AS "Baltic RE Group"

(REGISTRATION NUMBER 40103716434)

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

(TRANSLATION FROM THE ORIGINAL IN LATVIAN)

Riga, 2017

Contents

General Information

Name of the Parent company	AS "Baltic RE Group"
Legal form of the Parent company	Stock Company
Registration number, place and date of registration of the Parent company	40103716434 Riga, 2 October 2013
Legal address of the Parent company	19 Skunu Street, Riga, LV-1050, Latvia
Address of registered office	12/14 Kalku Street, Riga, LV-1050, Latvia
Corporate website	www.balticregroup.com

Board

The Board is the executive body of AS "Baltic RE Group", which manages and represents the Parent company. It is responsible for the commercial activities of the Parent company, as well as for Accounting and compliance with the laws and regulations. The Board administers the property of AS "Baltic RE Group" and acts with its means according to the requirements of law, the Statutes and decisions of Meetings of shareholders and Council.

The Statutes of AS "Baltic RE Group" regulate the composition and election of the Board, its functions, representation and decision making. The Board Regulations determine rights, duties, responsibilities and operating procedures of the Board.

Giovanni Dalla Zonca (Head of the Board - right of sole representation)

Giovanni Dalla Zonca is CEO and co-founder of AS "Baltic RE Group".

Giovanni Dalla Zonca has extensive experience in real estate consulting and entrepreneurship. He worked for many years as a financial consultant for the real estate industry, and was founder and CEO of Renta, a primary Italian network of placement of real estate finance issued by Barclays Bank.

As a strategic consultant he has worked for over 10 years with leading Italian real estate funds and private investors in the retail real estate sector, assisting customers in the selection of investments, in the construction of the financing and in preparation of draft turnaround. Thanks to the experience as a direct investor in several European countries, in 2008 Giovanni Dalla Zonca was co-founder of Baltic RE Group, where he is currently partner and CEO.

Giovanni Dalla Zonca is associated member of Latvian Real Estate Association (LANĪDA), as well as holds a seat on LANĪDA developers' council. He also holds membership in the Baltic Chapter of the International Real Estate Federation (FIABCI).

Giovanni has graduated with honours in Economics from the University of Trieste.

Marco Chioatto (Member of the Board - together with all the rest of)

Marco Chioatto has Degree in Economics at Università di Venezia, he is Chartered Accountant in Padua, Italy.

He has been a Senior Partner in the Studio Associate Cantoni Chioatto a professional firm with 16 people including 7 Professionals and 9 employees. He works as an auditor and external auditor for companies (SpA and Srl) in Northeast of Italy.

From 1996 to 1998 he held the position of President of the Association of Young Chartered Accountants Padua. From 1998 to 2004 he held the position of Director and Vice President of the Association of Chartered Accountants of Padua. Marco Chioatto served until 2007 as Vice President of the Association of Chartered Accountants of north East of Italy. The Association currently has about 2 300 members.

Marco Chioatto has carried out on behalf of the Association of Chartered Accountants of Padua, to lecture at conferences in the Association itself and within the School for Practitioners Chartered Accountants of Padua.

Marco Chioatto has deepen experience as consultant in Real Estate field in Italy and abroad, participating in many deals for acquisition of real estate Fund, and buildings, and participating in managing Real Estate Fund.

Dina Abaja (Member of the Board - together with all the rest of)

Dina Abaja has more than 7 years' experience in high street real estate – retail, offices and mixed use centres management as key account for owners and tenants. Since 2004 Dina Abaja has been Member of the Board and Member of the Council in several companies.

Dina Abaja is engaged with commercial property management, administration of lease agreement changes and extensions, negotiations with tenants, technical maintenance supervision together with technical team, financial supervision together with the financial team and property marketing and advertising, consulting in regard to other property.

Since 2013 Dina Abaja is a Member of the Board of AS "Baltic RE Group". Her extensive experience has allowed her to provide quality real estate market review, success in search of new tenants and development of the content of the buildings.

Dina Abaja has Bachelor degree in Economics and International business affairs from the International Commercial University of Latvia.

Dina Abaja has participated in numerous professional trainings, exhibitions, and real estate conferences (including the Annual Baltic States Real Estate Conferences), seminars and she obtained significant specific professional experience and education in this field.

Council

The Council is the supervisory institution of AS "Baltic RE Group", which represents the interests of the shareholders during the time periods between the Meetings of shareholders and supervises the activities of the Board within the scope specified in the Commercial Law and the Statutes.

The Statutes of AS "Baltic RE Group" regulate the composition and election of the Council, its functions and decision making. Council Regulations are adopted according to provisions of Commercial Law and Statutes and regulate Councils decision-making authority and procedures, as well execution of Council decisions.

Cesare Pizzul (Chairperson of the Council from 11.04.2016)

Cesare Pizzul graduated with honours in Mining Engineering from the University of Trieste (Italy), he received a postgraduate specialization in Mining Geostatistic at the Ecole Nationale des Mines de Paris, and attended a master course in General Management at the ISTUD of Stresa (Italy).

In 1994 he became the founder and CEO of Sunshine Investments, a private equity and financial holding destined to invest in industrial companies in the North East of Italy.

Since 2001 he is a corporate advisor for primary companies following the international expansion of several important clients.

In 2006 Cesare Pizzul founded Wulfenia Business Consulting, an international corporate advisors company involved in financial, administrative, fiscal and corporate consulting in Central Eastern Europe, the Balkans and in South America, specifically focusing on outsourcing of the administration and other services for retail shops chains all over Europe.

In 2008–2014 Cesare Pizzul held the positions of Independent Director, President of the Remuneration Committee, President of the Related Parties Committee, Member of the Internal Control Committee at Eurotech Group SpA, a nano high performing computers company listed in Milan Stock Exchange.

Cesare Pizzul has extensive experience in advisory and independent control in major (even listed) companies all over Europe.

Aleksandrs Mahajevs (Deputy chairperson of the Council from 11.04.2016)

Edgars Murāns (Member of the Council from 11.04.2016)

Audit Committee	The Audit Committee monitors the preparation process of AS "Baltic RE Group" annual report and consolidated annual report; internal control, risk management and internal audit system efficiency, as it applies to credibility and objectivity of annual reports and consolidated annual reports, submit proposals for elimination of deficiencies in the relevant system; monitors audit process of annual report and consolidated annual report; informs the Council on the conclusions of sworn auditor's made during audit of annual report and consolidated annual report and provide views on how the audit has contributed to credibility and objectivity of the prepared annual report and consolidated annual report, as well as informs of what has been the importance of the Audit Committee in this process; provides sworn auditor candidate selection process. The Statutes of AS "Baltic RE Group" regulate the composition and election of the Audit Committee, its functions and representation of AS "Baltic RE Group". **Cesare Pizzul** (elected on 11.04.2016) **Edgars Murāns** (elected on 11.04.2016) **Inta Fominova** (elected on 11.04.2016)
Principal subsidiaries	**Baltic Re S.p.a.** Via Altinate 125, 35121 Padua, (PD), Italy (AS "Baltic RE Group" owns 100%) **SIA "KEY 1"** 19 Skunu Street, Riga, LV-1050, Latvia (AS "Baltic RE Group" owns 25%, Baltic Re S.p.a. owns 75%) **SIA "Key 2"** 19 Skunu Street, Riga, LV-1050, Latvia (SIA "KEY 6" owns 100%) **SIA "KEY 6"** 19 Skunu Street, Riga, LV-1050, Latvia (AS "Baltic RE Group" owns 51.66%, Baltic Re S.p.a. owns 48.34%) **SIA "Key 15"** 19 Skunu Street, Riga, LV-1050, Latvia (AS "Baltic RE Group" owns 33%, SIA "KEY 1" owns 67%) **SIA "Skunu 19"** 19 Skunu Street, Riga, LV-1050, Latvia (Baltic Re S.p.a. owns 100%)
Activity code (NACE 2.0 red)	Renting and operating of own or leased real estate (68.20) Buying and selling of own real estate (68.10) Real estate agencies (68.31) Management of real estate on a fee or contract basis (68.32)
Previous financial year	1 January 2015 – 31 December 2015
Financial year	1 January 2016 – 31 December 2016
Auditors	Marija Jansone Certified Auditor of the Republic of Latvia Certificate No.25 SIA "Nexia Audit Advice" Reg.No. 40003858822 9-3 Grecinieku Street, Riga, LV–1050, Latvia Licence No.134 Nexia Audit Advice

Management Report

General information

AS "Baltic RE Group" (hereinafter - the Parent company) mainly leases premises and provides real estate management services and is engaged in the development of the subsidiaries and cash rational investing. The Group "Baltic RE Group" includes AS "Baltic RE Group" and its subsidiaries: Baltic Re S.p.a., SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15", SIA "Skunu 19" (hereinafter – the Group).

Core business activities of the Group companies

The Group companies mainly deals with the lease / rent of premises and real estate management services. The Parent company is also engaged in the strategic development of the subsidiaries.

The Group's structure provides for each of the Group's subsidiaries to undertake specific building lease / rental services:

1) AS "Baltic RE Group" leases / rents real estate at the address 12/14 Kalku Street, Riga, LV-1050, Latvia. AS "Baltic RE Group" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies. Activity of AS "Baltic RE Group" is also strategic development of related companies. Within administration of related companies, the company provides services on economics, tax, finance, marketing, legal and technical issues.
2) Baltic Re S.p.a. activity is the management of subsidiaries, strategic development and real estate research and development.
3) SIA "KEY 1" leases / rents real estate at the address 1 Kungu Street, Riga, LV-1050, Latvia. SIA "KEY 1" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies.
4) SIA "Key 2" leases / rents real estate at the address 2 Kramu Street, Riga, LV-1050, Latvia. SIA "Key 2" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies.
5) SIA "KEY 6" leases / rents real estate at the addresses 6-1 Kalku Street, LV-1050, Latvia and 6-1E Kalku Street, Riga, LV-1050, Latvia. SIA "KEY 6" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies.
6) SIA "Key 15" leases / rents real estate at the address 15 Kalku Street, Riga, LV-1050, Latvia. SIA "Key 15" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies.
7) SIA "Skunu 19" leases / rents real estate at the address 19 Skunu Street, Riga, LV-1050, Latvia. SIA "Skunu 19" provides real estate management, current repairs, maintenance etc., contracted out to the outsourcing companies.

This enables the Group to make the management of each particular property more effective and optimised, as well as to focus better on appropriate tasks.

Management's objectives and its strategies

The Group "Baltic RE Group" holds a major portfolio of premium-class historic buildings in Old Riga, where the Group continuously invests in and which in addition were reconstructed according to the wishes of new tenants — the representatives of well-known brands. The Group buys historical buildings in Old Riga and nearby with a potential of transformation of the commercial area, renovates them, restoring the original appearance of the facade as far as possible and putting in order internal engineering networks to the full. It often happens that premises are reconstructed and improved in accordance with the tenants' individual needs.

One of the Group's operational principles is to preserve the importance of the building and to increase its value further on, which provides not only financial benefit for the Group, but contributes to the maintenance of the historical centre of Riga as well.

"Baltic RE Group" founders are confident that the historical centre of Riga has a high trading potential in the high street segment where the key shops and offices of this city are located. This is determined by a combination of historical sights of Riga, the street quality and the consumer purchasing power.

Currently, the Group is the largest lessor of all-purpose and high-quality commercial areas in Old Riga and close areas, with agreements concluded with such well-known companies and organisations as Norwegian Embassy, the Financial and Capital Market Commission, H & M Hennes & Mauritz LLC, Reserved (member of LPP Fashion Group that owns a fashion retail chain with over 1 600 stores across Europe), etc.

Group's operations during reporting period

Group's operations during the reporting period were focused on the expansion of courses of action, improvement of work organization, which provides stable and consistent operations across all the Group's business units and the necessary financial support to them. During the reporting period active work with the Group's clients was carried out, as well as successful actions were taken in the research, development and implementation of new activities. The Parent company AS "Baltic RE Group" issued bonds are listed on a regulated market - the stock exchange Nasdaq Riga Baltic Bond List starting from 12 December 2016. The Parent company issued 4 000 bonds with a face value of a single bond of EUR 1 000 and the fixed interest rate of 6.15% with coupon payment twice a year. Bond redemption date is 12 December 2020. The Parent company is entitled to redeem the bonds prematurely.

The Group's revenue for the year ended 31 December 2016 is EUR 4 144 382. The Group ended the reporting period with a profit of EUR 26 297 respectively. During the reporting period the Parent company increased the share capital up to EUR 25 000 000 through the equity contributions. The Group's equity as at 31 December 2016 is positive and amounts to EUR 24 262 165.

Financial results of the Group's commercial activity and financial standing of the Group

The analysis of the Group's consolidated financial statements shows, that consolidated statement of financial position total is EUR 54 961 018. Non-current assets comprise 89% of the statement of financial position total, of which 80% (EUR 38 833 790) comprise of investment property. Investment property consists of the Group's real estate, which is leased / rented or will be leased / rented. Cash comprises 71% (EUR 4 366 860) of the current assets. Equity comprises 44% (EUR 24 262 165) of the statement of financial position total. Non-current liabilities comprise 53% (EUR 29 113 785) of the statement of financial position total, while current liabilities comprise 3% (EUR 1 585 068).

The analysis of the Group's consolidated statement of comprehensive income shows, that the revenue of the Group for 2016 is EUR 4 144 382, the cost of sales is EUR 2 325 682, so that the gross profit amounts to EUR 1 818 700 and net profit amounts to EUR 26 297. The cost of sales have increased by EUR 736 318, comparing with 2015, which is mainly due to the increase in depreciation charge of investment property, which grew by EUR 453 321, when the investment property was put into operation, with the consequent tax advantage, and for almost the whole of the remaining increase in property management costs and utilities expenses, for the most part reinvoiced to the tenants. Administrative expenses amount to EUR 1 134 608 – these expenses have increased, comparing with 2015. This increase is to be considered largely as a result of the higher costs incurred by the Italian subsidiary Baltic Re S.p.a. and relating to the merger with the Latvian company SIA "Skunu 19" (see information below on Intra-group reorganisation), prepared in 2016 and set up in the first months of 2017. This fraction of higher costs, which are intended to contribute to the improvement of operational and fiscal efficiency of the Group, should be considered non-repeatable and specifically referable to the merger operation. The entire costs have been prudently charged to statement of comprehensive income in 2016, but will produce positive effects in the future years by eliminating the costs of the Italian subsidiary and reducing the overall Group's tax burden. The Group's management monitors the external factors affecting the Group's activities and takes the necessary measures to optimize the Group's operations and development.

Calculation of financial results

Liquidity (Group's paying capacity – Group's ability to cover its current liabilities):
Total liquidity ratio = 3.88 - the ratio has increased, comparing with 2015 (1.57).

Solvency (Group's ability to cover non-current and current liabilities):
Debt to assets ratio = 0.56 - the ratio has slightly increased, comparing with 2015 (0.54).

Financial performance indicators show that the Group is able to settle its obligations, as well as the fact that the Group has sufficient material provision for the further development of business.

Use of the financial instruments and financial risk factors

The Group's principal financial liabilities comprise loan from credit institution, bonds issued, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loans, trade and other receivables and cash that arrive directly from its operations.

Financial risk management

The risk management function within the Group is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Group is exposed during or at the end of the reporting period.

The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group's top management oversees the management of these risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Development of the Group and future prospects

For the year 2017 the Board of AS "Baltic RE Group" is planning the further activities of development of new real estate research and optimization and development of current business activities. In 2017 the Group's subsidiaries do not intend to change their core business activity. It is planned to strengthen the activity with loyal customers and reliable partners; continuously improve the quality management system, as well as to find new customers and increase sales, the Group plans to optimize costs. The Group is focused and ready to get opportunities which shall appear on the market, to further invest in landmark properties consistent with the unparalleled quality of the existing portfolio.

Subsequent events

Intra-group reorganisation

In early 2017 AS "Baltic RE Group" announced reorganization of its subsidiary Baltic Re S.p.a.

AS "Baltic RE Group" plans to improve the Group's "Baltic RE Group" structure and as a result AS "Baltic RE Group" subsidiary Baltic Re S.p.a., registered in Italy will be reorganized and merged with its subsidiary SIA "Skunu 19", registered in Latvia. As a result of the reorganization AS "Baltic RE Group" will gain direct control of Baltic Re S.p.a. subsidiary SIA "Skunu 19".

The merger will have no impact on financial structure and will not cause any capital dilution effect as the companies involved in the process are directly or indirectly fully owned by the Company.

AS "Baltic RE Group" plans to complete the reorganization till 31 July 2017.

Business combinations

In April 2017 AS "Baltic RE Group" announced an agreement with shareholders of SIA "TER Properties" on acquisition of more than 80% of the share capital of SIA "TER Properties" during 2017. AS "Baltic RE Group" is currently negotiating with shareholders of SIA "TER Properties" on the purchase of remaining part of the share capital. Core business activity of SIA "TER Properties" is high-end real estate management and strategic development. SIA "TER Properties" through its wholly-owned subsidiary SIA "BB 21" owns real estate at Brivibas Boulevard 21, Riga, Latvia.

After the acquisition of SIA "TER Properties" share capital, this company will be included in the Group "Baltic RE Group". Acquisition of SIA "TER Properties" share capital will be further strategic step of AS "Baltic RE Group" in the expansion of its activity, investing in real estate with high quality and unique historical heritage of the Old Riga and close areas in quiet Riga centre.

Other than the above, as of the last day of the reporting period until the date of signing this report there were no material events requiring adjustment of or disclosure in these financial statements or notes there to.

Report on corporate governance

Report on corporate governance for 2016 is electronically publicly available on AS "Baltic RE Group" corporate website: www.balticregroup.com.

On behalf of AS "Baltic RE Group" Board:

Giovanni Dalla Zonca
Head of the Board

Riga, 20 April 2017

Statement of Responsibility of the Management

The Board of AS "Baltic RE Group" (hereinafter – the Parent company) prepares consolidated financial statements for each financial year, which give a true and fair view of AS "Baltic RE Group" and its subsidiaries (hereinafter – the Group) assets, liabilities, financial position as at the end of the respective period and profit or loss for that respective period. The Management Report contains truthful information on Group's development and results of its operations.

Financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

In preparing those financial statements, the Board:

- selects suitable accounting policies and then applies them consistently;
- makes judgments and estimates that are reasonable and prudent;
- prepares the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue as a going concern.

The Board of AS "Baltic RE Group" is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

On behalf of AS "Baltic RE Group" Board:

Giovanni Dalla Zonca
Head of the Board

Riga, 20 April 2017

Consolidated Financial Statements

Consolidated Statement of Financial Position

ASSETS	Note	31.12.2016 EUR	31.12.2015 EUR
Non-current assets			
Goodwill	5	9 503 744	9 503 744
Intangible assets	6	547	820
Property, plant and equipment	7	129 285	110 584
Investment property	8	38 833 790	39 372 481
Other securities and investments		15 643	32 230
Other loans and other long-term receivables	9	13 000	13 000
Deferred income tax asset	32	311 638	265 706
		48 807 647	**49 298 565**
Current assets			
Inventories	10	5 995	-
Trade receivables	11	538 956	714 889
Other receivables	12	1 150 063	772 332
Accrued income	13	91 497	67 686
Cash and cash equivalents	14	4 366 860	1 638 774
		6 153 371	**3 193 681**
TOTAL ASSETS		**54 961 018**	**52 492 246**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	25 000 000	24 853 452
Other reserves	16	(1 841 117)	(1 841 117)
Retained earnings / (loss)	17	1 103 282	1 076 985
Total equity		**24 262 165**	**24 089 320**
Non-current liabilities			
Loans from credit institutions	19	24 814 929	25 950 389
Bonds issued	19	3 839 500	-
Borrowings	19	31 616	31 616
Other payables	22	427 740	381 783
		29 113 785	**26 363 788**
Current liabilities			
Loans from credit institutions	19	1 248 936	1 410 968
Prepayments received from customers		911	-
Trade payables	20	88 458	295 584
Taxes payable	21	77 302	103 797
Other payables	22	91 734	112 030
Deferred revenue		-	11 000
Accrued liabilities	23	77 727	105 759
		1 585 068	**2 039 138**
Total liabilities		**30 698 853**	**28 402 926**
TOTAL EQUITY AND LIABILITIES		**54 961 018**	**52 492 246**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of AS "Baltic RE Group" Board:

Giovanni Dalla Zonca	**Edīte Kārkliņa**
Head of the Board	Administrative Director

Riga, 20 April 2017

Consolidated Statement of Comprehensive Income

	Note	2016 EUR	2015 EUR
Revenue	24	4 144 382	3 241 121
Cost of sales	25	(2 325 682)	(1 589 364)
Gross profit		**1 818 700**	**1 651 757**
Distribution costs	26	(10 013)	(1 576)
Administrative expenses	27	(1 134 608)	(498 649)
Other operating income	28	39 910	95 285
Other operating expense	29	(7 808)	(2 422)
Revenue from sale of non-current assets classified as held for sale		-	375 131
Write-down of long-term financial investments		(16 587)	(39 033)
Operating profit		**689 594**	**1 580 493**
Finance income	30	369	4 136
Finance costs	31	(704 070)	(643 458)
Profit or loss before tax		**(14 107)**	**941 171**
Income taxes	32	40 404	241 011
PROFIT FOR THE YEAR		**26 297**	**1 182 182**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**26 297**	**1 182 182**

	2016 EUR	2015 EUR
Profit attributable to:		
- Owners of the Parent company	26 297	1 182 182
- Non-controlling interest	-	-
TOTAL	**26 297**	**1 182 182**

	Note	2016	2015
Earnings per share:			
Basic and diluted earnings per share	33	0.001	0.056

	2016	2015
Total comprehensive income or loss attributable to:		
- Owners of the Parent company	26 297	1 182 182
- Non-controlling interest	-	-
TOTAL	**26 297**	**1 182 182**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of AS “Baltic RE Group” Board:

Giovanni Dalla Zonca
Head of the Board

Edīte Kārkliņa
Administrative Director

Riga, 20 April 2017

Consolidated Statement of Cash Flows

Cash flows from operating activities	Note	2016 EUR	2015 EUR
Profit before tax		**(14 107)**	**941 171**
Adjustments for:			
Amortisation and depreciation	6-8	1 308 014	835 211
Write-down of long-term financial investments		16 587	39 033
Profit or loss from foreign currency exchange rate fluctuations	29	1	6
Finance income	30	(369)	(4 136)
Finance costs	31	704 070	643 458
Operating cash flows before working capital changes		**2 014 196**	**2 454 743**
(Increase) / decrease in inventories	10	(5 995)	-
(Increase) / decrease in trade receivables		(220 752)	(697 992)
Increase / (decrease) in trade and other payables		(375 562)	(13 246 616)
Cash generated from operations		**1 411 887**	**(11 489 865)**
Interest paid	31	(704 070)	(643 458)
Corporate income tax paid		(43 987)	-
Net cash generated from operating activities		**663 830**	**(12 133 323)**
Cash flows from investing activities			
Acquisitions of subsidiary, net of cash acquired		-	(2 529 679)
Purchases of property, plant and equipment and investment property	7-8	(787 751)	(2 327 447)
Loans granted		-	(13 000)
Proceeds from loan repayment		-	120 100
Interest received	30	369	4 136
Net cash used in investing activities		**(787 382)**	**(4 745 890)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	15	146 548	433 642
Proceeds from borrowings	19	4 000 000	28 000 000
Repayments of borrowings		(1 294 909)	(10 528 120)
Net cash used in financing activities		**2 851 639**	**17 905 522**
Foreign currency exchange rate fluctuations	29	(1)	(7)
Net increase in cash and cash equivalents		2 728 086	1 026 302
Cash and cash equivalents at the beginning of the year		1 638 774	612 472
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING YEAR		**4 366 860**	**1 638 774**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of AS "Baltic RE Group" Board:

Giovanni Dalla Zonca
Head of the Board

Edīte Kārkliņa
Administrative Director

Riga, 20 April 2017

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Parent company					
		Share capital	Other reserves	Retained earnings / (loss)	TOTAL	Non-controlling interest	**TOTAL**
	Note	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Balance as at 31 December 2014		**5 200 000**	-	**(105 197)**	**5 094 803**	**2 322 225**	**7 417 028**
Proceeds from shares issued	15	19 653 452	-	-	19 653 452	-	**19 653 452**
Profit of merged company as a result of reorganisation	16	-	16 101	-	16 101	-	**16 101**
Comprehensive income							
Profit for the period	17	-	-	1 182 182	1 182 182	-	**1 182 182**
Other comprehensive income		-	-	-	-	-	**-**
Total comprehensive income		**-**	**-**	**1 182 182**	**1 182 182**	**-**	**1 182 182**
Acquisition of non-controlling interest	36	-	(1 857 218)	-	(1 857 218)	(2 322 225)	**(4 179 443)**
Balance as at 31 December 2015		**24 853 452**	**(1 841 117)**	**1 076 985**	**24 089 320**	-	**24 089 320**
Proceeds from shares issued	15	146 548	-	-	146 548	-	**146 548**
Comprehensive income							
Profit for the period	17	-	-	26 297	26 297	-	**26 297**
Other comprehensive income		-	-	-	-	-	**-**
Total comprehensive income		**-**	**-**	**26 297**	**26 297**	**-**	**26 297**
Balance as at 31 December 2016		**25 000 000**	**(1 841 117)**	**1 103 282**	**24 262 165**	**-**	**24 262 165**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of AS “Baltic RE Group” Board:

Giovanni Dalla Zonca
Head of the Board

Edīte Kārkliņa
Administrative Director

Riga, 20 April 2017

Notes to the Consolidated Financial Statements

1. General information

AS "Baltic RE Group" (hereinafter - the Company) is a stock corporation, which was registered in the Register of Enterprises of the Republic of Latvia on 2 October 2013. The legal address of AS "Baltic RE Group" is 19 Skunu Street, Riga, LV-1050, Latvia and address of its registered office is 12/14 Kalku Street, Riga, LV-1050, Latvia.

Core business activity of the Parent company is management of the Group "Baltic RE Group", which includes AS "Baltic RE Group" and its subsidiaries (hereinafter – the Group) and strategic development of subsidiaries.

The Group holds a major portfolio of premium-class historic buildings in Old Riga and nearby. The Group's structure provides for each of the Group's subsidiaries to undertake specific building lease / rental services, as well as provide real estate management and maintenance.

Information on other related party relationships of the Group is provided in Note 37.

AS "Baltic RE Group" issued bonds are listed on the stock exchange Nasdaq Riga Baltic Bond List.

Auditors of AS "Baltic RE Group" consolidated financial statements are SIA "Nexia Audit Advice", reg.No. 40003858822, Licence No.134, and responsible sworn auditor is Marija Jansone, LACA Certificate No.25.

These consolidated financial statements for the year ended 31 December 2016 were authorised for issue by a resolution of the AS "Baltic RE Group" Board on 20 April 2017.

2. Basis of preparation and other significant accounting policies

2.1. Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Preparation of the financial statements

The consolidated financial statements have been prepared on a going concern basis, applying a historical cost convention unless otherwise stated.

The financial statements are presented in euro (EUR), the monetary unit of the Republic of Latvia.

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

Income and cash flow statement

The Group has elected to present a single statement of comprehensive income and presents its expenses by function.

The Group reports cash flows from operating activities using the indirect method. Interest received is presented within investing cash flows; interest paid is presented within operating cash flows. The acquisitions of investment properties are disclosed as cash flows from investing activities because this most appropriately reflects the Group's business activities.

Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on current / non-current classification.

An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;

- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Significant accounting judgments and uncertainties

The following are the significant judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Group reviews the amortisation period, as well as the amortisation method for finite intangible assets;
- the Group reviews the residual value, estimated useful lives and depreciation method of property, plant and equipment;
- the Group estimates fair value of investment property;
- the Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Group considers judgments in connection with classifying non-current assets to tangible assets or investment properties;
- the Group considers recoverability of receivables on each statement of financial position date;
- the Group determines whether an arrangement contains a lease;
- the Group determines deferred income tax asset amount that can be recognized to the extent that future taxable profits will allow the deferred tax asset to be recovered.

Determination of whether a property is owner occupied or investment property

The Group owns one building which is used partly as an investment property and partly for its own use. The Management of the Group has determined that this property may be treated in its entirety as an investment property as only an insignificant portion is held for own use.

2.2. Changes in accounting policy and disclosures

New standards and amendments adopted by the Group

The following new and amended IFRSs as adopted by the EU became effective in 2016, but did not have significant impact on these financial statements:

1) *Annual Improvements to IFRSs 2012 – 2014 Cycle is a collection of amendments to the following IFRSs and became effective on 1 January 2016:*
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. This improvement clarifies the changes in methods of disposal - to hold the asset for sale or for distribution.

- IFRS 7 Financial Instruments: Disclosures. This improvement clarifies servicing contracts.
- IAS 34 Interim Financial Reporting. This improvement clarifies disclosure of information "elsewhere in the interim financial report".
- IAS 38 Intangible Assets. This improvement clarifies acceptable methods of amortisation.

2) *Annual Improvements to IFRSs 2010 – 2012 Cycle is a collection of amendments to the following IFRSs and became effective on 1 January 2016:*

- IAS 16 Property, Plant and Equipment. This improvement clarifies acceptable methods of depreciation.

3) *Amendments to standards:*

- Amendments to IAS 1 Presentation of Financial Statements (effective on or after 1 January 2016). These amendments introduce improvements to disclosure requirements.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations (effective on or after 1 January 2016). This standard addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

New and revised IFRSs issued, but not yet effective

The standards that are issued, but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective, however the Group has not yet fully completed initial assessment of the potential impact of these standards on the financial statements:

1) IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018):

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project:

- classification and measurement of financial assets and financial liabilities;
- impairment methodology and
- general hedge accounting.

Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

2) IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15: Effective date of IFRS 15 (effective for annual periods beginning on or after 1 January 2018):

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS.

Prior period reclassification

In order to improve comparability between reporting year and prior reporting year, a reclassification of real estate tax from item "Other taxes" to more corresponding in substance item "Cost of sales" of the Group's statement of comprehensive income was performed. Impact on the statement of comprehensive income for 2015 is the following:

	Consolidated statement of comprehensive income (restated)	Reclassification	Statement of comprehensive income
	2015	2015	2015
Cost of sales	1 589 364	114 890	1 474 474
Other taxes	-	(114 890)	114 890
TOTAL:		**-**	

2.3. Consolidation

Preparation of the consolidated financial statements

The consolidated financial statements comprise the financial statements for the year ended 31 December 2016 of AS "Baltic RE Group" and entities controlled by the Parent company (its subsidiaries). The financial statements of the Parent company and its subsidiaries are prepared, using consistent accounting policies.

The financial statements of the Parent company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities, as well as income and expense. Unrealised gains and losses on transactions between Group's entities, inter-company balances, owned shares, dividends and inter-company transactions are eliminated on consolidation.

Information on the consolidation Group structure is provided in Note 4.

Control

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed and included in administrative expenses in the statement of comprehensive income as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in statement of comprehensive income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement in statement of comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Changes in ownership interests in subsidiaries without change of control

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). When the proportion of the equity held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests area adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Disposal of subsidiaries

If a parent loses control of a subsidiary, the parent:

- derecognises the assets (including goodwill) and liabilities of the former subsidiary from the consolidated statement of financial position;
- derecognises the carrying amount of any non-controlling interest;
- recognises the fair value of the consideration received;
- recognises any investment retained in the former subsidiary when control is lost.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.4. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in euros, the monetary unit of the Republic of Latvia, which is the Group's entities' functional and the Group's presentation currency.

Transactions and balances

All transactions denominated in foreign currencies are translated into euro at the foreign exchange reference rates set by the European Central Bank against the euro, which is in force at the beginning of the day of business transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange reference rate in force on the last date of the reporting year.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions or on reporting of assets and liabilities using the exchange rates that differ from the initial transaction accounting rates are recognized in the statement of comprehensive income in net value.

2.5. Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the subsidiary's level.

The Parent company at the end of each financial year for the purposes of the consolidated financial reporting performs an impairment testing of goodwill. Goodwill impairment reviews are undertaken annually. Any impairment is recognised immediately as an expense and is not subsequently reversed.

If the composition of one or more cash-generating units to which goodwill has been allocated changed due to reorganisation, the goodwill is reallocated to the units affected.

Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The Group has no internally generated intangible assets.

Intangible assets with finite useful lives

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Amortisation of intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Method	**% p.a.**
Licences	Straight-line	33.33%

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortised. Intangible assets with indefinite useful lives are tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

The useful life of such intangible assets is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate.

2.6. Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Group evaluates all property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it, including professional fees.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Method	**% p.a.**
Furniture and built-in elements of engineered equipment	Straight-line	10-20%
Office equipment	Straight-line	17-29%
Other fixed assets	Straight-line	17-33%

Depreciation is calculated starting with the following month after the property, plant and equipment is put into operation or engaged in commercial activity. Depreciation is not calculated for those items of property, plant and equipment, which have an unlimited useful life. Such assets include paintings and other antiques, jewellery.

The residual value, the useful life of an asset and the depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.

Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

2.7. Investment property

Property (land or building, or part of building, or both) that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group companies for administrative purposes, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at cost less accumulated depreciation and any impairment in value. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on investment property is calculated using the straight-line method to allocate its cost or revalued amounts to its residual values over their estimated useful lives, as follows:

	Method	**% p.a.**
Buildings and constructions	Straight-line	3.33%
Separate parts of buildings and constructions	Straight-line	20%

Land is not depreciated. Each part of an item of investment property with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of investment property, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

Construction in progress represents investment property under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and available for use.

Investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss in the period of the disposal.

Transfers to, or from, investment property are made when, and only when, there is a change in use. For a transfer from investment property to owner-occupied property, cost value is used, net of accumulated depreciation and accumulated impairment losses, if any. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

If an investment property or its part becomes owner-occupied and used for administrative purposes, it is reclassified as property, plant and equipment. Such reclassification was not made in these consolidated financial statements.

2.8. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases.

Group company is a lessor in operating lease

Properties leased out under operating leases are included in investment property in the statement of financial position.

General description of significant leasing arrangements

The Group companies have entered into a number of long-term real estate lease / rent agreements with the termination period from 2018 to 2026. Agreement terms, including noncancellable period, the amount of the security deposit, the deposit utilization or payment order or bank guarantee, rent payment procedure, damages are determined individually for each tenant.

The Group may withhold security deposits repayable to renters / tenants in part or in full if the debtor's debt is not paid, or there are other violations of the agreement. The lease agreements include an extension option. When calculating the current year lease / rent, lease / rent is indexed to the inflation rate in the country.

See Note 24 for the recognition of rental income.

2.9. Inventories

Inventories are valued at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

2.10. Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognised in the statement of comprehensive income as impairment of non-financial assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses relating to goodwill cannot be reversed in future periods.

2.11. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment determined on individual bases. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

Gains and losses are recognised as finance income or finance costs or other operating expense in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process. The effective interest method is not used for short-term receivables, as in this case, the impact of discounting is not significant.

This category generally applies to loans issued, trade and other receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset, or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in the income statement.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that we will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings

Loans and borrowings are recognised initially at fair value less any associated discounts or premiums and directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in other comprehensive income during the period of the loan or borrowing using the effective interest rate method. Gains / losses are recognized in the statement of comprehensive income as interest income / expenses.

This category refers mainly to interest-bearing loans.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.12. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position include cash in bank.

2.13. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.14. Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

2.15. Accrued income

Accrued income is recognized when the Group has legal or other income from past events, it is probable that the revenue will flow to the Group, and the amount may be credibly estimated and evaluated.

2.16. Accrued liabilities

Accrued liabilities are recognized when the Group has present legal or other obligation that was a result of past events, there is a high probability that for the completion of the obligation, economic benefits outflow will be necessary and the amount may be credibly estimated and evaluated.

2.17. Employee benefits

Short-term obligations

Liabilities for wages and salaries, including holiday entitlement, accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

2.18. Contingencies

Contingent liabilities are not recognized in these consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.19. Revenue recognition

Revenue includes revenue from real estate rental and management services as well as revenue from other services (portfolio valuation, internal audit / control, organisation of real estate valuation).

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognised:

Rental income from operating leases

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Rendering of services

Revenue arising from the rendering of services (e.g., maintenance and management services) is recognised in the period when the services are rendered.

Revenue arising from the rendering of services and related costs is recognised by reference to the stage of completion of the transaction at the statement of financial position date. If the outcome cannot be estimated reliably, revenue arising from the rendering of services is recognised only to the extent of the expenses recognised that are recoverable.

Deferred revenue

Revenue receivable before the statement of financial position date, but relating to a future year or years, is accounted as deferred revenue.

Dividends

Revenue is recognised, when the shareholder's right to receive payment is established.

Other income

Other income is income that is not included in the revenue, is occurred in the result of the economic activity, or is related to, or directly derived. Other income is recognised as follows:

- revenues from fines and penalties – upon receipt;
- proceeds from the sale of non-current assets - net gain or loss on non-current assets' sale are determined by comparing the proceeds with the carrying amount and are included in the profit or loss as incurred;
- revenue from exchange rate fluctuations - net profit or loss from currency fluctuations is calculated as the difference between revenue and losses from exchange rate fluctuations and included in the profit or loss as incurred;
- interest income on current account balances from credit institutions registered in the Republic of Latvia - upon receipt;
- other income – as incurred.

2.20. Interest income and expense

Interest income and expense are recognised within "Finance income" and "Finance costs" in the statement of comprehensive income using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset.

2.21. Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (IAS 24 Related Party Disclosures – "reporting entity"):

1. A person or a close member of that person's family is related to a reporting entity if that person:
   - has control or joint control over the reporting entity;
   - has significant influence over the reporting entity; or
   - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
2. An entity is related to a reporting entity if any of the following conditions applies:
   - the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   - both entities are joint ventures of the same third party;
   - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

- the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- the entity is controlled or jointly controlled by a person identified in point 1);
- a person identified in the first sub point of point 1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
- the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related parties are the shareholders of the Group that can control the Group or have a significant influence over the activities of the Group, key management personnel of the Group and close member of any above-mentioned persons, as well as entities over which those persons have a control or significant influence.

2.22. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the country where the Group company operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Group's non-current assets, the treatment of temporary non-taxable allowances and reserves, as well as tax losses carried forward for the subsequent years.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.23. Earnings per share

Earnings per share are calculated by dividing the net result for the year attributable to ordinary owners of the Parent company shares by the average number of shares in issue during the year. The average number of the issued shares during the year has been weighted to take into account the timing of the issuance of new shares, if any.

2.24. Subsequent events

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Financial risk management

3.1. Financial risk factors

The risk management function within the Group is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Group is exposed during or at the end of the reporting period.

The Group's principal financial liabilities comprise loan from credit institution, bonds issued, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's principal financial assets include loans, trade and other receivables and cash that arrive directly from its operations.

Financial risks

The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group's top management oversees the management of these risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's exposure to the risk of changes in the market interest rates relates primarily to long-term loan from credit institution (Note 19) with variable interest rate.

The Group's borrowings with fixed interest rate are measured at amortized cost and are therefore not exposed to interest rate risk as book value or future cash flows will no fluctuate due to interest rate changes.

The Group does not have any policies for managing the interest rate risks.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on mainly EURIBOR variable rate borrowings). There is no impact on the equity, except for the effect on the current year result.

	EURIBOR change	Effect on profit before tax
2016	+0.1%	(34 522)
	-0.1%	34 522
2015	+0.1%	(24 951)
	-0.1%	24 951

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) as they provide services on credit, and investing activities, but there are no significant concentrations of credit risk. Credit risk arises from trade and other receivables, loans issued, as well as cash and cash equivalents.

Trade receivables

Customer credit risk is managed in accordance with Group's established policy, procedures and control relating to customer credit risk management.

The Group manages its credit risk by careful evaluation and regular monitoring of its business partners, by continuously assessing the credit history of customers and assigning credit terms on an individual basis, as well as by applying prepayment conditions for the real estate rental services. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. In determining the recoverability of a trade receivable, the management considers all available information of the trade receivable from the date credit was initially granted up to the reporting date.

The Group evaluates the concentration of risk with respect to trade receivables as low.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed below.

Maximum exposure to credit risk by class of financial asset is as follows:

	31.12.2016	31.12.2015
Other securities and investments	15 643	32 230
Other loans and other long-term receivables	13 000	13 000
Trade receivables	538 956	714 889
Other receivables	516 738	145 597
Cash and cash equivalents	4 366 860	1 638 774
TOTAL:	**5 451 197**	**2 544 490**

The fair value of cash and cash equivalents at the end of the reporting period approximates the carrying value.

Liquidity risk

Liquidity risk is the risk that suitable resources of funding for the Group's business activities may not be available.

The Group manages its liquidity risk by maintaining sufficient cash, by arranging an adequate amount of committed credit facilities, by performing receivables and trade payables repayment term planning. Risk analysis and designing of risk management plans are conducted at the top management level, using the following table.

The maturity analysis of financial instruments

The amounts disclosed in the tables below are the contractual undiscounted cash flows. Undiscounted cash flows in respect of balances due within 12 months generally equal their carrying amounts in the statement of financial position, as the impact of discounting is not significant.

At 31 December 2016	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Later than 5 years	TOTAL
Assets						
Other securities and investments	-	-	15 643	-	-	**15 643**
Other loans and other long-term receivables	-	-	-	13 000	-	**13 000**
Trade receivables	458 119	80 837	-	-	-	**538 956**
Other receivables	-	-	516 738	-	-	**516 738**
Cash and cash equivalents	4 366 860	-	-	-	-	**4 366 860**
Liabilities						
Loans from credit institutions	92 945	191 999	963 992	24 814 929	-	**26 063 865**
Bonds issued	-	-	246 000	4 738 000	-	**4 984 000**
Borrowings	-	-	-	31 616	-	**31 616**
Prepayments received from customers	-	911	-	-	-	**911**
Trade payables	88 458	-	-	-	-	**88 458**
Other payables	-	-	-	427 740	-	**427 740**
At 31 December 2015						
Assets						
Other securities and investments	-	-	32 230	-	-	**32 230**
Other loans and other long-term receivables	-	-	-	13 000	-	**13 000**
Trade receivables	615 377	99 512	-	-	-	**714 889**
Other receivables	-	-	145 597	-	-	**145 597**
Cash and cash equivalents	1 638 774	-	-	-	-	**1 638 774**
Liabilities						
Loans from credit institutions	90 506	185 427	1 135 035	25 950 389	-	**27 361 357**
Borrowings	-	-	-	31 616	-	**31 616**
Trade payables	295 584	-	-	-	-	**295 584**
Other payables	-	-	-	381 783	-	**381 783**

3.2. Capital management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity (share capital, reserves and retained earnings or loss) plus net debt.

The gearing ratio is as follows:

	31.12.2016	31.12.2015
Total borrowings	30 698 853	28 402 926
Less: cash and cash equivalents	(4 366 860)	(1 638 774)
Net debt	26 331 993	26 764 152
Total equity	24 262 165	24 089 320
Total capital	**50 594 158**	**50 853 472**
Gearing ratio	**52.05%**	**52.63%**

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

At the end of the reporting period the Group met all capital requirements set by the credit institution.

3.3. Fair value estimation

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value of financial instruments

The Group has financial instruments which are not measured at fair value in the statement of financial position. For these financial instruments, the fair values are not materially different to their carrying amounts, since the interest payable is close to current market rates.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- trade and other receivables;
- other current financial assets;

- cash and cash equivalents;
- trade and other payables.

Fair value of financial liabilities measured at amortised cost

The fair value of borrowings is as follows:

	31.12.2016	31.12.2015
Non-current	28 846 545	25 982 005
Current	1 248 936	1 410 968
TOTAL:	**30 095 481**	**27 392 973**

Financial instruments that are not measured at fair value

The table analyses the financial assets and liabilities that are not measured at fair value but whose fair value is disclosed according to its fair value hierarchy level.

At 31 December 2016	Level 1	Level 2	Level 2	**TOTAL**
Assets				
Other securities and investments	-	-	15 643	**15 643**
Other loans and other long-term receivables	-	13 000	-	**13 000**
Trade receivables	-	-	538 956	**538 956**
Other receivables	-	-	516 738	**516 738**
Cash and cash equivalents	4 366 860	-	-	**4 366 860**
Liabilities				
Loans from credit institutions	-	26 063 865	-	**26 063 865**
Bonds issued	3 839 500	-	-	**3 839 500**
Borrowings	-	31 616	-	**31 616**
Prepayments received from customers	-	-	911	**911**
Trade payables	-	-	88 458	**88 458**
Other payables	-	-	427 740	**427 740**
At 31 December 2015				
Assets				
Other securities and investments	-	-	32 230	**32 230**
Other loans and other long-term receivables	-	13 000	-	**13 000**
Trade receivables	-	-	714 889	**714 889**
Other receivables	-	-	145 597	**145 597**
Cash and cash equivalents	1 638 774	-	-	**1 638 774**
Liabilities				
Loans from credit institutions	-	27 361 357	-	**27 361 357**
Borrowings	-	31 616	-	**31 616**
Trade payables	-	-	295 584	**295 584**
Other payables	-	-	381 783	**381 783**

There were no transfers between fair value hierarchy levels during 2016 and 2015.

The following methods and assumptions were used to estimate the fair values:

- assets and liabilities included in these tables are measured at amortized cost. The Group assumes that the fair value of those assets and liabilities approximates their carrying value;

- variable interest rate was applied to long-term loan from credit institution, which varies depending on the market interest rate, so that the interest payments are close to current market rates and correspond to Level 2 of the fair value hierarchy.

The fair value of investment property is disclosed in Note 8.

4. Subsidiaries

Interest in subsidiaries

The Parent company had the following subsidiaries at the end of the reporting period:

Name	Country of incorporation and place of business	Nature of business	Effective consolidation percentage of the Parent company	
			31.12.2016	31.12.2015
Baltic Re S.p.a. reg.No.04277380285 Via Altinate 125, 35121 Padua, (PD)	Italy	Management of subsidiaries Development of real estate	100%	100%
SIA "KEY 1" reg.No.40103212372 19 Skunu Street, Riga, LV-1050	Latvia	Rental / lease, management of real estate	100%	100%
SIA "Key 2" reg.No.40103451102 19 Skunu Street, Riga, LV-1050	Latvia	Rental / lease, management of real estate	100%	100%
SIA "KEY 6" reg.No.40103285982 19 Skunu Street, Riga, LV-1050	Latvia	Rental / lease, management of real estate	100%	100%
SIA "Key 15" reg.No.40103568148 19 Skunu Street, Riga, LV-1050	Latvia	Rental / lease, management of real estate	100%	100%
SIA "Skunu 19" reg.No.40003993617 19 Skunu Street, Riga, LV-1050	Latvia	Rental / lease, management of real estate	100%	100%

The proportion of the voting rights in the subsidiary undertakings held directly by the Parent company do not differ from the proportion of ordinary shares held.

Notes to the Consolidated Statement of Financial Position

5. Goodwill

The main aim of the acquisition is to obtain the expected synergies in real estate renting / letting and management process.

Cost and carrying amount at 31.12.2014	**8 063 077**
Acquisition of subsidiary on 25.02.2015	
- SIA „HOE-GLOBAL PROPERTY SOLUTIONS" [1]	1 440 667
Cost and carrying amount at 31.12.2015	**9 503 744**
Changes in the reporting year	-
Cost and carrying amount at 31.12.2016	**9 503 744**

Goodwill is allocated to the Group's cash-generating units, which in all cases were determined to be subsidiaries acquired by the Group.

[1] On 9 July 2015 the Board of the Parent company AS "Baltic RE Group" made a decision on reorganisation – merger, when acquiring company AS "Baltic RE Group" merged with 100% owned merging company SIA "HOE-GLOBAL PROPERTY SOLUTIONS". The reorganization was completed on 10 December 2015. After completion of the reorganization the Parent company recognized goodwill, which arose in a business combination, when the Parent company on 25 February 2015 acquired 100% of the share capital and voting rights of SIA "HOE-GLOBAL PROPERTY SOLUTIONS" and obtained control of it (Note 35).

Impairment

No impairment charge of the item "Goodwill" arose as a result of the annual impairment test.

6. Intangible assets

	Licences	**TOTAL**
2015		
Cost at 31.12.2014	**-**	**-**
Additions with reorganization	820	**820**
Cost at 31.12.2015	**820**	**820**
Accumulated amortisation at 31.12.2014	**-**	**-**
Amortisation charge	-	**-**
Accumulated amortisation at 31.12.2015	**-**	**-**
Net book amount at 31.12.2014	**-**	**-**
Net book amount at 31.12.2015	**820**	**820**
2016		
Cost at 31.12.2015	**820**	**820**
Additions	-	**-**
Cost at 31.12.2016	**820**	**820**
Accumulated amortisation at 31.12.2015	**-**	**-**
Amortisation charge	273	**273**
Accumulated amortisation at 31.12.2016	**273**	**273**
Net book amount at 31.12.2015	**820**	**820**
Net book amount at 31.12.2016	**547**	**547**

Amortisation

Total amortisation charge included in the following item of the statement of comprehensive income:

	2016	2015
Administrative expenses	273	-
TOTAL:	**273**	**-**

The licences were taken over as a result of reorganization (see Note 35). Due to the fact that the reorganization was completed on 10 December 2015, amortisation charge was not calculated.

Pledged assets

Information on pledged assets is provided in Note 19.

7. Property, plant and equipment

	Other fixed assets and equipment	Prepayments for fixed assets	TOTAL
2015			
Cost at 31.12.2014	**40 937**	**-**	**40 937**
Additions	53 899	3 025	56 924
Additions with reorganization	25 454	-	**25 454**
Cost at 31.12.2015	**120 290**	**3 025**	**123 315**
Accumulated depreciation at 31.12.2014	**6 016**	**-**	**6 016**
Depreciation charge	6 715	-	**6 715**
Accumulated depreciation at 31.12.2015	**12 731**	**-**	**12 731**
Net book amount at 31.12.2014	**34 921**	**-**	**34 921**
Net book amount at 31.12.2015	**107 559**	**3 025**	**110 584**
2016			
Cost at 31.12.2015	**120 290**	**3 025**	**123 315**
Additions	44 625	-	44 625
Reclassification	3 025	(3 025)	-
Cost at 31.12.2016	**167 940**	**-**	**167 940**
Accumulated depreciation at 31.12.2015	**12 731**	**-**	**12 731**
Depreciation charge	25 924	-	**25 924**
Accumulated depreciation at 31.12.2016	**38 655**	**-**	**38 655**
Net book amount at 31.12.2015	**107 559**	**3 025**	**110 584**
Net book amount at 31.12.2016	**129 285**	**-**	**129 285**

Depreciation

Total depreciation charge included in the following items of the statement of comprehensive income:

	2016	2015
Cost of sales	9 854	6 294
Administrative expenses	16 070	421
TOTAL:	**25 924**	**6 715**

Pledged assets

Information on pledged assets is provided in Note 19.

8. Investment property

During 2016 the Group renovated and reconstructed its own buildings.

	Land	Buildings and constructions	Construction in progress	Prepayments for investment property	TOTAL
2015					
Cost at 31.12.2014	**2 138 984**	**37 934 311**	**-**	**2 626 683**	**42 699 978**
Additions	-	-	2 302 475	-	**2 302 475**
Put into operation	-	280 584	(228 553)	(52 031)	**-**
Capitalization of borrowing costs	-	22 345	-	-	**22 345**
Cost at 31.12.2015	**2 138 984**	**38 237 240**	**2 073 922**	**2 574 652**	**45 024 798**
Accumulated depreciation at 31.12.2014	**-**	**4 823 821**	**-**	**-**	**4 823 821**
Depreciation charge	-	828 496	-	-	**828 496**
Accumulated depreciation at 31.12.2015	**-**	**5 652 317**	**-**	**-**	**5 652 317**
Net book amount at 31.12.2014	**2 138 984**	**33 110 490**	**-**	**2 626 683**	**37 876 157**
Net book amount at 31.12.2015	**2 138 984**	**32 584 923**	**2 073 922**	**2 574 652**	**39 372 481**
2016					
Cost at 31.12.2015	**2 138 984**	**38 237 240**	**2 073 922**	**2 574 652**	**45 024 798**
Additions	-	7 771	729 200	6 155	**743 126**
Put into operation	-	5 275 788	(2 701 136)	(2 574 652)	**-**
Cost at 31.12.2016	**2 138 984**	**43 520 799**	**101 986**	**6 155**	**45 767 924**
Accumulated depreciation at 31.12.2015	**-**	**5 652 317**	**-**	**-**	**5 652 317**
Depreciation charge	-	1 281 817	-	-	**1 281 817**
Accumulated depreciation at 31.12.2016	**-**	**6 934 134**	**-**	**-**	**6 934 134**
Net book amount at 31.12.2015	**2 138 984**	**32 584 923**	**2 073 922**	**2 574 652**	**39 372 481**
Net book amount at 31.12.2016	**2 138 984**	**36 586 665**	**101 986**	**6 155**	**38 833 790**

Depreciation

Total depreciation charge included in the following item of the statement of comprehensive income:

	2016	2015
Cost of sales	1 281 817	828 496
TOTAL:	**1 281 817**	**828 496**

Capitalization of borrowing costs

	2016	2015
Capitalization of long-term loan interest (Note 31)	-	22 345
TOTAL:	**-**	**22 345**

Pledged assets

Information on pledged assets is provided in Note 19.

The carrying amounts of real estate as at 31 December 2015 approximate their fair values (Level 2), because they were purchased from unrelated parties on the free market, which is also the principal market (IFRS 13, p.58, B4). The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. According to management estimates, the fair value of real estate property as at 31 December 2016 has not changed significantly. The carrying amounts of real estate as at 31 December 2016 approximate their fair values and the valuation technique used significant unobservable inputs such that the fair value measurement was classified as Level 3.

Valuation process

The Group's "Baltic RE Group" real estate property as at 31 December 2015 was valued by independent professionally qualified valuer – SIA "Colliers International Advisors", reg.No. 40103255403. The date of valuation report is 1 April 2016.

Valuation method

Market value is calculated using the discounted cash flow (income approach) method. Estimations are based on the signed lease agreements, taking into account contractual rent rates, agreement expiry terms, break clauses and reimbursable expenses, as well as property costs breakdown provided by the Company.

Valuation results

Market value in case the real estate properties are sold as property portfolio

Estimated market value is valid only in case the properties are sold as property portfolio, respective share of the single asset in the whole property portfolio cannot be treated as the market value of the single asset.

Estimated share of each single asset, which was determined as a result of valuation, cannot be treated as market value of the respective property on a standalone basis. The reported result is valid only if the property is sold as part of the given property portfolio. The Group's real estate property portfolio market value was estimated EUR 56 266 000.

Market value of single real estate property as if sold on a standalone basis

In the estimations of market value of each single real estate property the same approach and assumptions are used; except:

- different capitalizations and discount rates are applied evaluating location, tenant mix, contractual income and other factors of the each property.

Total market values of real estate properties of the Group were estimated EUR 51 837 000.

9. Loans

Non-current	Interest rate	Maturity	31.12.2016	31.12.2015
Unsecured				
Loan to legal person	2.55%	31.12.2020	13 000	13 000
		TOTAL:	**13 000**	**13 000**

10. Inventories

		31.12.2016	31.12.2015
Finished goods (at cost or net realisable value)		5 995	-
	TOTAL:	**5 995**	**-**

11. Trade receivables

	31.12.2016	31.12.2015
Trade receivables, carrying amount	365 118	702 391
Trade receivables, carrying amount – related companies	173 838	12 498
TOTAL:	**538 956**	**714 889**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Trade receivables are non-interest, repayable usually 5-12 days from date of the invoice. Trade receivables are not impaired.

The carrying amounts of trade receivables approximate their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables.

For terms and conditions relating to related party receivables, refer to Note 37.

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

As of 31 December 2016, trade receivables in the amount of EUR 198 216 (31.12.2015: EUR 248 468) were past due but not impaired. Trade receivables are from a number of independent customers with no recent history of insolvency. The ageing analysis of these trade receivables is as follows:

	31.12.2016	31.12.2015
Trade receivables	**538 956**	**714 889**
Thereof neither impaired nor past due	340 740	466 421
Thereof past due but not impaired:		
- due within 30 days	117 379	148 956
- due within 30-60 days	34 975	67 231
- due within 61-90 days	16 528	29 307
- due in over 90 days	29 334	2 974

See Note 3.1 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

12. Other receivables

	31.12.2016	31.12.2015
Advance payments for services	409 388	28 247
Prepaid expense	165 942	140 670
Guarantee deposits for rent of premises	107 303	107 303
Overpayments of taxes and fees	71 805	220 515
Payments to advance settlement parties	2 950	1 943
Security deposit	47	47
Loans to related companies	-	10 000
Doubtful debts	-	3 526
Allowance for doubtful debts	-	(3 526)
Other receivables	392 628	263 607
TOTAL:	**1 150 063**	**772 332**

Movements in the allowance for doubtful debts

	31.12.2016	31.12.2015
Allowance for doubtful debts at the beginning of the reporting year	3 526	3 526
Increase / (decrease) in the allowance for doubtful debts	(3 526)	-
TOTAL:	**-**	**3 526**

An allowance for doubtful debts is made when collection of the full amount is no longer probable.

13. Accrued income

	31.12.2016	31.12.2015
Invoices issued in the next reporting period, but refer to revenue of current reporting period	87 335	67 686
Accrued income – related companies	4 162	-
TOTAL:	**91 497**	**67 686**

14. Cash and cash equivalents

	31.12.2016	31.12.2015
Cash at bank, EUR	4 352 209	1 621 139
Cash on payment cards, EUR	14 651	17 635
TOTAL:	**4 366 860**	**1 638 774**

Pledged assets

Information on pledged assets is provided in Note 19.

15. Share capital

The share capital of the Parent company is composed of shareholders capital investment of EUR 25 000 000, the total authorised number of ordinary shares is 25 000 000 with a par value of EUR 1 per share. All issued shares are fully paid.

	Number of ordinary shares	Share capital
Balance as at 31 December 2014	**5 200 000**	**5 200 000**
Issue of shares	19 653 452	19 653 452
Balance as at 31 December 2015	**24 853 452**	**24 853 452**
Issue of shares - equity contributions	146 548	146 548
Balance as at 31 December 2016	**25 000 000**	**25 000 000**

Ordinary shares

Ordinary shares entitle the holder to:

- participate in dividends in proportion to the total of the nominal value of the shares owned. Dividends shall be calculated and paid out for fully paid-up shares;
- voting rights (only a fully paid-up share);

- share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held;
- shares may be pledged on the basis of commercial pledge regulations.

16. Other reserves

	Transactions with NCI	Reorganization reserve	TOTAL
At 31 December 2014	-	-	**-**
Profit of merging company for the period (Note 35)	-	16 101	16 101
Transactions with NCI	(1 857 218)	-	(1 857 218)
At 31 December 2015	**(1 857 218)**	**16 101**	**(1 841 117)**
At 31 December 2016	**(1 857 218)**	**16 101**	**(1 841 117)**

Nature and purpose of reserves

Reorganization reserve

This reserve is used to reflect the profit of merging company at the date of acquisition.

Transactions with non-controlling interests

This reserve is used to record the differences described in Note 2.3. "Consolidation - Changes in ownership interests in subsidiaries without change of control" which arises as a result of transactions with non-controlling interests.

17. Retained earnings / (loss)

At 31 December 2014	**(105 197)**
Profit for the period	1 182 182
At 31 December 2015	**1 076 985**
Profit for the period	26 297
At 31 December 2016	**1 103 282**

18. Non-controlling interest

	Non-controlling interest (%)	Non-controlling interest
At 31 December 2014		**2 322 225**
Transactions with NCI (Note 36)	**-**	(2 322 225)
At 31 December 2015		**-**
At 31 December 2016		**-**

Due to the reorganization of the Group in early 2015, additional interest in subsidiary was acquired (Note 35), as a result the Parent company's direct and indirect holding in subsidiaries comprises 100%. The Group recognised a decrease in non-controlling interests of EUR 2 322 225 and a decrease in equity attributable to owners of the parent of EUR 1 857 218 (Note 16).

19. Loans and borrowings

Non-current	Interest rate	Maturity	31.12.2016	31.12.2015
Secured				
Loan from credit institution [1]	2.25% + 3M EURIBOR	06.01.2020	24 814 929	25 950 389
Unsecured				
Bonds issued [2]	6.15%	12.12.2020	3 839 500	-
Loan received from legal person	2.5%	31.12.2018	31 616	31 616
		SUBTOTAL:	**28 686 045**	**25 982 005**
Current				
Secured				
Loan from credit institution [1]	2.25% + 3M EURIBOR	31.12.2017	1 135 466	1 110 714
Unsecured				
Loans from credit institutions	2.983% - 7.33%	31.12.2017	113 470	300 254
		SUBTOTAL:	**1 248 936**	**1 410 968**
		TOTAL:	**29 934 981**	**27 392 973**

[1] Loan agreement with credit institution

On 6 January 2015 the Parent company entered into a loan agreement with the credit institution. Total loan amount from the credit institution is EUR 28 000 000, the loan repayment period is up to 6 January 2020.

Covenants

The loan agreement concluded between the Parent company and the credit institution contains several conditions that the Parent company has to fulfil, including financial covenants. Once a quarter, the Parent company has to report to the credit institution on the fulfilment of these conditions. As at the end of the reporting period the Parent company met financial conditions that were set.

Mortgage on real estate

According to the loan agreement with the credit institution, the Parent company's obligations against the credit institution are secured by a mortgage on real estate owned by the Group companies – AS "Baltic RE Group", SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15", SIA "Skunu 19".

Pledges

According to the loan agreement with the credit institution, the Parent company's obligations against the credit institution are secured by a pledge on Group companies – AS "Baltic RE Group", SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15", SIA "Skunu 19" as assets in aggregate; Baltic Re S.p.a. shares owned in SIA "KEY 1", SIA "KEY 6" and SIA "Skunu 19"; SIA "KEY 6" shares owned in SIA "Key 2"; SIA "KEY 1" shares owned in SIA "Key 15". Maximum claim amount of the Group companies - AS "Baltic RE Group", SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15", SIA "Skunu 19" - secured with the pledge is EUR 56 000 000.

Guarantees

According to the loan agreement with the credit institution, the Parent company's obligations against the credit institution are secured by the Group companies' - SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15", SIA "Skunu 19" guarantees.

Financial pledge

According to the loan agreement with the credit institution, the Parent company's obligations against the credit institution are secured by financial pledge on all Parent company's deposits with the credit institution and all funds.

[2] ***Bonds issued***

The Parent company AS "Baltic RE Group" issued bonds are listed on a regulated market - the stock exchange Nasdaq Riga Baltic Bond List starting from 12 December 2016. The Parent company AS "Baltic RE Group" issued 4 000 bonds with a face value of a single bond of EUR 1 000 and the fixed interest rate of 6.15% with coupon payment twice a year. Bond redemption date is 12 December 2020. The Parent company is entitled to redeem the bonds prematurely. On the date of bond issue financial liabilities were valued at their fair value, net of directly attributable transaction costs.

20. Trade payables

	31.12.2016	31.12.2015
Trade payables	88 458	295 521
Trade payables – natural persons	-	63
TOTAL:	**88 458**	**295 584**

The carrying amounts of trade payables approximate their fair values. Trade payables are non-interest bearing and are normally settled on 15-30-days terms.

For explanations on the Group's liquidity risk management processes, refer to Note 3.1.

21. Taxes payable

	31.12.2016	31.12.2015
Value added tax	35 061	8 841
Statutory social insurance contributions	22 898	4 179
Personal income tax	13 938	2 631
Subsidiary's tax liabilities in Italy	5 400	66 214
State fee of business risk	5	7
Corporate income tax	-	21 865
Real estate tax	-	60
TOTAL:	**77 302**	**103 797**

22. Other payables

Non-current	31.12.2016	31.12.2015
Security deposits	427 740	381 783
SUBTOTAL:	**427 740**	**381 783**
Current		
Salaries	86 467	105 208
Payments to advance settlement party	859	6 098
Other payables	4 408	724
SUBTOTAL:	**91 734**	**112 030**
TOTAL:	**519 474**	**493 813**

Other liabilities are non-interest bearing; current liabilities have an average term of 1 month.

For explanations on the Group's liquidity risk management processes, refer to Note 3.1.

23. Accrued liabilities

	31.12.2016	31.12.2015
Accrued liabilities	60 993	75 239
Accrued liabilities – related companies	3 276	20 975
Accrued liabilities – unused annual leaves	13 458	9 545
TOTAL:	**77 727**	**105 759**

Notes to the Consolidated Statement of Comprehensive Income

24. Revenue

Revenues by business stream	2016	2015
Revenue from real estate lease / rental services	3 173 640	2 603 255
Revenue from real estate management services	891 051	27 937
Revenue from other services (portfolio valuation, internal audit / control, organization of real estate valuation)	79 691	609 929
TOTAL:	**4 144 382**	**3 241 121**

Revenues by region	2016	2015
Latvia	4 144 382	3 241 121
TOTAL:	**4 144 382**	**3 241 121**

The period of leases whereby the Group leases out its investment property under operating leases is two years or more.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2016	2015
No later than 1 year	3 613 808	3 305 492
Later than 1 year and no later than 5 years	9 459 671	9 149 880
Later than 5 years	3 114 989	3 728 678
TOTAL:	**16 188 468**	**16 184 050**

25. Cost of sales

	2016	2015
Investment property depreciation	1 281 817	828 496
Property management and utilities expenses	703 904	474 411
Personnel expenses	131 883	59 538
Real estate tax on land and buildings (Note 2.2.)	107 843	114 890
Insurance payments	38 783	32 055
Property, plant and equipment depreciation	9 854	6 294
Current repair costs	5 977	12 936
Intermediation costs	5 792	14 140
State and local municipality fees	4 344	1 299
Legal services	3 603	2 791
Labour protection expenses	2 706	5 640
Other costs	29 176	36 874
TOTAL:	**2 325 682**	**1 589 364**

The cost of sales have increased, comparing with 2015, which is mainly due to the increase in depreciation charge of investment property, when the investment property was put into operation, and for almost the whole of the remaining increase in property management costs and utilities expenses, for the most part reinvoiced to the tenants.

26. Distribution costs

	2016	2015
Participation in the associations	6 935	1 000
Advertising costs	3 078	538
Other costs	-	38
TOTAL:	**10 013**	**1 576**

27. Administrative expenses

	2016	2015
Personnel expenses	570 894	56 921
Consulting and accountancy services	223 125	175 195
Business trips expenses	73 325	65 459
Audit of financial statements expenses [1]	46 500	50 860
Reinvoiced expenses	38 721	-
Representation expenses	27 454	22 417
Legal services	25 414	30 298
Property, plant and equipment depreciation	16 070	421
Bank charges	12 838	17 565
Office expenses	12 368	11 686
Transportation costs	9 550	-
Communication expenses	8 997	6 798
Rental and utilities expenses	8 071	37 269
Intangible assets amortisation	273	-
Non-business expenses	1 740	22 880
Donations	33	7
Other expenses	59 235	873
TOTAL:	**1 134 608**	**498 649**

[1] Audit expenses for 2016 include the total remuneration of the firm of sworn auditors SIA "Nexia Audit Advice" for audit of financial statements in the amount of 37 140 EUR (2015: EUR 40 470) and auditor of the Group's subsidiary registered in Italy in the amount of 9 360 EUR (2015: EUR 10 390).

Administrative expenses have increased, comparing with 2015, which is to be considered largely as a result of the higher costs incurred by the Italian subsidiary Baltic Re S.p.a. and relating to the merger with the Latvian company SIA "Skunu 19" (see Note 38 on Intra-group reorganisation), prepared in 2016 and set up in the first months of 2017. This fraction of higher costs, which are intended to contribute to the improvement of operational and fiscal efficiency of the Group, should be considered non-repeatable and specifically referable to the merger operation.

28. Other operating income

	2016	2015
Received fines and penalties	37 191	87 164
Other income	2 719	8 121
TOTAL:	**39 910**	**95 285**

29. Other operating expense

	2016	2015
Paid fines and penalties	1 064	2 333
Losses from currency exchange rate fluctuations, net	1	7
Other expenses	6 743	82
TOTAL:	**7 808**	**2 422**

30. Finance income

	2016	2015
Interest income	369	4 136
TOTAL:	**369**	**4 136**

31. Finance costs

	2016	2015
Interest on long-term loan from credit institution	702 877	636 239
Interest expense on borrowings from legal persons	1 193	29 564
SUBTOTAL:	**704 070**	**665 803**
Less: finance costs capitalised within investment property (Note 8)	-	(22 345)
TOTAL:	**704 070**	**643 458**

32. Income taxes

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

Statement of comprehensive income

Current income tax

	2016	2015
Current income tax charge	5 528	21 782
TOTAL current tax expense:	**5 528**	**21 782**

Deferred tax

Decrease / (increase) in deferred tax assets	(45 932)	(262 793)
TOTAL deferred tax expense / (benefit):	**(45 932)**	**(262 793)**
TOTAL income taxes expense / (benefit):	**(40 404)**	**(241 011)**

Numerical reconciliation between tax expense (income) and the product of accounting profit

	2016	2015
Profit before tax	**(14 107)**	**941 171**
Expected tax charge, applying current tax rate of 15%	17 772	141 175
Permanent differences	3 707	8 391
Changes in temporary differences	(499 045)	(920 070)
Tax losses carried forward	537 858	1 011 515
Actual income tax (income) / expense for the reporting period:	**(40 404)**	**(241 011)**

Deferred income tax

	2016	2015
Temporary differences of intangible assets amortisation rates and property, plant and equipment and investment property depreciation rates	997 885	658 258
Corporate income tax losses carried forward	(1 309 523)	(923 964)
Deferred income tax asset:	**311 638**	**265 706**

The gross movement on the deferred income tax account is as follows:

	2016	2015
At 1 January	265 706	-
(Decrease) / increase in the reporting year	45 932	265 706
At 31 December:	**311 638**	**265 706**

Other Disclosures

33. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Parent company by the weighted average number of ordinary shares in issue during the year. The Parent company has no potential dilutive ordinary shares; therefore, diluted earnings per share are the same as the basic earnings per share.

Retrospective adjustments in the previous reporting year

The calculation of basic earnings per share for 2015 is adjusted retrospectively, as the number of ordinary shares increased as a result of a capitalisation after the statement of financial position date, but before the financial statements were authorised for issue (see Note 15).

Basic earnings per share were recalculated based on the new number of shares.

	2016	2015
Net earnings attributable to owners of the Parent company	26 297	1 182 182
Weighted average number of ordinary shares in issue	24 963 363	21 150 863
Basic and diluted earnings per share:	**0.001**	**0.056**

34. Staff costs and number of employees

The total personnel costs are included in the following statement of comprehensive income items:

	2016	2015
Cost of sales	**127 936**	**54 120**
- salaries	103 517	43 790
- statutory social insurance contributions	24 419	10 330
Administrative expenses	**570 825**	**56 862**
- salaries	470 725	29 350
- statutory social insurance contributions	100 100	27 512
TOTAL:	**698 761**	**110 982**

Compensation of key management personnel of the Group

	2016	2015
Board members		
Salaries	458 627	40 918
Statutory social insurance contributions	98 732	9 650
TOTAL:	**557 359**	**50 568**
Council members		
Salaries	10 297	9 360
Statutory social insurance contributions	2 429	2 208
TOTAL:	**12 726**	**11 568**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

During 2016 no loans or guarantees were issued to the members of the Board or Council.

Average number of employees

	2016	2015
Average number of employees during the reporting year	24	17
TOTAL:	**24**	**17**

35. Business combinations

Information on business combinations in the previous reporting year

On 25 February 2015 the Parent company AS "Baltic RE Group" acquired 100% of the share capital and voting rights of SIA "HOE-GLOBAL PROPERTY SOLUTIONS" registered in Latvia and obtained control of it. SIA "HOE-GLOBAL PROPERTY SOLUTIONS" activity is management of real estate on a fee or contract basis, renting and operating of own or leased real estate, real estate agencies, legal activities, accounting, bookkeeping and auditing activities, tax consultancy, as well as business and other management consultancy activities. The company was acquired in order to expand activities, combine resources, improve administrative processes and use more efficiently the infrastructure.

The following table summarises the fair value of recognised amounts of identifiable assets acquired and liabilities assumed, total identifiable net assets acquired, goodwill, consideration and net flow of cash and cash equivalents on acquisition:

		25.02.2015
Recognised amounts of identifiable assets acquired and liabilities assumed		
Assets		
Intangible assets		1 144
Property, plant and equipment		33 943
Other non-current assets		2 846
Trade receivables		131 519
Other receivables		89 962
Cash and cash equivalents		9 306
	TOTAL:	**268 720**
Liabilities		
Trade payables		20 875
Taxes		109 608
Other payables		78 904
	TOTAL:	**209 387**
TOTAL identifiable net assets:		**59 333**
Goodwill		**1 440 667**
Consideration – equity instruments		**1 500 000**
Less: cash and cash equivalents of subsidiary acquired		(9 306)
Net flow of cash and cash equivalents		**9 306**

AS "Baltic RE Group" increased its share capital in exchange of its shares to shares of its subsidiary, i.e. a property investment. Fair value of the consideration is EUR 1 500 000.

Goodwill is mainly related to the return, which is expected from synergies and other benefits from combining the assets and activities of the subsidiary with those of the Group. Acquired subsidiary is recognized as a separate cash-generating unit, to which goodwill is allocated. Had subsidiary been consolidated from 1 January 2015, the consolidated statement of comprehensive income would show pro-forma revenue of EUR 110 621 and profit before tax of EUR 56 487.

Reorganization in the previous reporting year

On 9 July 2015 the Board of the Parent company AS "Baltic RE Group" made a decision on reorganisation – merger, when acquiring company AS "Baltic RE Group" merged with 100% owned merging company SIA "HOE-GLOBAL PROPERTY SOLUTIONS". The reorganization was completed on 10 December 2015. After completion of the reorganization the Parent company recognized goodwill, which arose in a business combination, when the Parent company on 25 February 2015 acquired 100% of the share capital and voting rights of SIA "HOE-GLOBAL PROPERTY SOLUTIONS" and obtained control of it (Note 5).

All the rights and obligations of the merging company were transferred to the acquiring company. Assets and liabilities of the acquired company were reflected in the financial statements of AS "Baltic RE Group" at their carrying value as at the date of the merger, excluding intercompany mutual balances and recognising the difference in reserves (Note 16). Due to the fact that the merging company till the date of the reorganisation was subsidiary company of the Group, the performed reorganisation did not affect the financial results of the consolidated financial statements.

36. Transactions with non-controlling interests

Information on transactions with non-controlling interests in the previous reporting year

Acquisition of additional interest in subsidiaries

Due to the reorganization of the Group in early 2015, additional interest in subsidiary was acquired, as a result the Parent company's direct and indirect holding in subsidiaries comprises 100%.

The Group recognised a decrease in non-controlling interests of EUR 2 322 225 and a decrease in equity attributable to owners of the parent of EUR 1 857 218.

The effect on the equity attributable to the owners of Parent company during the year is summarised as follows:

	Baltic Re S.p.a.	SIA "KEY 1"	SIA "Key 2"	SIA "KEY 6"	SIA "Key 15"	SIA "Skunu 19"	**TOTAL**
Carrying amount of non-controlling interests acquired	1 407 351	158 166	(72 388)	121 181	582 977	124 938	**2 322 225**
Consideration paid to non-controlling interests	-	-	(315 000)	(352 914)	-	-	**(667 914)**
Property investment	(1 957 527)	(1 384 002)	(170 000)	-	-	-	**(3 511 529)**
TOTAL reserve within equity:	**(550 176)**	**(1 225 836)**	**(557 388)**	**(231 733)**	**582 977**	**124 938**	**(1 857 218)**

37. Related party transactions

Parent company

The Group "Baltic RE Group" is controlled by AS "Baltic RE Group", registered by the address 19 Skunu Street, Riga, LV-1050, Latvia.

Parent company's direct and indirect holding in subsidiaries comprises 100% (Note 4).

Key management compensation

Information on key management compensation is provided in Note 34.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: EUR Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Other related parties	2016	173 838	197 953	79 759	38 944
	2015	30 455	1 180 152	12 498	-
Key management personnel	2016	-	4 873	-	-
	2015	-	-	-	-

Loans to related parties

	31.12.2016	31.12.2015
Other related parties	13 000	10 000
TOTAL:	**13 000**	**10 000**

Loans from related parties

	31.12.2016	31.12.2015
Other related parties	-	31 616
TOTAL:	**-**	**31 616**

38. Events after the reporting period

Intra-group reorganisation

In early 2017 AS “Baltic RE Group” announced reorganization of its subsidiary Baltic Re S.p.a.

AS “Baltic RE Group” plans to improve the Group’s “Baltic RE Group” structure and as a result AS “Baltic RE Group” subsidiary Baltic Re S.p.a., registered in Italy will be reorganized and merged with its subsidiary SIA “Skunu 19”, registered in Latvia. As a result of the reorganization AS “Baltic RE Group” will gain direct control of Baltic Re S.p.a. subsidiary SIA “Skunu 19”.

The merger will have no impact on financial structure and will not cause any capital dilution effect as the companies involved in the process are directly or indirectly fully owned by AS “Baltic RE Group”.

AS “Baltic RE Group” plans to complete the reorganization till 31 July 2017.

Business combinations

In April 2017 AS “Baltic RE Group” announced an agreement with shareholders of SIA “TER Properties” on acquisition of more than 80% of the share capital of SIA “TER Properties” during 2017. AS “Baltic RE Group” is currently negotiating with shareholders of SIA “TER Properties” on the purchase of remaining part of the share capital.

Core business activity of SIA “TER Properties” is high-end real estate management and strategic development. SIA “TER Properties” through its wholly-owned subsidiary SIA “BB 21” owns real estate at Brivibas Boulevard 21, Riga, Latvia.

After the acquisition of SIA “TER Properties” share capital, this company will be included in the Group “Baltic RE Group”.

Acquisition of SIA “TER Properties” share capital will be further strategic step of AS “Baltic RE Group” in the expansion of its activity, investing in real estate with high quality and unique historical heritage of the Old Riga and close areas in quiet Riga centre.

Other than the above, as of the last day of the reporting period until the date of signing of these financial statements there were no material events requiring adjustment of or disclosure in these financial statements or notes there to.

On behalf of AS “Baltic RE Group” Board:

Giovanni Dalla Zonca	**Edīte Kārkliņa**
Head of the Board	Administrative Director

Riga, 20 April 2017

Nexia
Audit Advice

SIA "Nexia Audit Advice"
Licence No. 134
Reg.No. 40003858822
9-3 Grecinieku Street
Riga, LV-1050
Latvia
T: +371 67333227
F: +371 67221520
info@auditadvice.lv
auditadvice.lv

INDEPENDENT AUDITOR'S REPORT

To the stockholders of
Joint Stock Company "Baltic RE Group",
Reg.No. 40103716434

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS "Baltic RE Group" ("the Company") and its subsidiaries ("the Group") set out on pages 10 to 50 of the accompanying annual report, which comprise:

- the consolidated statement of financial position as at 31 December 2016,
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AS "Baltic RE Group" and its subsidiaries as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group 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 consolidated 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 opinion.

Key Audit Matters

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

We have determined the matters described below to be the key audit matters to be communicated in our report:

Valuation of goodwill

Key audit matter	Our response
The Group's consolidated statement of financial position as at 31 December 2016 includes goodwill with carrying amount of EUR 9 503.7 thousand. The goodwill has been allocated to the Group's cash-generating units (CGUs), which are Group companies. Under IFRSs as adopted by the European Union, the Group is required to annually test the amount of goodwill for impairment. *We refer to pages 18-19 (Accounting Policies) and Note 5 to the consolidated financial statements of the Group on pages 32-33.* The assessment of the recoverability of goodwill requires significant judgement in determining the future performance of the CGUs using the discounted cash flow method whose key inputs such as the discount rate, the expected future revenue and gross margin depend on management's significant judgement and estimates. The determination of whether the internal and external inputs used by the Group to calculate the recoverable amount of goodwill were based on reasonable and appropriate estimates required our particular attention in the audit.	Our procedures included, among others: • assessing the methodologies used for calculating the recoverable amount of goodwill, in particular those relating to the forecasted revenue growth and profit margins; • comparing the inputs with the data available from external sources, where the Group has relied on market-based inputs, such as for the loan and discount rates applied; • comparing the data used in the model with the budgets and strategy approved by the management of the Group and assessing the historical accuracy of the Group's budgeting process by comparing actual revenue of the previous years and gross margin to the budgeted amounts; • evaluating the assumptions and estimates applied in the model (such as the terminal period, working capital investments and capital expenditures) used for calculating the recoverable amount of goodwill, considering our understanding of the Group's operations and the economic environment.

Reporting on Other Information

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

- general information about the Company and the Group, as set out on pages 3-5 of the accompanying consolidated Annual Report,
- the Management Report, as set out on pages 6-8 of the accompanying consolidated Annual Report,
- the Statement on Management Responsibility, as set out on page 9 of the accompanying consolidated Annual Report,
- the Statement on Corporate Governance, prepared as a separate part of the consolidated annual report, indicating in the Management Report the website address on the Internet, where the Statement on Corporate Governance is available to the public in electronic form.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Group 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 consolidated financial statements are prepared is consistent with the consolidated 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, our responsibility is to consider whether the Statement on Corporate Governance includes the information required in section 56.[2], third paragraph, clause 1.

In our opinion, the Statement on Corporate Governance includes the information required in section 56.[2], third paragraph, clause 1 of the Financial Instruments Market Law.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

SIA "Nexia Audit Advice"
The Firm of Sworn Auditors, Licence No. 134

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

Andrejs Ponomarjovs
Chairman of the Board,
Director General

Riga, Latvia
April 28, 2017