions with related parties

	Type of relationship	Goods or services sold EUR	Purchased goods or services EUR	Other transactions EUR
Remars-Riga JSC	Significant influence	424 807	1 348 318	0
Tosmares kugubuvetava JSC	Associated company	9 124	9 000	79 265
Remars-Granula LTD	Associated company	0	0	15 791
Total		433 931	1 357 318	95 056

(43) 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.

Use of going concern assumption

The Company has finished the financial year, which was closed on 31 December 2016, with profit of EUR 169 807. As of this date, the Company's current liabilities exceeded current assets by EUR 1 288 066, while in the Company's balance sheet as of 31 December 2016 included net carrying amount of fixed assets is 30.4 million EUR.

The capability of the Company to continue its activities depends on the financial performance in forthcoming periods and from Company's management ability to ensure the Company's profitable operations and to cover short-term liabilities.

Accordingly, the Company's financial statements are prepared in accordance with going concern assumption.

Janis Skvarnovics
Chairman of the Board

Einars Buks
Member of the Board

Jekaterina Melnika
Member of the Board

Marina Pudova
Chief Accounting Officer

Riga, 2017 April 24