



## Independent Auditor's Report

### To the shareholders of AS "TOSMARES KUĢUBŪVĒTAVA"

#### *Our Qualified Opinion on the Financial Statements*

We have audited the accompanying financial statements of AS "TOSMARES KUĢUBŪVĒTAVA" ("the Company") set out on pages 7 to 28 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2016,
- 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 effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of AS "TOSMARES KUĢUBŪVĒTAVA" as at 31 December 2016, 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*

In the Company's balance sheet at December 31, 2016 is reflected the debt receivable in amount of 225 500 EUR, payment of which is significantly delayed. In the financial statement the loss from the value reduction of this debt is not recognized. In our opinion the value of this debt receivable has been decreased, but as the Management of the Company had not made estimation of the future cash flow from this debt, we were not able to estimate reliably the amount of loss, that should be recognized as a result of value decrease.

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 Responsibility 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.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statement of the current period. These matters were addressed in the context of our audit as a whole, and in forming our opinion thereon, therefore we do not provide a separate opinion on these matters.

We have concluded, that except matters described in the *Basis for Qualified Opinion* section, we have not determined any other key audit matters to be communicated in our report.



#### *Other Matter*

#### *Reporting on Other Information*

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

- the Management Report, as set out on page 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 4 of the accompanying Annual Report,
- the Statement of Corporate Governance, as set out on page 5 of the accompanying Annual Report.

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* 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.

#### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

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 of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 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 the '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 skepticism 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.

The responsible certified auditor on the audit resulting in this independent auditors' report is Natalija Zaiceva.

Member of the Board of SIA "Orient's Audit & Finance"  
Commercial Company License No.28

Rīga, Latvia  
18 April 2017



Natalija Zaiceva  
Certified Auditor  
Certificate No.138

**Akciju sabiedrība "Tosmares kuģubūvetava"**

**ANNUAL REPORT**

**for the 12 months period ended 31 December 2016**

**CONTENTS**

The annual report has been prepared as a single document and includes a management report, statement of management responsibilities, statement of corporate management, financial statement and statement of an independent audit.

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**INFORMATION ON THE COMPANY**

Name of the company	Tosmares kuģubūvētava
Legal status of the company	Joint stock company
Number, place and date of registration	Register of the companies Nr.210302283 Liepāja, January 03, 2000
Address	Ģenerāļa Baloža iela 42/44 Liepāja LV3402 Latvia
Type of operations	NACE 3315  Construction and repair of technological equipment, ships, yachts, catamarans, containers, roltrailers, Port services
Members of the Board	Aleksandrs Vaļums - chairman of the Board Jekaterina Meļņika - member of the Board (from 29.04.2016) Aleksandrs Murugovs- member of the Board
Members of the Council	Vasilijs Meļņiks - chairman of the Board Aleksandrs Čerņavskis - Vice-chairman of the Council  Jānis Skvarnovičs - Member of the Council Larisa Artemenko - Member of the Council(from 29.04.2016) Henrik Murel - Member of the Council Viktors Ivanovs - Member of the Council(till 23.02.2016)
Financial year	1 January, 2016 - 31 December, 2016
Auditor's name and address:	Orients Audit & Finance Ltd. Commercial organizations license No. 28 Gunara Astras iela 8B Rīga LV-1082 Latvia  Certified auditor in charge Natalija Zaiceva Certificate No.138

## **Statement of the Managements Responsibility**

The Management is responsible for the preparation of the financial statements in accordance with the Laws of the Latvian Republic. On Accounting and On the Annual Reports. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting period, and the results of its operations and cash flow for the period that ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 28 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Companys assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating in the Company in compliance with the normative acts of the Republic of Latvia.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017



## **Corporate Governance report**

Joint Stock Company "Tosmares kuģubūvētava", hereinafter referred to as the Tosmare, corporate Governance Report on 2016, hereinafter referred to as the Report, is made according to JSC "Nasdaq Riga", hereinafter referred to as the Stock Exchange, Corporate Governance Principles and Recommendations on their Implementation issued in 2010. The Report has been prepared by Tosmare Shipyard Management Board and reviewed by the Council of Tosmare Shipyard.

The Principles of Corporate Governance are maximum suitable for business operations of the company and Tosmare complied with most of them in 2016. Accordingly to the Principle "comply or explain" the Report includes the disclosure which principle is not complied or complied partially as well as explanation of circumstances why the principles is not complied.

The report has been submitted to the Stock Exchange immediately after Annual Report for 2016 was approved and published on Stock Exchange website.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017

## **REPORT OF THE MANAGEMENT**

### **Type of operations**

The main activities of the JSC "Tosmares kuģubūvētava" are building and repair of ships, yachts, catamarans, roll trailers and technological equipment.

In 2016 JSC "Tosmares kuģubūvētava" performed the repair of 35 vessels (in comparison with 2015 - the repair of 44 vessels) and steel hulls of 4 catamarans were built (in comparison with 2015 - 3 steel hulls were built).

In 2016 JSC "Tosmares kuģubūvētava" products, services and raw material suppliers did not change.

The main customers in ship repairs are from: Russia, Lithuania, the Netherlands whereas the main customer in ship hull building is from the Faro Islands.

During the first part of the Reporting year there were changes in the configuration of the Board and Council.

### **Performance of the Company during the financial year**

In 2016 a total net turnover of JSC "Tosmares kuģubūvētava" was EUR 5 111 539, of which the turnover from ship building was EUR 1 208 966 and ship repair EUR 3 937 873 (in comparison in 2015 a total net turnover was EUR 6 139 677, including ship building EUR 438 552 and ship repair EUR 5 700 948).

JSC "Tosmares kuģubūvētava" has finished the report period with gross profit in the amount of EUR 502 822 (in 2015 gross profit was EUR 1 032 676), whereas net profit in 2016 was in the amount of EUR 21 899 (respectively in 2015 there was a net profit in the amount of EUR 145 453).

Shipment decline in Baltic region is one of the reasons that caused decrease of turnover in 2016.

### **Research and development**

The production processes of the JSC "Tosmares kuģubūvētava" are carried out in accordance with international standards EN ISO 9001:2008, and according to the standard EN 1090 are ensured the constant quality monitoring, as well as its activities comply with the other existing shipbuilding and repair standards.

JSC "Tosmares kuģubūvētava" was included on the European ship-recycling list according to the European Parliament and Council regulation (EU) Nr. 1257/2013.

The Management of the company has enlarged additional directions of development by paying special attention to the environment protection.

The Board of Directors of the Company considering the existing market situation and the resources of the Company continues to increase the effectiveness of activities of the Company, moving to new sectors of production and the market which should ensure increase of volume of repairable and new building vessels. Also have been restored fixed assets of the Company to increase labour productivity, new working methods are acquired and improved working conditions of the Company's employees.

### **Financial risk management**

Financial risks that are connected with the Company's financial instruments mainly are: the currency risk, interest rate risk, liquidity risk and credit risk. The Management of the Board tries to minimize the negative influence of the potential financial risk on the Company's financial situation. The Company does not use any derivative financial instruments for the financial risk management.

### **Post balance sheet events**

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the Company.

### **Future prospects**

Evaluating the current situation of the market and abilities of the Company, the Board of Directors will continue the work of increasing the amount of the ship repair and build. To ensure the above mentioned, the Company continues to perform a general overhaul of the industrial buildings, floating dock, gantry cranes, tugboats, and other fixed assets. Additionally, other investments for different equipment are being planned.

### **Priekšlikumi par Sabiedrības peļņas sadali**

The Board of Directors of the JSC "Tosmares kuģubūvētava" suggests retaining 2016 net profit of EUR 21 889 for further development of the Company.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board  
Liepāja, 18 April 2017

**INCOME STATEMENT**

	<b>Notes</b>	<b>2016 EUR</b>	<b>2015 EUR</b>
Net turnover	(2)	5 111 539	6 139 677
Costs for goods sold or costs of services provided	(3)	(4 608 657)	(5 107 001)
<b>Gross profit or losses</b>		<b>502 882</b>	<b>1 032 676</b>
Distribution expenses	(4)	(5 618)	(8 599)
Administrative costs	(5)	(405 471)	(336 006)
Other operating income	(6)	214 492	225 240
Other operating expenses	(7)	(144 590)	(539 450)
Interest and similar income incl. <i>a) from group companies</i>	(8)	29 265 29 265	11 730 11 730
Interest and similar expenses incl. <i>a) from group companies</i> <i>b) for other parties</i>	(9)	(122 192) (122 192)	(121 720) (121 720)
<b>Profit or losses before corporate income tax</b>		<b>68 768</b>	<b>263 871</b>
Corporate income tax	(10)	(23 136)	(40 970)
<b>Profit or losses after corporate income tax</b>		<b>45 632</b>	<b>222 901</b>
Changes in deferred tax assets or liabilities	(10)	(23 733)	(77 448)
<b>Net profit or losses</b>		<b>21 899</b>	<b>145 453</b>

Notes on pages 12 to 28 are an integral part of these financial statements.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017

Chief Accountant

Ineta Bērtule

**BALANCE SHEET**

		31.12.2016. EUR	31.12.2015. EUR
	<b>Notes</b>		
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
<b>Intangible assets:</b>			
Other intangible assets	(11)	<u>143</u>	<u>275</u>
<b>Total intangible assets:</b>		<b>143</b>	<b>275</b>
<b>Fixed assets:</b>			
Immovable properties:			
a) lands, buildings and engineering structures	(12)	2 326 914	2 288 012
b) investment properties	(12)	142 547	148 083
Technological equipment and machinery	(12)	3 392 993	3 622 823
Other fixed assets	(12)	13 225	18 603
Fixed assets under construction	(12)	<u>182 349</u>	<u>111 291</u>
<b>Total fixed assets:</b>		<b>6 058 028</b>	<b>6 188 812</b>
<b>Non-current financial investments:</b>			
Other loans and non-current receivables	(13)	<u>53 475</u>	<u>          </u>
<b>Total non-current financial investments:</b>		<b>53 475</b>	<b>          </b>
<b>Total non-current investments:</b>		<b>6 111 646</b>	<b>6 189 087</b>
<b>Current assets</b>			
<b>Inventories:</b>			
Raw materials and consumables	(14)	552 931	589 214
Work in progress	(15)	895 919	
Finished goods and goods for sale	(16)	452 653	1 409 853
Advances for inventories		4 020	29 057
<b>Total inventories:</b>		<u>1 905 523</u>	<u>2 028 124</u>
<b>Account receivable:</b>			
Trade receivables	(17)	1 016 567	827 161
Receivables from group companies	(18)	551 344	472 203
Other receivables	(19)	45 823	104 629
Deferred expenses	(20)	4 776	496
Accrued income	(21)	<u>617 017</u>	<u>249 661</u>
<b>Total receivables:</b>		<b>2 235 527</b>	<b>1 654 150</b>
<b>Cash and bank:</b>	(22)	<b>35 059</b>	<b>194 535</b>
<b>Total current assets:</b>		<u>4 176 109</u>	<u>4 493 826</u>
<b><u>Total assets</u></b>		<u><b>10 287 755</b></u>	<u><b>10 682 913</b></u>

Notes on pages 12 to 28 are an integral part of these financial statements.

**BALANCE SHEET**

		<b>31.12.2016.</b>	<b>31.12.2015.</b>
		<b>EUR</b>	<b>EUR</b>
	<b>Notes</b>		
<b><u>EQUITY, PROVISIONS AND LIABILITIES</u></b>			
<b>Equity</b>			
Share capital	(23)	4 484 756	4 484 756
Non-current investments revaluation reserve	(12)	1 277 840	1 338 520
Reserves:			
f) other reserves		73 267	73 267
Retained profit or uncovered losses brought forward from previous years	(32)	84 154	(61 299)
Current year profit or losses	(32)	21 899	145 453
<b>Total equity:</b>		<b>5 941 916</b>	<b>5 980 697</b>
<b>Provisions:</b>			
Other provisions			59 941
<b>Total provisions:</b>			<b>59 941</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Other borrowings	(24)	1 601 944	2 006 977
Deferred tax liabilities	(10)	596 457	583 432
Deferred income	(29)	224 127	265 449
<b>Total non-current liabilities:</b>		<b>2 422 528</b>	<b>2 855 858</b>
<b>Current liabilities:</b>			
Loans from banks			
Other borrowings	(24)	428 032	128 133
Advances from customers	(25)	201 503	31 015
Trade payables	(26)	908 850	742 266
Taxes and state social insurance payments	(27)	195 555	147 447
Other creditors	(28)	86 982	77 310
Deferred income	(29)	41 322	41 322
Unpaid dividends		6	6
Accrued liabilities	(30)	61 061	1 900
<b>Total current liabilities:</b>		<b>1 923 311</b>	<b>1 169 399</b>
<b>Total liabilities:</b>		<b>4 345 839</b>	<b>4 025 257</b>
<b><u>Total equity, provisions and liabilities</u></b>		<b><u>10 287 755</u></b>	<b><u>10 065 895</u></b>

Notes on pages 12 to 28 are an integral part of these financial statements.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017

Chief Accountant

Ineta Bērtule

**STATEMENT OF CHANGES IN EQUITY**

	Notes	2016 EUR	2015 EUR
<b>Share capital</b>			
Opening balance		4 484 756	4 484 756
Prior year adjustments			
Increase/decrease in share capital			
Closing balance		<u>4 484 756</u>	<u>4 484 756</u>
<b>Long-term investment revaluation reserve</b>			
Opening balance		1 338 520	1 338 520
Prior year adjustments			
Increase/decrease of long-term investment revaluation reserve	(12)	<u>(60 680)</u>	
Closing balance		<u>1 277 840</u>	<u>1 338 520</u>
<b>Reserves</b>			
Opening balance		73 267	73 267
Prior year adjustments			
Increase/decrease of the balance of the reserves			
Closing balance		<u>73 267</u>	<u>73 267</u>
<b>Retained earnings</b>			
Opening balance		84 154	(61 299)
Prior year adjustments			
Increase/decrease in retained earnings		<u>21 899</u>	<u>145 453</u>
Closing balance		<u>106 053</u>	<u>84 154</u>
<b>Equity</b>			
Opening balance		5 980 697	5 835 245
Prior year adjustments			
Closing balance		<u>5 941 916</u>	<u>5 980 697</u>

Notes on pages 12 to 28 are an integral part of these financial statements.

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017

Chief Accountant

Ineta Bērtule

**CASH FLOW STATEMENT**

	2016 EUR	2015 EUR
	<b>Notes</b>	
<b>Cash flow from operating activities</b>		
Revenue from the sale of goods and provision of services	4 779 000	6 277 034
Payments to suppliers, employees, other expenses of principal activity	(4 490 748)	(5 755 667)
<b>Gross cash flow generated from operating activities</b>	<u>288 252</u>	<u>521 367</u>
Interest payments	(112 890)	(109 159)
Corporate income tax payments	(63 334)	(10 000)
<b>Net cash flow generated from operating activities</b>	<u>112 028</u>	<u>402 208</u>
<b>Cash flow from investing activities</b>		
Acquisition of fixed assets and intangible assets	(116 371)	(138 762)
Proceeds from sale of fixed assets and intangible investments		6 100
Loans issued	(50 000)	(62 475)
Repayment of loans		9 000
<b>Net cash flow generated from investing activities</b>	<u>(166 371)</u>	<u>(186 137)</u>
<b>Cash flow from financing activities</b>		
Repayment of loans		(66 000)
Finance lease payments	(105 133)	(133 674)
<b>Net cash flow generated from financing activities</b>	<u>(105 133)</u>	<u>(199 674)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>(159 476)</u>	<u>16 397</u>
<b>Cash and cash equivalents at the beginning of the financial year</b>	(22) <u>194 535</u>	<u>178 138</u>
<b>Cash and Cash equivalents at the end of the financial year</b>	(22) <u><u>35 059</u></u>	<u><u>194 535</u></u>

Notes on pages 12 to 28 are an integral part of these financial statements.

Aleksandrs Vaļums  
Chairman of the Board

Chief Accountant

Aleksandrs Murugovs  
Member of the Board

Ineta Bērtule

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 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 Consolidated Annual Report.

The financial statements are prepared based on going concept and according to the historical cost accounting principle excluding fixed assets, which are stated at their revalued amounts. The statement of profit and loss is prepared according to the function of expense method. The Cash flow statement has been prepared under the direct cash flow method.

In comparison with the previous financial period, the accounting and evaluation methods used by the Company have not been changed.

**Accounting concepts**

Financial statement s items are valued in accordance with the following accounting concepts:

- a) It is accepted that the Company will continue working;
- b) If it is not indicated separately, the valuation methods are the same as in the previous year;
- c) the valuation is made with a proper discretion, including:
  - only the profit that was gained before the end of the reporting year is taken into consideration;
  - all the known and anticipated liabilities or losses, that have occurred before the end of the reporting year, even if they become know in the time period between the end of the reporting year and the preparation day of the financial statement, are taken into consideration ;
  - all the depreciation sums and assets value decreases, are calculated and taken into consideration, whether the reporting year has finished with the profit or loss.
- d) If it is not indicated separately, incomes and expenses are recognized on an accrual basis, e.g. taken into consideration the period of occurrence despite the date of payment and bill issuing or receiving date. The expenses are conformed to incomes in the reporting year.
- e) Assets and liabilities items components are valued and show separately. Incomes and expenses are show separately, except profit or losses from sale of long-term investments and similar transactions (e.g. the result of floating rate or buying and selling foreign currency)

**Changes in accounting policies**

Due to the new Annual Report and the entry into force of the law of Consolidated Annual Report in 2016, the below mentioned accounting policies norms have changed.

- a) Measuring and presentation of investment property, biological assets and long term investments held for sale

Starting from 2016, an option to measure the investment property, biological assets and long-term investments held for sale, in fair value with an effect through the profit or loss statement, was canceled. Investment property and long-term biological assets (working and productive animals, permanent crops) are further considered to be a part of property, plant and equipment, therefore, recognition and measuring is applied. Short-term biological assets (animals and annual crops for sale) and long-term investments held for sale, are further listed in inventories composition. Whereas, if in financial statements the investment property s or biological assets revaluation reserves, are recognized, they are written-off and included in incomes of reporting period s profit or loss statement, or in retained profit of previous years, without any corrections in the previous year balance.

The investment properties of the Company were previously measured in their initial cost, less accumulated depreciation and accumulated impairment losses. The Company will continue to reflect the investment properties in a separate balance sheet. Taking into consideration that the Company does not have any biological assets and long-term investments held for sale, these Law changes, excluding investment properties, do not influence the financial statement of the company.



Taking into consideration, that by not presenting the Company's deferred tax assets or liabilities its financial statement might not provide a true and clear notion of the financial position and action results, the Company uses allowed law derogation, adapting International Financial Reporting Standards (IFRS) for deferred tax accounting. Applicable accounting policy is stated in Notes. If case if Company uses the law changes of deferred tax non-recognition, the effect on net profit and equity would be the following:

	Note	Reporting year	Policy change effect		Total previous years
			Year 2015	Before year 2015	
		EUR	EUR	EUR	EUR
Changes in deferred tax			77 448	505 984	583 432
<b>Effect on net profit</b>			<b>77 448</b>	<b>505 984</b>	<b>583 432</b>
<b>Effect on equity on 01/01/2016</b>					<b>583 432</b>

c) Fixed assets revaluation reserve write-off

With the entry into force of the law, fixed assets revaluation reserve can be reduced (amortized) by the appropriate part from the revaluated fixed assets annual depreciation amount. The reserve is reduced by its gradual including into incomes of profit or loss statement, over the fixed assets residual estimated useful life.

The effect of the fixed assets revaluation reserve amortization is shown in the table below.

	Note	Reporting year	Policy change effect		Total previous years
			Year 2015	Before year 2015	
		EUR	EUR	EUR	EUR
Incomes from long-term investments revaluation reserve amortization		71 388			
Effect on profit before corporate income tax		71 388			
Corporate income tax		(10 708)			
<b>Effect on net profit</b>		<b>60 680</b>			
<b>Effect on equity on 01/01/2016</b>					<b>-</b>

**e) Changes in the balance sheet classification and information disclosure, profit or loss statement, cash flow and equity statement.**

With the entry into force of the law the structured form of balance, profit or loss and cash flow statement has changed. A new structure form of the statement of changes in equity has been implemented. For an improvement of a true and clear notion, the Company has made reclassification of established assets and liabilities as well as of the incomes and expenses type. Financial statements comparative figures of the previous period have been classified according to the principles of the Reporting year and they are comparable. Reclassification has no influence on the financial result.

Name of items reclassified	31.12.2015	31.12.2015	Amount EUR
	Adjusted Name of line item	Prior adjustments Name of line item	
Investment properties	Fixed assets, immovable properties	Investment properties	506 977

Name of items reclassified	2015	2015	Amount EUR
	Adjusted Name of line item	Prior adjustments Name of line item	
Expenses from real estate tax	Production cost price of produce sold, purchase	Other taxes	37 752

**k) Requests for the information disclosure in the Notes of the financial statement.**

With the entry into force of the law, the amount of the information disclosure in the notes of the financial statement has been changed, by setting different criteria according to the size of the companies. The Company is classified as a large company. All the information required by the Law is stated in the financial statement as well as all the additional information for making a true and clear notion.

In comparison with the previous reporting year, except the above mentioned, the Company has not changed the accounting policies.

**Foreign currencies**

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

### Income recognition and net sales

Net sales 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.

### Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company apply the percentage of completion method to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to balance sheet date as a percentage of total estimated costs for each contract or carrying out surveys of work performed to date. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or other assets, depending on their nature.

### Fixed and intangible assets

Intangible 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.

Difference arising as a result of revaluation (subtracting the deferred tax) is stated at long-current asset revaluation reserve in equity, but the depreciation of the value is written-off from the previous years fixed assets value increase and the exceed is transferred to the statement of profit and loss. On the incomes in the profit or loss statement, the revaluation of fixed assets are assigned to a relevant part of the annual depreciation of the fixed asset, but the reserves of the divestiture or liquidation are written off for the whole residual value.

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:

	<b>Depreciation % per annum</b>
Intangible Investments	25
Buildings	3
Equipment and technical equipment	10
Rolling stock, seacraft transport, power plant	7
Furniture and office equipment	10
Computers and equipment	25
Vehicles	20
Instruments and inventory	10

The Company capitalizes its fixed assets valued over EUR 50 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 50 is recognized in full after its ready for use.

If sufficient evidence is acquired that the future economic benefit associated with subsequent costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of fixed assets is calculated, as the difference between the carrying amount of the fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, appropriate value of fixed or intangible asset is to be decreased until recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell or value in use.

### **Investment property**

Investment property is property (land, building or part of building) held by the owner or by lessee under a finance lease to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at costs. Subsequently investment properties are stated at cost less depreciation and impairment losses. Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	<b>Depreciation % per annum</b>
Buildings	3

### **Leasehold improvements**

Capital expenditures of the leased fixed assets are written off on a straight-line bases during the shortest period of useful life of the capital enhancement and the leasehold period.

### **Capitalization of borrowing and other costs**

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during the period with no active development of asset.

### **Research and development costs**

Research costs are recognised in the income statement when incurred. Development costs that relate to development of asset intended for sale or own use, are capitalised and recognized as intangible assets and amortised on a straight-line basis starting from the beginning of commercial production of the respective product over the period when the return on this asset is expected.

**Inventories**

Inventories are stated at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses that are directly connected with the production of the appropriate item as well as a respective part of overhead expenses are included in the production cost of inventories. Selling expenses has not included in cost. Cost is stated on the FIFO (weighted average) method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

**Account receivable**

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Provisions for doubtful receivables are established when the management of the Company considers that it is probable that the total amount of receivables will not be collected .

**Borrowings**

Borrowings are recognized at the proceeds, net of transaction costs incurred.

Subsequently, borrowings are stated at amortized costs using the effective interest method. Any difference between the proceeds, net of transaction costs and the redemption value is recognized in the income statement or in accordance with accounting policy capitalized as part of construction costs of the asset.

**Provisions**

Provisions are possible liabilities, that are related to the statements of previous years events and during the financial statement preparation period there is a possibility, that for the settlement of liabilities the outflow of economic goods will be needed, and the sum can be reliably measured. Provisions are calculated according to the current value of expenses that will be needed for the settlement of liabilities, after the valuation.

Probable liabilities are not recognized. The liabilities are recognized only when there is a justified possibility that funds will be issued. In the same way, any possible assets are not recognized but only reflected, if there is a possibility that the economical goods connected with the transaction, will flow into the Company.

**Accrued liabilities for unused annual leave**

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

**Grants**

Grants or subsidies 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 subsidies or grants to cover the expenses are recognized as an income in the same period when the respective expenses have arisen and all material conditions in respect of the grants received has been fulfilled.

**Lease-to-buy (financial lease)**

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or the present value of the minimum lease payments. Lease interest payments are included in income statement by method to produce a constant periodic rate of interest on the remaining balance of the liability.

#### **Lease without redemption rights (operating lease)**

In cases, when the material part of the risks and rewards of ownership of the leased assets are remained to the lessor, the transaction is classified as operating lease. Lease payments and prepayment for lease are included in income statement on a straight-line basis over the lease period.

#### **Lease without redemption rights (operating lease)**

The assets, that are leased under the operating lease are recognized in the fixed assets purchase value excluding depreciation. The depreciation is calculated according to the linear method in the period of the fixed assets beneficial use, to write off fixed asset's value to its estimated residual value at the end of the beneficial use, using rates that are recognized in similar Company's fixed assets. The incomes from the operating lease and prepayments from the clients are included into the profit and loss statement when appeared.

The stimulus assigned for the lease agreement is stated in the expenses according to the linear method during the whole period, if only any other systematic method does not show the reduction of leased asset's benefit in a better way. The parts of the non-amortized stimulus are stated in the item the following period expenses.

#### **Taxation**

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their tax basis. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business combination, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, impairment of assets as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

#### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

#### **Related parties**

Related parties are considered Group companies, Board and Council members, their close family members and Companies, in which the previously mentioned persons/Group companies have significant influence or control.

(2) Revenue	2016 EUR	2015 EUR
Income from ship building	1 208 966	438 552
Income from repair services	3 902 573	5 700 948
Other income		177
	<b><u>5 111 539</u></b>	<b><u>6 139 677</u></b>
<b>By location</b>		
Income from sales of services in Latvia	202 770	545 814
Income from sales of services in Faro Islands	1 120 489	438 552
Russia	1 403 137	2 613 781
Lithuania	750 753	595 393
Estonia		48 327
Belize	227 310	69 824
Cyprus	149 818	49 448
Netherlands	344 163	1 336 348
Malta		99 760
Germany	106 239	131 782
Gibraltar	43 131	91 034
Poland		28 750
Panama	122 800	90 864
Denmark	97 418	
Cambodia	9 038	
United Kingdom	110 843	
Virgin Islands	249 670	
Liberia	9 000	
Norway	162 333	
Sweden	2 627	
	<b><u>5 111 539</u></b>	<b><u>6 139 677</u></b>
(3) Costs for goods sold or costs of services provided	2016 EUR	2015 EUR
Material purchasing expenses	813 499	723 848
Salary expenses (employees)	1 070 974	1 108 117
National social insurance contributions	237 238	248 307
Electricity costs	327 293	433 254
Depreciation of fixed assets	358 887	429 705
Remuneration for Agents	1 383 224	1 748 387
Current repair of equipment	63 394	60 096
Current repair of buildings	11 908	17 103
Security	102 255	99 032
Services of other organizations	111 095	108 855
Rental expenses	55 941	72 791
Real estate tax	50 485	37 752
Other costs	22 464	19 754
	<b><u>4 608 657</u></b>	<b><u>5 107 001</u></b>
(4) Distribution expenses	2016 EUR	2015 EUR
Media advertising expenditures	3 324	647
Business trips	2 294	7 952
	<b><u>5 618</u></b>	<b><u>8 599</u></b>

<b>(5) Administrative costs</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Remuneration for Members of the Board and Council	276 110	207 068
National social insurance contributions	63 420	44 479
Communication costs	1 963	1 575
Office costs	2 754	5 937
Representation costs	5 016	7 226
Stock-exchange expenses	7 562	6 667
Lawyer service	1 600	22 345
Transportation costs	33 606	17 034
Bank service	2 833	4 185
Annual report's audit expenses	5 000	3 800
Other costs	5 607	15 690
	<b><u>405 471</u></b>	<b><u>336 006</u></b>
<b>(6) Other operating income</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Incomes from the realization of materials	6 070	11 277
Rental income	80 762	73 028
Tugboat and pilot service	50 002	73 900
Other revenue	77 658	67 035
	<b><u>214 492</u></b>	<b><u>225 240</u></b>
<b>(7) Other operating expenses</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Bad and doubtful debtors		389 030
Savings for vacations	(1379)	7013
Expenses for material buying	3 447	6 826
Staff expenses	1 868	1 667
Tugboat expenses	104 759	119 730
Donations	3 360	860
Penalty payment costs	18 136	
Rented fixed assets' maintenance costs	12 259	874
Other costs	2 140	13 450
	<b><u>144 590</u></b>	<b><u>539 450</u></b>
<b>(8) Other interest rate and similar incomes</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Interest rate incomes from short-term loans	29 265	11 730
	<b><u>29 265</u></b>	<b><u>11 730</u></b>
<b>(9) Interest and similar expenses</b>	<b>2016</b>	<b>2015</b>
<b>a) from group companies</b>	<b>EUR</b>	<b>EUR</b>
Interest charge	112 890	115 474
Other expenses	9 302	6 246
	<b><u>122 192</u></b>	<b><u>121 720</u></b>



**(10) Corporate income tax**

<b>a) Components of corporate income tax</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Corporate income tax according to the tax return	23 136	40 970
Changes in deferred income tax	23 733	77 448
	<u><b>46 869</b></u>	<u><b>118 418</b></u>

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Profit before taxes	68 768	263 871
Theoretically calculated tax at 15% tax rate	<u><b>10 315</b></u>	<u><b>39 581</b></u>
Tax effects on:		
Non-deductible expenses for tax purposes	36 554	73 175
Non-taxable income		
Tax discounts		
Tax losses unused		
Changes in unrecognized deferred tax asset		
<b>Total corporate income tax expenses</b>	<u><b>46 869</b></u>	<u><b>112 756</b></u>

**b) Movement and components of deferred tax**

Deferred tax liabilities (asset) at the beginning of the financial year	583 432	505 983
Deferred tax charged to the income statement	23 733	77 448
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(10 708)	
<b>Deferred tax liabilities (asset) at the end of the financial year</b>	<u><b>596 457</b></u>	<u><b>583 431</b></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):

	<b>31.12.2016.</b>	<b>31.12.2015.</b>
	<b>EUR</b>	<b>EUR</b>
Temporary difference on depreciation of fixed and intangible assets	2 483 926	2 383 725
Gross deferred tax liabilities	<u><b>2 483 926</b></u>	<u><b>2 383 725</b></u>
Temporary difference on accruals for annual leave		(59 940)
Temporary difference on provision for doubtful receivables		
Temporary difference on provisions for slow moving and obsolete stock	(10 885)	(8 967)
Tax losses carried forward		
Unrecognized deferred tax asset		
Gross deferred tax assets	<u><b>(10 885)</b></u>	<u><b>(68 907)</b></u>
<b>Net deferred tax liability (assets)</b>	<u><b>2 473 041</b></u>	<u><b>2 314 818</b></u>
Deferred tax liability rate 15%	370 956	347 223

Deferred tax assets' and liabilities' movement during the reporting year period, not including tax assets' offset to the reporting period's tax liabilities, that are related to one and the same tax administration:

	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2014.</b>	<b>505 983</b>					<b>505 983</b>
Included in income statement	67 114	8 991	1 344			77 449
Included in equity						
<b>31.12.2015.</b>	<b>573 097</b>	<b>8 991</b>	<b>1 344</b>			<b>583 432</b>
Included in income statement	23 445		288			288
Included in equity	(10 708)					
<b>31.12.2016.</b>	<b>585 834</b>	<b>8 991</b>	<b>1 632</b>			<b>583 720</b>

**(11) Intangible assets**

	EUR	EUR	EUR	EUR	
		<b>Concessions, patents, licenses, trade marks and similar rights</b>	<b>Other intangible assets</b>	<b>Advances for intangible assets</b>	<b>Total</b>
<b>Cost/revaluation</b>					
31.12.2015.			10 465		10 465
Additions					
Disposals					
Revaluation					
31.12.2016.			10 465		10 465
<b>Depreciation</b>					
31.12.2015.			(10 190)		(10 190)
Calculated			(132)		(132)
Disposals					
31.12.2016.			(10 322)		(10 322)
<b>Net carrying amount 31.12.2015.</b>			<b>275</b>		<b>275</b>
<b>Net carrying amount 31.12.2016.</b>			<b>143</b>		<b>143</b>

**(12) Fixed assets**

	<b>Land and buildings</b>	<b>Leasehold improvements</b>	<b>Equipment and machinery</b>	<b>Other fixed assets</b>	<b>Fixed assets under construction</b>	<b>Advances for fixed assets</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<b>Cost/revaluation</b>							
31.12.2015.	3 721 713	234 837	5 780 537	134 491	111 291		9 982 869
Additions	172 703	3 147	61 349	3 003	308 645		548 847
Disposals			(44 404)	(614)	(237 587)		(282 605)
31.12.2016.	3 894 416	237 984	5 797 482	136 880	182 349		<b>10 249 111</b>
<b>Depreciation</b>							
31.12.2015.	(1 433 701)	(86 754)	(2 157 714)	(115 888)			(3 794 057)
Calculated	(133 801)	(8 683)	(287 962)	(8 380)			(438 826)
Disposals			41 187	613			41 800
31.12.2016.	(1 567 502)	(95 437)	(2 404 489)	(123 655)			<b>(4 191 083)</b>
<b>Net carrying amount 31.12.2015.</b>	<b>2 288 012</b>	<b>148 083</b>	<b>3 622 823</b>	<b>18 603</b>	<b>111 291</b>		<b>6 188 812</b>
<b>Net carrying amount 31.12.2016.</b>	<b>2 326 914</b>	<b>142 547</b>	<b>3 392 993</b>	<b>13 225</b>	<b>182 349</b>		<b>6 058 028</b>
<b>Cadastral Value</b>							

In December 13, 2001, the lease agreement with the Special Economic Zone on the lease of land in the Port of Liepaja pears Nr.17-21 with the adjoining pieces of Land and a piece of in Generala Baloza St.42/44 according to the plan. The term of validity of a contract is till 19.12.2031.

**Long-term investments revaluation reserve write-off**

With the entry into force of the Law, fixed assets revaluation reserve can be reduced by the part of the revaluated fixed assets annual depreciation amount. The reserve is reduced by its gradual including into incomes of profit or loss statement, over the fixed assets residual estimated useful life.

In 2011 revaluation of floating dock was made. The valuation was made by a certified expert LTD "Baltic Kontor" The floating dock is under inventory rfrom Juni 1,2002.

The fixed assets revaluation reserve amortization reduce is show it in the table below:

Revaluation reserve 01.01.2016.	<b>1 338 520</b>	
Depreciation 2016	(71 388)	
Revaluation reserve 31.12.2016.	<b>1 267 132</b>	
Deferred tax 01.01.2016	<b>236 209</b>	
Reduce 2016	(10 708)	
Deferred tax 31.12.2016	<b>225 501</b>	
<b>Equipment and vehicles</b>	<b>After revaluation</b>	<b>After revaluation</b>
Residual value 31.12.2016	3 392 993	3 392 993

<b>(13) Other loans and long-term debtors</b>	<b>31.12.2016. EUR</b>	<b>31.12.2015 EUR</b>
Loan to private individual*	53 475	
	<u><b>53 475</b></u>	

\*The Loan is granted to a private individual with annual interest rate of 6% until December 31,2019 Interest for use of the loan or part there of shall be paid simultaneously with the specified repayment period of the loan.

<b>(14) Raw materials, direct materials and auxiliary materials</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
Metal	279 256	293 428
Abrasive	4 456	2 384
Pipes	107 022	113 427
Non-ferrous metal	49 023	53 385
Technical rubber goods	36 120	36 319
Other	87 939	99 238
Accruals for illiquid assets	(10 885)	(8 967)
	<u><b>552 931</b></u>	<u><b>589 214</b></u>

<b>(15) Semi-finished goods</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
Yacht	895 919	
	<u><b>895 919</b></u>	

According to the decision of the Management, the Motor speed yacht s hull was reconditioned in 2016.

<b>(16) Finished goods and production for sale</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
Yacht		890 000
Yacht equipment	452 653	519 853
	<u><b>452 653</b></u>	<u><b>1 409 853</b></u>

<b>(17) Debts of customers and buyers</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
Accounting value of customers' and buyers' debts	1 016 567	827 161
	<u><b>1 016 567</b></u>	<u><b>827 161</b></u>

<b>(18) Debts of related companies</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
<b>Short-term part</b>		
Loan JSC "Rīgas kuģu būvētava"	546 438	472 203
JSC "Rīgas kuģu būvētava" debt for service	4 906	
	<u><b>551 344</b></u>	<u><b>472 203</b></u>

For the use of the loan is paid 6% per annum.

<b>(19) Other debtors</b>	<b>31.12.2016 EUR</b>	<b>31.12.2015 EUR</b>
<b>Short term part</b>		
VAT overpayment	24 905	43 008
Company income tax overpayment	7 919	
Loan to private individual*		53 475
Advance payment for service	12 999	8 146
	<u><b>45 823</b></u>	<u><b>104 629</b></u>

<b>(20) Following period expenses</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Subscription to Mass Media (press)	43	42
Insurance costs	4 733	454
	<u><b>4 776</b></u>	<u><b>496</b></u>
<b>(21) Accrued revenue</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Ship build	427 985	49 418
Ship repair	184 172	200 243
Services	4 860	
	<u><b>617 017</b></u>	<u><b>249 661</b></u>
<b>(22) Money assets on hand and in bank</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Money assets on hand and in bank	35 059	194 535
	<u><b>35 059</b></u>	<u><b>194 535</b></u>

**(23) Fixed assets**

AS "Tosmares kuģubūvētava" was established in 2000 with share capital EUR 2 281 428 that consist of 1 603 397 common shares, nominal value of share is EUR 1,40. The joint-stock company is public and its shares are quoted with the stock exchange. All shares give equal rights to receipt of dividends, receipt of liquidation quotas and right to vote in the shareholders meeting. One share gives the right to 1 vote in the shareholders meeting. The Company has no shares that are held by the Company itself or by third persons

Modifications in Statues:

1. In 2001 an increase of share capital of the company up to EUR 3 704 300.
2. In 2002 an increase of share capital of the company up to EUR 4 558 023.
3. In 2011 the 2 562 660 shares were determined as registered shares, and 640 737 shares as bearer shares; all shares are non-certificated shares/book-entry shares
4. Equity capital is EUR 4 484 756 after denomination. Equity capital of JSC "Tosmares kuģubūvētava" consist of 3 293 397 stocks. Value of one stock is 1.40 EUR.

<b>(24) Other loans</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Long-term part</b>		
Loan from legal person	1 500 000	1 500 000
Liabilities according to the financial lease	101 944	506 977
	<u><b>1 601 944</b></u>	<u><b>2 006 977</b></u>
<b>Short-term part</b>		
Loan from legal person	23 000	23 000
Liabilities according to the financial lease	405 032	105 133
	<u><b>428 032</b></u>	<u><b>128 133</b></u>

Loan is received from the legal person with 6 % annual rate with the deadline of return in 2019. As security for the loan liabilities accomplishment the Company's fixed assets are pledged. The value of the pledged fixed assets is EUR 833 471.

The company has purchased cargo cranes by financial lease from SIA "SEB līzings" Interest payments are set at 3,45% + 3 months EURIBOR.

The automobile has been purchased by financial lease from SIA "Citadele līzings un faktoringi". Interest payments are set at 5% + 6 months EURIBOR.

<b>(25) Advance payments from buyers</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Short-term part</b>		
Ship build	201 503	31 015
	<u><b>201 503</b></u>	<u><b>31 015</b></u>

<b>(26) Debts to the suppliers and contractors</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Short-term part</b>		
Services	127 734	97 243
Materials	180 917	100 526
Debts for the ship build and ship repair	569 781	532 685
For fixed assets	30 418	11 812
	<u><b>908 850</b></u>	<u><b>742 266</b></u>
<b>(27) Taxes and social security benefits</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Short-term part</b>		
Personal income tax	106 853	59 291
National social insurance contribution	74 985	54 510
Company income tax		32 280
Real estate tax	12 622	5
Natural resource tax	1 042	1 306
	<u><b>195 555</b></u>	<u><b>147 447</b></u>
<b>(28) Other creditors</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Short-term part</b>		
Salary settlements	85 819	76 702
Deductions from salary	699	531
Other creditors	464	77
	<u><b>86 982</b></u>	<u><b>77 310</b></u>
<b>(29) Following period incomes</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Long-term part</b>		
Reversible incomes from leasing	224 127	265 449
	<u><b>224 127</b></u>	<u><b>265 449</b></u>
<b>Short-term part</b>		
Reversible incomes from leasing	41 322	41 322
	<u><b>41 322</b></u>	<u><b>41 322</b></u>
<b>(30) Accrued liabilities</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Accrued liabilities to suppliers	2 500	1 900
Accrued expenses for unused vacations	58 561	
	<u><b>61 061</b></u>	<u><b>1 900</b></u>
<b>(31) Auditor remuneration</b>		
For audit of the financial statement	5 000	3 800
	<u><b>5 000</b></u>	<u><b>3 800</b></u>
<b>(32) Average number of the Company's employees</b>	<b>2016</b>	<b>2015</b>
Members of the Board	3	3
Members of the Council	5	5
Other employees	162	171
Average number of the Company's employees in the Reporting year	<u><b>170</b></u>	<u><b>179</b></u>

<b>(33) Staff expenses</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Salary	1 440 486	1 397 178
Social insurance costs	326 756	317 015
	<u><b>1 767 242</b></u>	<u><b>1 714 193</b></u>
<b>(34) Management remuneration</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Remuneration for Members of the Board	150 810	115 938
Remuneration for the Members of the Council	188 201	135 609
	<u><b>339 011</b></u>	<u><b>251 547</b></u>

**(35) Transactions with the related parties**

The biggest shareholder of the JSC, that holds 49,72% of shares is JSC "Rīgas kuģu būvētava" - registered in the Enterprise Register of the Republic of Latvia. In 2016 the JSC was not involved in any transactions with the members of the Board and members of the Council except the remuneration paid for work.

**a) Requests and liabilities**

Notes	31.12.2016		31.12.2015	
	Debtors EUR	Creditors EUR	Debtors EUR	Creditors EUR
<b>JSC Rīgas kuģu būvētava</b>				
Loan	519 781		469 781	
Loan interest rate	26 657		2 422	
For goods and service	4 905			
	<u><b>546 438</b></u>		<u><b>472 203</b></u>	

**b) Transactions**

Notes	Selling to the related parties		Purchasing from the related parties	
	2016 EUR	2015 EUR	2016 EUR	2015 EUR
<b>AS Rīgas kuģu būvētava</b>				
Goods for sale	9 000	2 091	3 444	156 247
Services			5 680	126 869
Loan	50 000	576 562		
Loan interest rate	29264	11 730		
	<u><b>88 264</b></u>	<u><b>590 383</b></u>	<u><b>9 124</b></u>	<u><b>283 116</b></u>

**(36) Financial risk management**

Financial risks that are connected with the Company's financial instruments mainly are: the currency risk, interest rate risk, liquidity risk and credit risk. The Management of the Board tries to minimize the negative influence of the potential financial risk on the Company's financial situation. The Company does not use any derivative financial instruments for the financial risk management.

Market risk- currency risk

The Company is put under the exchange rate fluctuations risk mainly in connection with its loans and liabilities and debts of customers that are concluded in YSD currency. The Management of the Company is considering applying hedge instruments changing loan currency from USD to EUR, to reduce the influence of the exchange rate fluctuations.

**(37) Subsequent events**

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

Aleksandrs Vaļums  
Chairman of the Board

Aleksandrs Murugovs  
Member of the Board

Jekaterina Meļņika  
Member of the Board

Liepāja, 18 April 2017

Ineta Bērtule

Chief Accountant