

Akciju sabiedrība "Tosmares kuģubūvetava"

ANNUAL REPORT

for the 12 months period ended 31 December 2017

CONTENTS

The annual report has been prepared as a single document and includes report of the management, statement of management responsibilities, statement of corporate management, financial statement and independent auditor's report.

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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 street 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 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 (till 19.05.2017) Einārs Buks - Member of the Council (from 19.05.2017) Larisa Artemenko - Member of the Council Henrik Murel - Member of the Council
Financial year	1 January, 2017 - 31 December, 2017
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 "On Accounting" and "Law On the Annual Financial Statements and Consolidated Financial Statements" of the Latvian Republic. 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 then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 27 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, 2 August 2018

Corporate Governance report

Joint Stosk Company's "Tosmares kuģubūvētava" corporative Governance Report for 2017 (hereinafter referred to as the Report) is prepared 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 maximally suitable for business operations of the company and Tosmare complied with most of them in 2017. According to the Principle "comply or explain" the Report provides information on principles that are not complied or complied partially by the company as well as explanation of circumstances why the principles are not complied.

The report has been submitted to the Stock Exchange immediately after Annual Report for 2017 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, 2 August 2018

REPORT OF THE MANAGEMENT

Company profile

The main activities of the JSC "Tosmares kuģubūvētava" (hereinafter - the Company) are construction and repair of ships, yachts, catamarans, roll trailers and technological equipment.

The productions processes of the JSC "Tosmares kuģubūvētava" are carried out in accordance with international standards EN ISO 9001:2008. The Quality Compliance Certificate was received in 2013 and the quality assurance system is being constantly improved.

Company's activity in the reporting period

In 2017 a total net turnover of the Company was EUR 3 492 661, of which the turnover from ship building was EUR 462 109 and ship repair EUR 32 801 438 (in comparison in 2016 a total net turnover was EUR 5 111 539, including ship building EUR 1 208 966 and ship repair EUR 3 902 573).

The Company has finished reporting period with gross losses in the amount of EUR 249 018 (in 2016 gross profit was EUR 502 882), whereas as net losses in 2017 was in the amount of EUR 681 549 (respectively in 2016 there was a net profit in the amount of EUR 21 899).

In 2017 the Company performed the repair of 29 vessels (in comparison with 2016 - the repair of 35 vessels) and steel hulls of 3 catamarans were built (in comparison with 2016 - 4 steel hulls were built).

In 2017 Company's products, services and raw material suppliers have not changed.

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

Company's research works and development activities

In 2016 the Company was included on the European ship-recycling list according to the European Parliament and Council regulation (EU) Nr.1257/2013

In 2017 the board extended additional development directions, paying particular attention to environmental protection arrangements. The Board of the Company in cooperation with Council of the Company continues market research activities, participates in international exhibitions and support programmes in order to ensure better use of production capacities and increase in labour productivity at the Company.

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 derivative financial instruments for financial risk management.

The concept of going concern application

The company was presented with several claims from larger creditors and there is a delay in salary payments at the time of signing the annual report. Due to that, payment schedules were coordinated and prepared according to planned and approved ship repairs in 2018. Taking into account the fact that payment schedules were not observed, there is a possibility that creditors could recourse to the Court with an application for recovery of debt and commenced judicial proceedings where the Company could be involved as a defendant. No court proceedings have been initiated on the recovery of claims against the Company on the date of signing of the annual report.

The continued operation of the company depends on financial results in future periods, the management's ability to ensure the Company's cost-effective operation and to cover its immediate obligations, as well as the ability of JSC "Rīgas kuģu būvētava" to reconcile the legal protection plan and the ability to repay its debt to the Company.

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 development of the Company

Evaluating the current situation of the market and abilities of the Company, the Board of the Company will continue the work of increasing the amount of the ship repair and construction. 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.

Proposal for covering of Company's losses

The board of the JSC "Tosmares kuģubūvētava" proposes to cover the loss of 2017 in the amount of 681 549 EUR from the company's retained earnings from previous years.

Aleksandrs Vaļums
Chairman of the Board

Aleksandrs Murugovs
Member of the Board

Jekaterina Meļņika
Member of the Board
Liepāja, 2 August 2018

INCOME STATEMENT

	Notes	2017 EUR	2016 EUR
Net turnover	(2)	3 492 661	5 111 539
Costs for goods sold or costs of services provided	(3)	(3 741 679)	(4 608 657)
Gross profit or losses		(249 018)	502 882
Distribution expenses	(4)	(32 494)	(5 618)
Administrative costs	(5)	(565 258)	(405 471)
Other operating income	(6)	213 117	214 492
Other operating expenses	(7)	(337 191)	(144 590)
Interest and similar income incl. <i>a) from group companies</i>	(8)	47 562 27 463	29 265 29 265
Interest and similar expenses incl. <i>a) from group companies</i> <i>b) for other parties</i>	(9)	(129 223) (122 192)	(122 192) (122 192)
Profit or losses before corporate income tax		(1 052 505)	68 768
Corporate income tax	(10)		(23 136)
Profit or losses after corporate income tax		(1 052 505)	45 632
Changes in deferred tax assets or liabilities	(10)	370 956	(23 733)
Net profit or losses		(681 549)	21 899
Profit or losses per share		(0,212)	0,007

Notes on pages 13 to 27 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, 2 August 2018

Chief Accountant

Irina Mangale

BALANCE SHEET

		31.12.2017. EUR	31.12.2016. EUR
	Notes		
<u>ASSETS</u>			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	<u>11</u>	<u>143</u>
Total intangible assets:		11	143
Fixed assets:			
Immovable properties:			
a) lands, buildings and engineering structures	(12)	2 189 260	2 326 914
b) investment properties	(12)	133 864	142 547
Technological equipment and machinery	(12)	3 490 206	3 392 993
Other fixed assets	(12)	9 815	13 225
Fixed assets under construction	(12)	<u>132 566</u>	<u>182 349</u>
Total fixed assets:		5 955 711	6 058 028
Non-current financial investments:			
Other loans and non-current receivables	(13)	<u></u>	<u>53 475</u>
Total non-current financial investments:		<u></u>	53 475
Total non-current investments:		5 955 722	6 111 646
Current assets			
Inventories:			
Raw materials and consumables	(14)	491 351	552 931
Work in progress	(15)		895 919
Finished goods and goods for sale	(16)	1 348 572	452 653
Advances for inventories		<u>102</u>	<u>4 020</u>
Total inventories:		1 840 025	1 905 523
Account receivable:			
Trade receivables	(17)	469 221	1 016 567
Receivables from group companies	(18)	245 802	551 344
Other receivables	(19)	567 329	45 823
Current loans to shareholders and management	(20)	53 475	
Deferred expenses	(21)	129	4 776
Accrued income	(22)	<u>354 508</u>	<u>617 017</u>
Total receivables:		1 690 464	2 235 527
Cash and bank:	(23)	25 124	35 059
Total current assets:		<u>3 555 613</u>	<u>4 176 109</u>
<u>Total assets</u>		<u>9 511 335</u>	<u>10 287 755</u>

Notes on pages 13 to 27 are an integral part of these financial statements.

BALANCE SHEET

		31.12.2017. EUR	31.12.2016. EUR
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(24)	4 484 756	4 484 756
Non-current investments revaluation reserve	(12)	1 431 953	1 277 840
Reserves:			
f) other reserves		73 267	73 267
Retained profit or uncovered losses brought forward from previous years	(31)	106 053	84 154
Current year profit or losses	(31)	(681 549)	21 899
Total equity:		5 414 480	5 941 916
Provisions:			
Other provisions			
Total provisions:			
Liabilities:			
Non-current liabilities:			
Other borrowings	(25)	1 783 791	1 601 944
Deferred tax liabilities	(10)		596 457
Deferred income	(30)	182 805	224 127
Total non-current liabilities:		1 966 596	2 422 528
Current liabilities:			
Loans from banks			
Other borrowings	(25)	174 930	428 032
Advances from customers	(26)	226 709	201 503
Trade payables	(27)	1 057 406	908 850
Taxes and state social insurance payments	(28)	454 255	195 555
Other creditors	(29)	113 789	86 982
Deferred income	(30)	41 322	41 322
Unpaid dividends		6	6
Accrued liabilities	(31)	61 842	61 061
Total current liabilities:		2 130 259	1 923 311
Total liabilities:		4 096 855	4 345 839
<u>Total equity, provisions and liabilities</u>		<u>9 511 335</u>	<u>10 287 755</u>

Notes on pages 13 to 27 are an integral part of these financial statements.

Aleksandrs Vaļums
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Jekaterina Meļņika
Member of the Board

Liepāja, 2 August 2018

Chief Accountant

Irina Mangale

STATEMENT OF CHANGES IN EQUITY

		2017	2016
		EUR	EUR
	Notes		
Share capital			
Opening balance		4 484 756	4 484 756
Prior year adjustments			
Increase/decrease in share capital			
Closing balance		4 484 756	4 484 756
Long-term investment revaluation reserve			
Opening balance		1 277 840	1 338 520
Prior year adjustments		225 501	
Increase/decrease of long-term investment revaluation reserve	(12)	(71 388)	(60 680)
Closing balance		1 431 953	1 277 840
Reserves			
Opening balance		73 267	73 267
Prior year adjustments			
Increase/decrease of the balance of the reserves			
Closing balance		73 267	73 267
Retained earnings			
Opening balance		106 053	84 154
Prior year adjustments			
Increase/decrease in retained earnings		(681 549)	21 899
Closing balance		(575 496)	106 053
Equity			
Opening balance		5 980 697	5 980 697
Prior year adjustments		225 501	
Closing balance		5 414 480	5 941 916

Notes on pages 13 to 27 are an integral part of these financial statements.

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Liepāja, 2 August 2018

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CASH FLOW STATEMENT

		2017	2016
		EUR	EUR
	Notes		
Cash flow from operating activities			
Revenue from the sale of goods and provision of services		3 398 830	4 779 000
Payments to suppliers, employees, other expenses of principal activity		(2 919 102)	(4 490 748)
Gross cash flow generated from operating activities		479 728	288 252
Interest payments		(106 223)	(112 890)
Corporate income tax payments		(4 872)	(63 334)
Net cash flow generated from operating activities		368 633	112 028
Cash flow from investing activities			
Acquisition of fixed assets and intangible assets		(74 837)	(116 371)
Proceeds from sale of fixed assets and intangible investments			
Loans issued		(209 476)	(50 000)
Repayment of loans			
Net cash flow generated from investing activities		(284 313)	(166 371)
Cash flow from financing activities			
Repayment of loans			
Finance lease payments		(94 255)	(105 133)
Net cash flow generated from financing activities		(94 255)	(105 133)
Net increase / (decrease) in cash and cash equivalents		(9 935)	(159 476)
Cash and cash equivalents at the beginning of the financial year	(22)	35 059	194 535
Cash and Cash equivalents at the end of the financial year	(22)	25 124	35 059

Notes on pages 13 to 27 are an integral part of these financial statements.

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Liepāja, 2 August 2018

Chief Accountant

Irina Mangale

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. According to Section 5 of the Annual Report and the Consolidated Annual Report law, on the basis of the last 2 years indicators, the Company is classified as medium-sized undertaking.

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 statements 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 known 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)
 - f) Transactions in the financial statement are reflected considering economical content not the legal form.
- Compared to the previous reporting year, the Company's accounting and measurement methods have not changed.

Foreign currencies

Financial statements are 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.

	31.12.2017.	31.12.2016.
	EUR	EUR
1 USD	1,1993	1,0541
1 RUB	69,392	64,3
1 GBP	0,8872	0,8562

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 asset s 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:

	Depreciation % per annum
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 100 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 100 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:

	Depreciation % per annum
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 and government assistance

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) - Company is lessee

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) - Company is lessee

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) - - Company is lessor

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.

Corporate income tax

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.

According to the amendments to the "Law on Corporate Income Tax" of the Republic of Latvia issued on July 28, 2017, starting from January 1, 2018 legal persons will not pay income tax on profit. Corporate income tax will be paid for distributed profit and deemed distributed profit. Consequently, current and deferred tax assets and liabilities are measured using the tax rate applicable to undistributed profits. 20% tax rate from the gross amount or 20/80 of the net cost will be applied to the distributed profit and deemed distributed profit starting from January 1, 2018. Corporate income tax on dividend payments are recognized in the income statement as costs in the reporting period when the respective dividends were declared, while other deemed profit objects - at the time when the costs were incurred during the reporting year.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arises from recognition of the assets and obligations resulted from transactions, which are not the business dilution, 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.

Deferred income tax is determined using tax rates that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

According to changes in regulatory enactments of the Republic of Latvia, which come into force on 1 January 2018, deferred tax assets and liabilities are not recognized in 2017. Deferred tax assets, calculated and recognized in the previous reporting periods are reversed in the current year's income statement or statement of comprehensive income, depending on whether initially deferred tax liabilities were recognized through the income statement or comprehensive income; as determined by IAS 12, changes in tax legislation are recognized in the period in which these changes were adopted.

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	2017 EUR	2016 EUR
Income from ship building	462 109	1 208 966
Income from repair services	2 801 438	3 902 573
Other income	229 114	
	3 492 661	5 111 539
By location		
Income from sales of services in Latvia	130 905	202 770
Income from sales of services in Fareo Islands	54 394	1 120 489
Russia	1 998 384	1 403 137
Lithuania	218 090	750 753
Estonia	530 623	
Belize		227 310
Cyprus		149 818
Netherlands	218 412	344 163
Malta		
Germany	126 583	106 239
Gibraltar		43 131
Poland		
Panama	215 270	122 800
Denmark		97 418
Cambodia		9 038
United Kingdom		110 843
Virgin Islands		249 670
Liberia		9 000
Norway		162 333
Sweden		2 627
	3 492 661	5 111 539
(3) Costs for goods sold or costs of services provided		
	2017 EUR	2016 EUR
Material purchasing expenses	608 725	813 499
Salary expenses (employees)	1 037 369	1 070 974
National social insurance contributions	237 981	237 238
Electricity costs	304 222	327 293
Depreciation of fixed assets	362 115	358 887
Remuneration for Agents	766 105	1 383 224
Current repair of equipment	42 388	63 394
Current repair of buildings	18 126	11 908
Security	98 122	102 255
Services of other organizations	67 065	111 095
Rental expenses	78 418	55 941
Real estate tax	55 851	50 485
Other costs	65 192	22 464
	3 741 679	4 608 657
(4) Distribution expenses		
	2017 EUR	2016 EUR
Media advertising expenditures	1 770	3 324
Business trips	30 724	2 294
	32 494	5 618

(5) Administrative costs	2017 EUR	2016 EUR
Remuneration for Members of the Board and Council	291 827	276 110
National social insurance contributions	66 566	63 420
Communication costs	1 361	1 963
Office costs	4 856	2 754
Representation costs	87 407	5 016
Stock-exchange expenses	6 815	7 562
Lawyer service	58 051	1 600
Transportation costs	35 909	33 606
Bank service	4 026	2 833
Annual report's audit expenses	5 000	5 000
Other costs	3 440	5 607
	<u>565 258</u>	<u>405 471</u>
(6) Other operating income	2017 EUR	2016 EUR
Incomes from the realization of materials	26 593	6 070
Rental income	70 731	80 762
Tugboat and pilot service	31 384	50 002
Other revenue	84 409	77 658
	<u>213 117</u>	<u>214 492</u>
(7) Other operating expenses	2017 EUR	2016 EUR
Bad and doubtful debtors	225 658	
Savings for vacations	781	-1379
Expenses for material buying	5 861	3 447
Staff expenses		1 868
Tugboat expenses	100 947	104 759
Donations	230	3 360
Penalty payment costs		18 136
Rented fixed assets' maintenance costs	1 084	12 259
Other costs	2 630	2 140
	<u>337 191</u>	<u>144 590</u>
(8) Other interest rate and similar incomes	2017 EUR	2016 EUR
Interest rate incomes from short-term loans	47 562	29 265
	<u>47 562</u>	<u>29 265</u>
(9) Interest and similar expenses	2017 EUR	2016 EUR
a) from group companies		
Interest charge	106 202	112 890
Other expenses	23 021	9 302
	<u>129 223</u>	<u>122 192</u>

(10) Corporate income tax**a) Components of corporate income tax**

	2017	2016
	EUR	EUR
Corporate income tax according to the tax return		23 136
Changes in deferred income tax	370 956	23 733
	370 956	46 869

As a result of the change in tax regime in 2017, the Company had to write off the previously reported Deferred Tax commitments. As a result, a one-time revenue of 370 956 euros was incurred during the reporting period

	2017	2016
	EUR	EUR
Profit before taxes	(1 052 505)	68 768
Theoretically calculated tax at 15% tax rate	(157 876)	10 315
Tax effects on:		
Non-deductible expenses for tax purposes	596 656	36 554
Total corporate income tax expenses	438 780	46 869

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	596 457	583 432
Deferred tax charged to the income statement	(370 956)	23 733
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(225 501)	(10 708)
Deferred tax liabilities (asset) at the end of the financial year	596 457	596 457

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):

	31.12.2017.	31.12.2016.
	EUR	EUR
Temporary difference on depreciation of fixed and intangible assets		2 483 926
Gross deferred tax liabilities		2 483 926
Temporary difference on accruals for annual leave		
Temporary difference on provision for doubtful receivables		
Temporary difference on provisions for slow moving and obsolete stock		(10 885)
Tax losses carried forward		
Unrecognized deferred tax asset		
Gross deferred tax assets		(10 885)
Net deferred tax liability (assets)		2 473 041
Deferred tax liability rate 15%		370 956

(11) Intangible assets

	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total
	EUR	EUR	EUR	EUR
Cost/valuation				
31.12.2016.		10 465		10 465
Additions				
Disposals				
Revaluation				
31.12.2017.		10 465		10 465
Depreciation				
31.12.2016.		(10 322)		(10 322)
Calculated		(132)		(132)
Disposals				
31.12.2017.		(10 454)		(10 454)
Net carrying amount 31.12.2016.		143		143
Net carrying amount 31.12.2017.		11		11

(12) Fixed assets

	Land and buildings	Leasehold improvements	Equipment and machinery	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost/valuation							
31.12.2016.	3 894 416	237 984	5 797 482	136 880	182 349		10 249 111
Additions			380 713	1 624	17 417		399 754
Disposals			(11 160)	(793)	(67 200)		(79 153)
31.12.2017.	3 894 416	237 984	6 167 035	137 711	132 566		10 569 712
Depreciation							
31.12.2016.	(1 567 502)	(95 437)	(2 404 489)	(123 655)			(4 191 083)
Calculated	(137 654)	(8 683)	(282 363)	(4 671)			(433 371)
Disposals			10 023	430			10 453
31.12.2017.	(1 705 156)	(104 120)	(2 676 829)	(127 896)			(4 614 001)
Net carrying amount 31.12.2016.	2 326 914	142 547	3 392 993	13 225	182 349		6 058 028
Net carrying amount 31.12.2017.	2 189 260	133 864	3 490 206	9 815	132 566		5 955 711

Cadastral value of freehold as at December 31, 2017 is EUR 966 006, cadastral value for the building is EUR 1 552 524.

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 13.12.2031.

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 from June 1, 2002.

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

Revaluation reserve 01.01.2017.	1 277 840
Depreciation 2017	154 113
Revaluation reserve 31.12.2017.	1 431 953
Deferred tax 01.01.2017	225 501
Reduce 2017	(225 501)
Deferred tax 31.12.2017	

(13) Other loans and long-term debtors	31.12.2017. EUR	31.12.2016 EUR
Loan to private individual*	<u> </u>	<u>53 475</u>
	<u> </u>	<u>53 475</u>

*The Loan is granted to a private individual with annual interest rate of 6%. Interest for use of the loan or part thereof shall be paid simultaneously with the specified repayment period of the loan.

(14) Raw materials, direct materials and auxiliary materials	31.12.2017 EUR	31.12.2016 EUR
Metal	240 647	279 256
Abrasive		4 456
Pipes	93 702	107 022
Non-ferrous metal	45 169	49 023
Technical rubber goods	34 841	36 120
Other	87 877	87 939
Accruals for illiquid assets	(10 885)	(10 885)
	<u>491 351</u>	<u>552 931</u>
(15) Semi-finished goods	31.12.2017 EUR	31.12.2016 EUR
Yacht	<u> </u>	<u>895 919</u>
	<u> </u>	<u>895 919</u>

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

(16) Finished goods and production for sale	31.12.2017 EUR	31.12.2016 EUR
Yacht	895 919	
Yacht equipment	452 653	452 653
	<u>1 348 572</u>	<u>452 653</u>

According to the International Ship Registry, motor yacht No. 34127600 was registered under the name SUNRISE.

(17) Debts of customers and buyers	31.12.2017 EUR	31.12.2016 EUR
Accounting value of customers' and buyers' debts	<u>469 221</u>	<u>1 016 567</u>
	<u>469 221</u>	<u>1 016 567</u>

(18) Debts of related companies	31.12.2017 EUR	31.12.2016 EUR
Short-term part		
Loan JSC "Rīgas kuģu būvētava"	230 672	546 438
JSC "Rīgas kuģu būvētava" debt for service	15 130	4 906
	<u>245 802</u>	<u>551 344</u>

The loan is short-termed with annual rate of 6%. On May 28, 2018 with the decision of the Tax Debt Enforcement Department of the SRS JSC "Rīgas kuģu būvētava" fell under the prohibition on commercials registration, re-registration, renewal and modification in the Commercial Pledge Register of the Enterprise Register.

On May 28th, 2018, Rīga Vidzeme district court decided to accept the application of the legal protection proceedings submitted by the Company and initiated a civil proceeding; there was a deadline until July 30th, 2018 for drafting and co-ordination of the plan of measures of the legal protection proceedings with creditors. Plan was not developed until the day of annual was signed.

(19) Other receivables	31.12.2017 EUR	31.12.2016 EUR
Short term part		
VAT overpayment	53 042	24 905
Company income tax overpayment	8 009	7 919
Loan to legal persons*	459 370	
Advance payment for service	46 908	12 999
	<u>567 329</u>	<u>45 823</u>

* Loans issued to legal persons with interest rate from 4% to 6% per annum. Loans are without collateral.

(20) Loans to shareholders and management	31.12.2017.	31.12.2016.
Current		
Loans to the board members	53 475	
	<u>53 475</u>	

The loan was issued to a member of the Board for personal use with an interest rate of 6% per annum. Loan is without collateral

(21) Deferred expenses	31.12.2017 EUR	31.12.2016 EUR
Subscription to Mass Media (press)	129	43
Insurance costs		4 773
	<u>129</u>	<u>4 816</u>

(22) Accrued revenue	31.12.2017 EUR	31.12.2016 EUR
Ship build	177 965	427 985
Ship repair	176 543	184 172
Services		4 860
	<u>354 508</u>	<u>617 017</u>

(23) Money assets on hand and in bank	31.12.2017 EUR	31.12.2016 EUR
Money assets on hand and in bank	25 124	35 059
	<u>25 124</u>	<u>35 059</u>

(24) Fixed assets

JSC "Tosmares kuģubūvētava" was established in 2000 with share capital EUR 2 281 428 that consist of 1 603 397 common shares. The join-stock company is public and its shares are quated 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 for its assignments.

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.

(25) Other borrowings	31.12.2017 EUR	31.12.2016 EUR
Long-term part		
Loan from legal person	1 500 000	1 500 000
Liabilities according to the financial lease	283 791	101 944
	1 783 791	1 601 944
Short-term part		
Loan from legal person	46 000	23 000
Liabilities according to the financial lease	128 930	405 032
	174 930	428 032

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.

(26) Advance payments from buyers	31.12.2017 EUR	31.12.2016 EUR
Short-term part		
Ship repair	226 709	201 503
	226 709	201 503

(27) Debts to the suppliers and contractors	31.12.2017 EUR	31.12.2016 EUR
Short-term part		
Services	302 837	127 734
Materials	126 448	180 917
Debts for the ship build and ship repair	589 645	569 781
For fixed assets	38 476	30 418
	1 057 406	908 850

(28) Taxes and social security benefits	31.12.2017 EUR	31.12.2016 EUR
Short-term part		
Personal income tax	209 861	106 853
National social insurance contribution	214 056	74 985
Real estate tax	28 307	12 622
Natural resource tax	2 031	1 042
	454 255	195 557

(29) Other creditors	31.12.2017 EUR	31.12.2016 EUR
Short-term part		
Salary settlements	112 723	85 819
Deductions from salary	844	699
Other creditors	222	464
	113 789	86 982

(30) Deferred income	31.12.2017	31.12.2016
	EUR	EUR
Long-term part		
Reversible incomes from leasing	182 805	224 127
	182 805	224 127
Short-term part		
Reversible incomes from leasing	41 322	41 322
	41 322	41 322
(31) Accrued liabilities	31.12.2017	31.12.2016
	EUR	EUR
Accrued liabilities to suppliers	2 500	2 500
Accrued expenses for unused vacations	59 342	58 561
	61 842	61 061
(32) Auditor remuneration	2017	2016
For audit of the financial statement	5 000	5 000
	5 000	5 000
(33) Average number of the Company's employees	2017	2016
Members of the Board	3	3
Members of the Council	5	5
Other employees	160	162
Average number of the Company's employees in the reporting year	168	170
(34) Staff expenses	2017	2016
	EUR	EUR
Salary	1 445 465	1 440 486
Social insurance costs	326 756	326 756
	1 772 221	1 767 242
(35) Management remuneration	2017	2016
	EUR	EUR
Remuneration for Members of the Board	135 827	150 810
Remuneration for the Members of the Council	156 000	188 201
	291 827	339 011
(36) Off-balance sheet commitments and significant contracts		

On December 13, 2001, a lease agreement with the Liepaja Special Economic Zone Administration was signed regarding land lease at Liepaja Port's berth No.17-21 with adjoining land plots and the plot on Ģenerāļa baloža street 42/44 according to the plan. The term of the agreement is until December 13, 2031.

On June 13, 2018, with the decision of the First Debt Recovery Division of the State Tax Debt Recovery Administration of the State Revenue Service RS the Company has been prohibited from registering, re-registering,

(37) 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.

As at 31 December 2017, the Company has claims against the member of the Board (see note 20)

a) Requests and liabilities

Notes	31.12.2017		31.12.2016	
	Debtors EUR	Creditors EUR	Debtors EUR	Creditors EUR
JSC Rīgas kuģu būvētava				
Loan	230 346		519 781	
Loan interest rate	326		26 657	
For goods and service	15 130		4905	
	245 802		551 343	

b) Transactions

Notes	Selling to the related parties		Purchasing from the related parties	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
AS Rīgas kuģu būvētava				
Goods for sale		9 000	139 332	3 444
Services	69 168		214 744	5 680
Loan		50 000		
Loan interest rate	27463	29 264		
	96 631	88 264	354 076	9 124

(38) 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 USD 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.

(39) Use of going concern assumption

The year then ended on 31 December 2017 the Company has finished with a loss of EUR 681 549.

The company was presented with several claims from larger creditors. Due to that, payment schedules were coordinated and prepared according to planned and approved ship repairs in 2018. Taking into account the fact that payment schedules were not observed, there is a possibility that creditors could recourse to the Court with an application for recovery of debt and commenced judicial proceedings where the Company could be involved as a defendant. No court proceedings have been initiated on the recovery of claims against the Company on the date of signing of the annual report.

The continued operation of the company depends on financial results in future periods, from the management's ability to ensure the Company's cost-effective operation and to cover its current obligations, as well as the ability of JSC "Rīgas kuģu būvētava" to reconcile the legal protection plan and the ability to repay its debt to the Company (see note 18), as well as comply with the terms of payment schedules agreed with the creditors. The financial statements of the Company are prepared on the basis of the assumption of continued operation.

(40) 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 2017.

Aleksandrs Vaļums
Chairman of the Board

Irina Mangale

Chief Accountant

Aleksandrs Murugovs
Member of the Board

Jekaterina Melņika
Member of the Board

Liepāja, 2 August 2018