AS “Baltic RE Group”

(REGISTRATION NUMBER 40103716434)

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 company	AS "Baltic RE Group"
Legal form of the company	Stock Company
Registration number, place and date of registration of the company	40103716434 Riga, 2 October 2013
Legal address of the 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 Company. It is responsible for the commercial activities of the 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 (direct holding 100%) **SIA "KEY 1"** 19 Skunu Street, Riga, LV-1050, Latvia (direct holding 25%, indirect holding 75%) **SIA "Key 2"** 19 Skunu Street, Riga, LV-1050, Latvia (indirect holding 100%) **SIA "KEY 6"** 19 Skunu Street, Riga, LV-1050, Latvia (direct holding 51.66%, indirect holding 48.34%) **SIA "Key 15"** 19 Skunu Street, Riga, LV-1050, Latvia (direct holding 33%, indirect holding 67%) **SIA "Skunu 19"** 19 Skunu Street, Riga, LV-1050, Latvia (indirect holding 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

Management Report

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.

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

Core business activity of the Company

Core business activity of the 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. Within management of the subsidiaries, the Company provides to its subsidiaries services on economics, tax, finance, marketing, legal and technical issues.

The Company is also engaged in lease / rental of premises and provides real estate management services – the Company leases / rents real estate at the address 12/14 Kalku Street, Riga, LV-1050, Latvia. The Company provides real estate management, current repairs, maintenance services etc.

Company's operations during reporting period

Company'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 Company's clients was carried out, as well as successful actions were taken in the research, development and implementation of new activities.

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 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 Company is entitled to redeem the bonds prematurely.

The Company's revenue for the year ended 31 December 2016 is EUR 1 776 245. The Company ended the reporting period with a profit of EUR 471 000 respectively. During the reporting period the Company increased the share capital up to EUR 25 000 000 through the equity contributions. The Company's equity as at 31 December 2016 is positive and amounts to EUR 25 345 676.

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

The analysis of the Company's financial statements shows, that statement of financial position total is EUR 55 542 165. Non-current assets comprise 88% of the statement of financial position total, of which 42% (EUR 20 645 408) comprise of investments in subsidiaries and 23% (EUR 11 136 744) comprise of investment property. Investment property consists of the Company's real estate, which is leased / rented or will be leased / rented. Cash comprises 63% (EUR 4 074 999) of the current assets. Equity comprises 46% (EUR 25 345 676) of the statement of financial position total. Non-current liabilities comprise 52% (EUR 28 853 569) of the statement of financial position total, while current liabilities comprise 2% (EUR 1 342 920).

The analysis of the Company's statement of comprehensive income shows, that the revenue of the Company for the year ended 31 December 2016 is EUR 1 776 245, the cost of sales is EUR 959 224, so that the gross profit amounts to EUR 817 021 and net profit amounts to EUR 471 000. The cost of sales have increased by EUR 677 299, comparing with 2015, which is mainly due to the increase in depreciation charge of investment property, which grew by EUR 438 491, 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.

The Company's management monitors the external factors affecting the Company's activities and takes the necessary measures to optimize the Company's operations and development.

Calculation of financial results

Liquidity (Company's paying capacity – Company's ability to cover its current liabilities):
Total liquidity ratio = 4.80 - the ratio has increased, comparing with 2015 (1.18).

Solvency (Company's ability to cover non-current and current liabilities):
Debt to assets ratio = 0.54 - the ratio has not changed, comparing with 2015 (0.54).

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

Use of the financial instruments and financial risk factors

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

Financial risk management

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

The main financial risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Company'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 Company 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 Company does 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 Company plans to optimize costs. The Company 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.

The Company 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.

Management's proposals on profit sharing or loss cover

The Management proposes to use the profit of 2016 to cover the losses of previous periods and to leave remaining profit retained.

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 Company) prepares separate financial statements for each financial year, which give a true and fair view of AS "Baltic RE 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 Company'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 Company 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 Company 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

Financial Statements

Statement of Financial Position

ASSETS	Note	31.12.2016 EUR	31.12.2015 EUR
Non-current assets			
Goodwill	4	1 440 667	1 440 667
Intangible assets	5	547	820
Property, plant and equipment	6	60 828	59 101
Investment property	7	11 136 744	11 351 315
Investments in subsidiaries	8	20 645 408	20 645 408
Loans to related companies	9	15 778 362	17 189 209
Other loans and other long-term receivables	9	13 000	13 000
Deferred income tax asset	30	22 895	11 559
		49 098 451	**50 711 079**
Current assets			
Trade receivables	10	367 584	163 496
Receivables from related companies	9	1 690 593	851 620
Other receivables	11	298 987	448 346
Accrued income	12	11 551	15 725
Cash and cash equivalents	13	4 074 999	1 261 702
		6 443 714	**2 740 889**
TOTAL ASSETS		**55 542 165**	**53 451 968**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	25 000 000	24 853 452
Other reserves	15	16 101	16 101
Retained earnings / (loss)	16	329 575	(141 425)
Total equity		**25 345 676**	**24 728 128**
Non-current liabilities			
Loans from credit institutions	17	24 814 929	25 950 389
Bonds issued	17	3 839 500	-
Payables to related companies	17	-	279 000
Other payables	20	199 140	181 626
		28 853 569	**26 411 015**
Current liabilities			
Loans from credit institutions	17	1 135 466	1 110 714
Prepayments received from customers		410	-
Trade payables	18	19 211	23 051
Payables to related companies	17	77 670	1 108 963
Taxes payable	19	50 512	5 405
Other payables	20	14 281	4 256
Accrued liabilities	21	45 370	60 436
		1 342 920	**2 312 825**
Total liabilities		**30 196 489**	**28 723 840**
TOTAL EQUITY AND LIABILITIES		**55 542 165**	**53 451 968**

The accompanying notes are an integral part of these 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

Statement of Comprehensive Income

	Note	2016 EUR	2015 Restated EUR
Revenue	22	1 776 245	645 325
Cost of sales	23	(959 224)	(281 925)
Gross profit		**817 021**	**363 400**
Distribution costs	24	(3 743)	(1 538)
Administrative expenses	25	(638 548)	(230 745)
Other operating income	26	26 990	70 424
Other operating expense	27	(2 388)	(355)
Dividends from subsidiaries	8	500 000	-
Operating profit		**699 332**	**201 186**
Finance income	28	450 425	429 081
Finance costs	29	(690 093)	(539 022)
Profit before tax		**459 664**	**91 245**
Income taxes	30	11 336	11 559
PROFIT FOR THE YEAR		**471 000**	**102 804**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**471 000**	**102 804**

The accompanying notes are an integral part of these 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

Statement of Cash Flows

	Note	2016 EUR	2015 EUR
Cash flows from operating activities			
Profit before tax		**459 664**	**91 245**
Adjustments for:			
Amortisation and depreciation	5-7	511 575	57 162
Finance income	28	(450 425)	(429 081)
Finance costs	29	690 093	539 022
Operating cash flows before working capital changes		**1 210 907**	**258 348**
(Increase) / decrease in trade receivables		(725 776)	2 111 026
Increase / (decrease) in trade and other payables		(2 341 920)	(3 561 717)
Cash generated from operations		**(1 856 789)**	**(1 192 343)**
Interest paid	29	(690 093)	(534 795)
Net cash generated from operating activities		**(2 546 882)**	**(1 727 138)**
Cash flows from investing activities			
Acquisitions of subsidiary, net of cash acquired		-	(4 971 720)
Profit of merged company as a result of reorganisation	15	-	16 101
Purchases of property, plant and equipment and investment property	6, 7	(298 458)	(1 783 139)
Loans granted		(79 600)	(22 062 606)
Proceeds from loan repayment		1 324 969	1 219 835
Interest received	28	450 425	428 843
Net cash used in investing activities		**1 397 336**	**(27 152 686)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	433 642
Proceeds from borrowings	17	4 000 000	30 295 000
Repayments of borrowings		(37 157)	(1 046 897)
Net cash used in financing activities		**3 962 843**	**29 681 745**
Net increase in cash and cash equivalents		2 813 297	801 921
Cash and cash equivalents at the beginning of the year		1 261 702	459 781
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING YEAR		**4 074 999**	**1 261 702**

The accompanying notes are an integral part of these 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

Statement of Changes in Equity

	Note	Share capital	Other reserves	Retained earnings / (loss)	TOTAL
		EUR	EUR	EUR	EUR
Balance as at 31 December 2014		**5 200 000**	**-**	**(215 529)**	**4 984 471**
Correction of error	2.2	-	-	(28 700)	**(28 700)**
Balance as at 31 December 2014 (restated)		**5 200 000**	**-**	**(244 229)**	**4 955 771**
Proceeds from shares issued	14	19 653 452	-	-	**19 653 452**
Profit of merged company as a result of reorganisation	15	-	16 101	-	**16 101**
Comprehensive income					
Profit for the period (restated)	2.2, 16	-	-	102 804	**102 804**
Other comprehensive income		-	-	-	**-**
Total comprehensive income		-	-	**102 804**	**102 804**
Balance as at 31 December 2015		**24 853 452**	**16 101**	**(141 425)**	**24 728 128**
Proceeds from shares issued	14	146 548	-	-	**146 548**
Comprehensive income					
Profit for the period	16	-	-	471 000	**471 000**
Other comprehensive income		-	-	-	**-**
Total comprehensive income		-	-	**471 000**	**471 000**
Balance as at 31 December 2016		**25 000 000**	**16 101**	**329 575**	**25 345 676**

The accompanying notes are an integral part of these 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 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.

AS "Baltic RE Group" core business activities are renting and operating of own or leased real estate (NACE 2.0 red: 68.20), buying and selling of own real estate (NACE 2.0 red: 68.10), real estate agencies (NACE 2.0 red: 68.31) and management of real estate on a fee or contract basis (NACE 2.0 red: 68.32).

Core business activity of the 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. Within management of the subsidiaries, the Company provides to its subsidiaries economic, tax, financial, marketing, legal and technical services. The Company plans to develop the administrative structure of subsidiaries with a view to ensuring effective business and subsidiaries development.

The Company is also engaged in lease / rental of premises and provides real estate management services – the Company leases / rents real estate at the address 12/14 Kalku Street, Riga, LV-1050, Latvia. The Company provides real estate management, current repairs, maintenance services etc.

The Head of the Board is Giovanni Dalla Zonca, members of the Board - Marco Chioatto and Dina Abaja.

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

Auditors of AS "Baltic RE Group" 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 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 financial statements are set out below.

Statement of compliance

The 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 financial statements of the Company represent the separate financial position, results and cash flows of AS "Baltic RE Group" as holding company standing alone. The financial position, results and cash flows of the Group "Baltic RE Group" are presented in the consolidated financial statements of the Group.

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

The Company 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 Company's business activities.

Current versus non-current classification

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

2.2. Changes in accounting policy and disclosures

New standards and amendments adopted by the Company

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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective, however the Company 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 Company's statement of comprehensive income was performed. Impact on the statement of comprehensive income for 2015 is the following:

	Statement of comprehensive income (restated)	Reclassification	Statement of comprehensive income
	2015	2015	2015
Cost of sales	281 925	26 234	255 691
Other taxes	-	(26 234)	26 234
TOTAL:		**-**	

Correction of prior period error

While preparing the financial statements for the period from 02.10.2013 to 31.12.2014, the Company hasn't charged to the statement of comprehensive income administrative expenses in the amount of 28 700 EUR relating to the respective reporting period, and this amount was charged to administrative expenses in 2015. The error has been corrected by restating affected item of the statement of comprehensive income for the prior reporting period as follows:

	Statement of comprehensive income (restated)	Correction of error	Statement of comprehensive income
	2015	2015	2015
Administrative expenses	230 745	(28 700)	259 445

The correction of error resulted in the increase of the Company's loss for the period from 02.10.2013 to 31.12.2014 by 28 700 EUR and increase of the profit for 2015 by 28 700 EUR.

2.3. Foreign currency translation

Functional and presentation currency

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

2.4. Intangible assets

Goodwill

Goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating unit. 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 Company's level.

The Company at the end of each financial year for the purposes of the 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 Company 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.

2.5. 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 Company 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.
Other fixed assets and equipment	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.

2.6. 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 Company 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 financial statements.

2.7. 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.

The 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 Company has entered into a number of long-term real estate lease / rent agreements with the termination period from 2020 to 2024. 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 Company 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 22 for the recognition of rental income.

2.8. Impairment of non-financial assets

The Company 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 Company 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 Company 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.

2.9. Investments in subsidiaries

Investments in subsidiaries (i.e. such entities that are controlled by the Company) are measured using cost method in accordance with IAS 27 "Separate Financial Statements". After initial recognition investments in subsidiaries are carried at cost less any impairment losses. The carrying values of investments are reviewed for impairment at each statement of financial position date. The amount of impairment is calculated as the difference between the recoverable amount of the subsidiary and its carrying value. The loss is recognised in the statement of comprehensive income. Dividends received from subsidiaries are recognised in the statement of comprehensive income when the right to receive the dividend is established.

2.10. 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 Company 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 Company. 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 Company 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 Company 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 Company 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 Company's continuing involvement in the asset.

Impairment of financial assets

Assets carried at amortised cost

The Company 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 Company 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 Company 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 Company'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.

2.11. Cash and cash equivalents

Cash and cash equivalents in the Company's statement of financial position include cash in bank.

2.12. 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.

2.13. Provisions

General

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

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

2.14. Accrued income

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

2.15. Accrued liabilities

Accrued liabilities are recognized when the Company 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.

2.16. 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.

2.17. Contingencies

Contingent liabilities are not recognized in these 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 financial statements but disclosed when an inflow of economic benefits is probable.

2.18. 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 Company 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.

2.19. 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.

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

2.21. 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 Company operates and generates taxable income.

Current income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

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 Company’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.

2.22. Subsequent events

Post-year-end events that provide additional information about the Company’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 Company is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period.

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

The Company’s principal financial assets include loans to related companies and other loans, trade and other receivables and cash that arrive directly from its operations.

Financial risks

The main financial risks arising from the Company’s financial instruments are interest rate risk, credit risk and liquidity risk. The Company’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 Company’s exposure to the risk of changes in the market interest rates relates primarily to long-term loan from credit institution (Note 17) with variable interest rate.

The Company’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 Company 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 Company’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%	(21 259)
	-0.1%	21 259

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 Company 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.

Debts from related companies

On 6 January 2015 the Company took over concluded loan agreements with a credit institution from related companies - SIA “KEY 1”, SIA “Key 2”, SIA “KEY 6”, SIA “Key 15” and SIA “Skunu 19”. As a result, the Company entered into a single loan agreement with the credit institution and concluded individual loan agreements with SIA “KEY 1”, SIA “Key 2”, SIA “KEY 6”, SIA “Key 15” and SIA “Skunu 19” (see Note 17).

The Company requested additional funding from the credit institution, which was restructured in accordance with the amount of funding necessary to related companies.

Trade receivables

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

The Company 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 Company'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 Company 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
Loans to related companies	17 468 955	18 040 829
Other loans and other long-term receivables	13 000	13 000
Trade receivables	367 584	163 496
Other receivables	59 840	91 202
Cash and cash equivalents	4 074 999	1 261 702
TOTAL:	**21 984 378**	**19 570 229**

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 Company's business activities may not be available.

The Company 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						
Loans to related companies	-	-	1 690 593	3 733 833	12 044 529	**17 468 955**
Other loans and other long-term receivables	-	-	-	13 000	-	**13 000**
Trade receivables	342 258	25 326	-	-	-	**367 584**
Other receivables	-	-	59 840	-	-	**59 840**
Cash and cash equivalents	4 074 999	-	-	-	-	**4 074 999**
Liabilities						
Loans from credit institutions	92 945	191 999	850 522	24 814 929	-	**25 950 395**
Bonds issued	-	-	246 000	4 738 000	-	**4 984 000**
Payables to related companies	-	-	77 670	-	-	**77 670**
Prepayments received from customers	-	410	-	-	-	**410**
Trade payables	19 211	-	-	-	-	**19 211**
Other payables	-	-	-	199 140	-	**199 140**
At 31 December 2015						
Assets						
Loans to related companies	-	-	851 620	3 586 290	13 602 919	**18 040 829**
Other loans and other long-term receivables	-	-	-	13 000	-	**13 000**
Trade receivables	163 496	-	-	-	-	**163 496**
Other receivables	-	-	91 202	-	-	**91 202**
Cash and cash equivalents	1 261 702	-	-	-	-	**1 261 702**
Liabilities						
Loans from credit institutions	90 506	185 427	834 781	25 950 389	-	**27 061 103**
Payables to related companies	-	-	1 108 963	279 000	-	**1 387 963**
Trade payables	17 872	5 179	-	-	-	**23 051**
Other payables	-	-	-	181 626	-	**181 626**

3.2. Capital management

The Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company 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	30 196 489	28 723 840
Less: cash and cash equivalents	(4 074 999)	(1 261 702)
Net debt	26 121 490	27 462 138
Total equity	25 345 676	24 728 128
Total capital	**51 467 166**	**52 190 266**
Gearing ratio	**50.75%**	**52.62%**

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 Company 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 Company.

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 Company 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 Company 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 Company 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 Company 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	28 814 929	26 229 389
Current	1 213 136	2 219 677
TOTAL:	**30 028 065**	**28 449 066**

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				
Investments in subsidiaries	-	-	20 645 408	**20 645 408**
Loans to related companies	-	17 468 955	-	**17 468 955**
Other loans and other long-term receivables	-	13 000	-	**13 000**
Trade receivables	-	-	367 584	**367 584**
Other receivables	-	-	59 840	**59 840**
Cash and cash equivalents	4 074 999	-	-	**4 074 999**
Liabilities				
Loans from credit institutions	-	25 950 395	-	**25 950 395**
Bonds issued	3 839 500	-	-	**3 839 500**
Payables to related companies	-	77 670	-	**77 670**
Prepayments received from customers	-	-	410	**410**
Trade payables	-	-	19 211	**19 211**
Other payables	-	-	199 140	**199 140**
At 31 December 2015				
Assets				
Investments in subsidiaries	-	-	20 645 408	**20 645 408**
Loans to related companies	-	18 040 829	-	**18 040 829**
Other loans and other long-term receivables	-	13 000	-	**13 000**
Trade receivables	-	-	163 496	**163 496**
Other receivables	-	-	91 202	**91 202**
Cash and cash equivalents	1 261 702	-	-	**1 261 702**
Liabilities				
Loans from credit institutions	-	27 061 103	-	**27 061 103**
Payables to related companies	-	1 387 963	-	**1 387 963**
Trade payables	-	-	23 051	**23 051**
Other payables	-	-	181 626	**181 626**

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 Company 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;
- market interest rate was applied to loans from related parties, so the Company assumes that the fair value of these loans approximates their carrying value and corresponds to Level 2 of the fair value hierarchy.

The fair value of investment property is disclosed in Note 7.

Notes to the Statement of Financial Position

4. Goodwill

Cost and carrying amount at 31.12.2014	**-**
Acquisition of subsidiary on 25.02.2015	
- SIA "HOE-GLOBAL PROPERTY SOLUTIONS"	1 440 667
Cost and carrying amount at 31.12.2015	**1 440 667**
Changes in the reporting year	-
Cost and carrying amount at 31.12.2016	**1 440 667**

Goodwill arose in a business combination, when the 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. Acquired subsidiary was recognized as a separate cash-generating unit, to which goodwill was allocated. After completion of the reorganization on 10 December 2015, when the Company merged with SIA "HOE-GLOBAL PROPERTY SOLUTIONS" (see Note 32), the Company recognized this goodwill.

Impairment

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

5. 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 32). 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 17.

6. Property, plant and equipment

	Other fixed assets and equipment	TOTAL
2015		
Cost at 31.12.2014	-	-
Additions	34 068	**34 068**
Additions with reorganization	25 454	**25 454**
Cost at 31.12.2015	**59 522**	**59 522**
Accumulated depreciation at 31.12.2014	-	-
Depreciation charge	421	**421**
Accumulated depreciation at 31.12.2015	**421**	**421**
Net book amount at 31.12.2014	-	-
Net book amount at 31.12.2015	**59 101**	**59 101**
2016		
Cost at 31.12.2015	**59 522**	**59 522**
Additions	17 797	**17 797**
Cost at 31.12.2016	**77 319**	**77 319**
Accumulated depreciation at 31.12.2015	**421**	**421**
Depreciation charge	16 070	**16 070**
Accumulated depreciation at 31.12.2016	**16 491**	**16 491**
Net book amount at 31.12.2015	**59 101**	**59 101**
Net book amount at 31.12.2016	**60 828**	**60 828**

Depreciation

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

	2016	2015
Administrative expenses	16 070	421
TOTAL:	**16 070**	**421**

Pledged assets

Information on pledged assets is provided in Note 17.

7. Investment property

	Land	Buildings and constructions	Construction in progress	Prepayments for investment property	TOTAL
2015					
Cost at 31.12.2014	**257 372**	**6 815 689**	**2 524 395**	**87 803**	**9 685 259**
Additions	-	-	1 700 452	-	**1 700 452**
Reclassification	-	-	87 803	(87 803)	**-**
Capitalization of borrowing costs	-	-	22 345	-	**22 345**
Cost at 31.12.2015	**257 372**	**6 815 689**	**4 334 995**	**-**	**11 408 056**
Accumulated depreciation at 31.12.2014	**-**	**-**	**-**	**-**	**-**
Depreciation charge	-	56 741	-	-	**56 741**
Accumulated depreciation at 31.12.2015	**-**	**56 741**	**-**	**-**	**56 741**
Net book amount at 31.12.2014	**257 372**	**6 815 689**	**2 524 395**	**87 803**	**9 685 259**
Net book amount at 31.12.2015	**257 372**	**6 758 948**	**4 334 995**	**-**	**11 351 315**
2016					
Cost at 31.12.2015	**257 372**	**6 815 689**	**4 334 995**	**-**	**11 408 056**
Additions	-	-	280 661	-	**280 661**
Put into operation	-	4 585 551	(4 585 551)	-	**-**
Cost at 31.12.2016	**257 372**	**11 401 240**	**30 105**	**-**	**11 688 717**
Accumulated depreciation at 31.12.2015	**-**	**56 741**	**-**	**-**	**56 741**
Depreciation charge	-	495 232	-	-	**495 232**
Accumulated depreciation at 31.12.2016	**-**	**551 973**	**-**	**-**	**551 973**
Net book amount at 31.12.2015	**257 372**	**6 758 948**	**4 334 995**	**-**	**11 351 315**
Net book amount at 31.12.2016	**257 372**	**10 849 267**	**30 105**	**-**	**11 136 744**

Depreciation

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

	2016	2015
Cost of sales	495 232	56 741
TOTAL:	**495 232**	**56 741**

Capitalization of borrowing costs

	2016	2015
Capitalization of long-term loan interest (Note 29)	-	22 345
TOTAL:	**-**	**22 345**

Pledged assets

Information on pledged assets is provided in Note 17.

The carrying amount of real estate as at 31 December 2015 approximates its fair value (Level 2), because it was purchased from unrelated parties on the free market, which is also the principal market (IFRS 13, p.58, B4). The Company'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 amount of real estate as at 31 December 2016 approximates its fair value 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 Company's real estate property's market value was estimated EUR 14 432 000.

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.

The Company's real estate property's market value was estimated EUR 13 292 000.

8. Investments in subsidiaries

Company	Interest	31.12.2016	31.12.2015
Baltic Re S.p.a. reg.No. 04277380285 Via Altinate 125, 35121 Padua, (PD), Italy	100% (till 22.01.2015 - 86%)	12 720 021	12 720 021
SIA "KEY 1" reg.No. 40103212372 19 Skunu Street, Riga, LV-1050, Latvia	25% (till 19.02.2015 - 12.66%)	2 787 481	2 787 481
SIA "KEY 6" reg.No. 40103285982 19 Skunu Street, Riga, LV-1050, Latvia	51.66% (till 19.01.2015 - 0.27%) (till 29.12.2015 - 11.66%)	1 650 970	1 650 970
SIA "Key 15" reg.No. 40103568148 19 Skunu Street, Riga, LV-1050, Latvia	33%	3 486 936	3 486 936
	TOTAL:	**20 645 408**	**20 645 408**

Changes in the investments

At 31 December 2014	**16 017 688**
Acquisitions	6 127 720
Disposal (Note 32)	(1 500 000)
At 31 December 2015	**20 645 408**
Acquisition / Disposal	-
At 31 December 2016	**20 645 408**

Dividends from subsidiaries

In 2016 the Company recognised dividends receivable from subsidiary in the amount of EUR 500 000 (2015: EUR Nil).

Financial data of investee

	Baltic Re S.p.a.	SIA "KEY 1"	SIA "KEY 6"	SIA "Key 15"	**TOTAL**
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Equity	9 851 492	7 091 035	1 354 818	5 837 852	**24 135 197**
Total comprehensive income or loss	(297 501)	12 911	29 470	393 611	**138 491**
	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Equity	10 644 548	7 078 124	1 325 348	5 444 242	**24 492 262**
Total comprehensive income	491 078	126 068	52 898	480 669	**1 150 713**

9. Loans and debts from related companies

Non-current	Interest rate	Maturity	31.12.2016	31.12.2015
Unsecured				
Loan to related company [1]	2.55%	25.07.2030	3 213 310	3 428 388
Loan to related company [1]	2.55%	25.03.2042	2 058 706	2 119 367
Loan to related company [1]	2.55%	25.01.2044	2 166 418	2 224 371
Loan to related company [1]	2.55%	25.06.2027	4 884 137	5 870 672
Loan to related company [1]	2.55%	25.05.2044	3 455 791	3 546 411
Loan to legal person	2.55%	31.12.2020	13 000	13 000
		SUBTOTAL:	**15 791 362**	**17 202 209**
Current				
Unsecured				
Loan to related company [1]	2.55%	31.12.2017	215 078	205 681
Loan to related company [1]	2.55%	31.12.2017	60 662	58 140
Loan to related company [1]	2.55%	31.12.2017	57 953	55 498
Loan to related company [1]	2.55%	31.12.2017	451 198	384 960
Loan to related company [1]	2.55%	31.12.2017	90 621	85 355
Loan to related company	2.55%	31.12.2017	52 600	-
Loan to related company	2.55%	30.04.2017	21 000	-
Loan to related company	2.55%	30.06.2017	6 000	-
Dividends receivable from subsidiary	-	-	500 000	-
Debts from related companies	-	-	235 481	61 986
		SUBTOTAL:	**1 690 593**	**851 620**
		TOTAL:	**17 481 955**	**18 053 829**

[1] On 6 January 2015 the Company took over concluded loan agreements with a credit institution from related companies - SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15" and SIA "Skunu 19". As a result, the Company entered into a single loan agreement with the credit institution and concluded individual loan agreements with SIA "KEY 1", SIA "Key 2", SIA "KEY 6", SIA "Key 15" and SIA "Skunu 19" (see Note 17).

The Company requested additional funding from the credit institution, which was restructured in accordance with the amount of funding necessary to related companies.

10. Trade receivables

	31.12.2016	31.12.2015
Trade receivables, carrying amount	367 263	162 379
Trade receivables, carrying amount – related companies	321	1 117
TOTAL:	**367 584**	**163 496**

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 33.

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

As of 31 December 2016, trade receivables in the amount of EUR 94 907 (31.12.2015: EUR 126 305) 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	**367 584**	**163 496**
Thereof neither impaired nor past due	272 677	37 191
Thereof past due but not impaired:		
- due within 30 days	69 581	70 023
- due within 30-60 days	11 879	43 742
- due within 61-90 days	5 497	10 380
- due in over 90 days	7 950	2 160

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

11. Other receivables

	31.12.2016	31.12.2015
Prepaid expense	80 991	74 935
Guarantee deposits for rent of premises	47 303	47 303
Security deposit	12 537	-
Payments to advance settlement parties	863	-
Overpayments of taxes and fees	46	117 784
Other receivables	157 247	208 324
TOTAL:	**298 987**	**448 346**

12. Accrued income

	31.12.2016	31.12.2015
Invoices issued in the next reporting period, but refer to revenue of current reporting period	10 156	15 725
Accrued income – related companies	1 395	-
TOTAL:	**11 551**	**15 725**

13. Cash and cash equivalents

	31.12.2016	31.12.2015
Cash at bank, EUR	4 068 775	1 254 055
Cash on payment cards, EUR	6 224	7 647
TOTAL:	**4 074 999**	**1 261 702**

Pledged assets

Information on pledged assets is provided in Note 17.

14. Share capital

The share capital of the 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.

15. Other reserves

	Reorganization reserve
At 31 December 2014	**-**
Profit of merging company for the period (Note 32)	16 101
At 31 December 2015	**16 101**
At 31 December 2016	**16 101**

Nature and purpose of reserves

Reorganization reserve

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

16. Retained earnings / (loss)

At 31 December 2014 (restated) [1]	**(244 229)**
Profit for the period (restated) [1]	102 804
At 31 December 2015	**(141 425)**
Profit for the period	471 000
At 31 December 2016	**329 575**

[1] The amounts disclosed are after the restatement for the correction of the error disclosed in Note 2.2.

17. Loans, borrowings and payables to related parties

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	-
Loans received from related companies	2.55%-3.20%	2017-2020	-	279 000
		SUBTOTAL:	**28 654 429**	**26 229 389**
Current				
Secured				
Loan from credit institution [1]	2.25% + 3M EURIBOR	31.12.2017	1 135 466	1 110 714
Unsecured				
Payables to related companies	-	31.12.2017	77 670	1 086 963
Loans received from related companies	2.55%	31.12.2016	-	22 000
		SUBTOTAL:	**1 213 136**	**2 219 677**
		TOTAL:	**29 867 565**	**28 449 066**

[1] Loan agreement with credit institution

On 6 January 2015 the 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 Company and the credit institution contains several conditions that the Company has to fulfil, including financial covenants. Once a quarter, the Company has to report to the credit institution on the fulfilment of these conditions. As at the end of the reporting period the Company met financial conditions that were set.

Mortgage on real estate

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

[2] ***Bonds issued***

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 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 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.

18. Trade payables

	31.12.2016	31.12.2015
Trade payables	19 211	22 988
Trade payables – natural persons	-	63
TOTAL:	**19 211**	**23 051**

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 Company's liquidity risk management processes, refer to Note 3.1.

19. Taxes payable

	31.12.2016	31.12.2015
Statutory social insurance contributions	19 947	3 349
Value added tax	18 431	-
Personal income tax	12 134	2 056
TOTAL:	**50 512**	**5 405**

20. Other payables

Non-current		31.12.2016	31.12.2015
Security deposits		199 140	181 626
	SUBTOTAL:	**199 140**	**181 626**
Current			
Salaries		12 500	-
Payments to advance settlement party		312	3 532
Other payables		1 469	724
	SUBTOTAL:	**14 281**	**4 256**
	TOTAL:	**213 421**	**185 882**

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

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

21. Accrued liabilities

		31.12.2016	31.12.2015
Accrued liabilities		30 325	50 891
Accrued liabilities – related companies		1 587	-
Accrued liabilities – unused annual leaves		13 458	9 545
	TOTAL:	**45 370**	**60 436**

Notes to the Statement of Comprehensive Income

22. Revenue

Revenues by business stream		2016	2015
Revenue from real estate lease / rental services		768 454	348 021
Revenue from real estate management services		247 956	172 197
Revenue from other services (portfolio valuation, internal audit / control, organization of real estate valuation)		759 835	125 107
	TOTAL:	**1 776 245**	**645 325**

Revenues by region		2016	2015
Latvia		1 776 245	645 325
	TOTAL:	**1 776 245**	**645 325**

The period of leases whereby the Company 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	902 945	760 891
Later than 1 year and no later than 5 years	2 304 920	2 489 476
Later than 5 years	456 677	923 742
TOTAL:	**3 664 542**	**4 174 109**

23. Cost of sales

	2016	2015
Investment property depreciation	495 232	56 741
Property management and utilities expenses	280 111	123 619
Personnel expenses	131 883	48 725
Real estate tax on land and buildings (Note 2.2.)	22 663	26 234
Insurance payments	11 479	3 530
Labour protection expenses	2 650	4 661
Current repair costs	1 491	6 231
State and local municipality fees	494	617
Intermediation costs	-	8 597
Legal services	-	202
Other costs	13 221	2 768
TOTAL:	**959 224**	**281 925**

24. Distribution costs

	2016	2015
Participation in the associations	1 100	1 000
Advertising costs	2 643	538
TOTAL:	**3 743**	**1 538**

25. Administrative expenses

	2016	2015 (restated)
Personnel expenses	347 473	9 592
Rental and utilities expenses	59 221	19 780
Business trips expenses	39 581	27 663
Audit of financial statements expenses	37 140	40 470
Legal services	24 931	17 242
Representation expenses	20 957	14 767
Property, plant and equipment depreciation	16 070	421
Consulting services	14 369	-
Office expenses	11 946	4 200
Bank charges	4 880	4 722
Communication expenses	4 357	3 232
Intangible assets amortisation	273	-
Accountancy services	200	500
Donations	33	7
Reorganization expenses	-	8 638
Non-business expenses	-	13 023
Other expenses	57 117	66 488
TOTAL:	**638 548**	**230 745**

26. Other operating income

	2016	2015
Received fines and penalties	25 275	67 838
Other income	1 715	2 586
TOTAL:	**26 990**	**70 424**

27. Other operating expense

	2016	2015
Paid fines and penalties	435	267
Losses from currency exchange rate fluctuations, net	1	6
Other expenses	1 952	82
TOTAL:	**2 388**	**355**

28. Finance income

	2016	2015
Interest income	450 425	429 081
TOTAL:	**450 425**	**429 081**

29. Finance costs

	2016	2015
Interest on long-term loan from credit institution	688 423	542 100
Interest expense on borrowings from legal persons	1 670	19 267
SUBTOTAL:	**690 093**	**561 367**
Less: finance costs capitalised within investment property (Note 7)	-	(22 345)
TOTAL:	**690 093**	**539 022**

30. Income taxes

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

Statement of comprehensive income

Deferred tax

	2016	2015
Decrease / (increase) in deferred tax assets	(11 336)	(11 559)
TOTAL deferred tax expense / (benefit):	**(11 336)**	**(11 559)**

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

	2016	2015
Profit before tax	**459 664**	**91 245**
Expected tax charge, applying current tax rate of 15%	68 950	9 382
Permanent differences	6 393	4 300
Changes in temporary differences	(317 702)	(101 827)
Tax losses carried forward	253 695	95 399
Actual income tax (income) / expense for the reporting period:	**(11 336)**	**(11 559)**

Deferred income tax

	2016	2015
Temporary differences of intangible assets amortisation rates and property, plant and equipment and investment property depreciation rates	201 878	6 428
Corporate income tax losses carried forward	(224 773)	(17 987)
Deferred income tax asset:	**22 895**	**11 559**

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

	2016	2015
At 1 January	11 559	-
(Decrease) / increase in the reporting year	11 336	11 559
At 31 December:	**22 895**	**11 559**

Other Disclosures

31. 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**	**43 310**
- salaries	103 517	35 043
- statutory social insurance contributions	24 419	8 267
Administrative expenses	**347 449**	**9 578**
- salaries	282 332	7 750
- statutory social insurance contributions	65 117	1 828
TOTAL:	**475 385**	**52 888**

Compensation of key management personnel of the Company

	2016	2015
Board members		
Salaries	270 234	19 318
Statutory social insurance contributions	63 748	4 555
TOTAL:	**333 982**	**23 873**
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	14	7
TOTAL:	**14**	**7**

32. Reorganisation

Reorganization in the previous reporting year

On 9 July 2015 the Board of the 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 Company recognized goodwill, which arose in a business combination, when the 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 (Notes 4 and 8).

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 15).

33. Related party transactions

Key management compensation

Information on key management compensation is provided in Note 31.

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 Company 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
Subsidiaries	2016	1 193 647	62 807	735 481	77 670
	2015	539 244	23 479	61 986	1 086 963
Other related parties	2016	3 527	73 743	321	150
	2015	2 822	396 189	1 117	-
Key management personnel	2016	-	4 873	-	-
	2015	-	-	-	-

Loans to related parties

	31.12.2016	31.12.2015
Subsidiaries	16 733 474	17 978 843
Other related parties	13 000	-
TOTAL:	**16 746 474**	**17 978 843**

Loans from related parties

	31.12.2016	31.12.2015
Subsidiaries	-	301 000
TOTAL:	**-**	**301 000**

34. 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 the Company.

The Company 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

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INDEPENDENT AUDITOR'S REPORT

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

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "Baltic RE Group" ("the Company") set out on pages 10 to 48 of the accompanying annual report, which comprise:

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS "Baltic RE Group" as at 31 December 2016, and of its financial performance and its 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 Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Valuation of investments in subsidiaries

Key audit matter	Our response
The carrying amount of investments in subsidiaries in the Company's financial statements as at 31 December 2016: EUR 20 645.4 thousand. *We refer to page 20 (Accounting Policies) and Note 8 to the financial statements of the Company on pages 35-36.* Investments in subsidiaries are carried at cost less any accumulated impairment losses. Investments in subsidiaries comprise investments in Baltic Re S.p.a., SIA "KEY 1", SIA "KEY 6" un SIA "Key 15". The determination of the recoverable amounts of investments in subsidiaries is a complex process and requires the management to make subjective judgements, including those in respect of future operating cash flows, growth rates and discount rates. Taking into account that the Company has issued a number of significant loans to subsidiaries, as well as the above-mentioned subsidiaries have investments in other related companies (SIA "Key 2" and SIA "Skunu 19"), we have identified valuation of investments in subsidiaries as a significant risk in our audit.	Our procedures included, among others: • evaluating the reasonableness of management judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, examining the subsidiaries' financial information as at and for the year ended 31 December 2016, discussing the subsidiaries' performance with the Company's Board members, and assessing their strategy and cash flows forecasts.

Reporting on Other Information

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

- general information about the Company, as set out on pages 3-5 of the accompanying Annual Report,
- the Management Report, as set out on pages 6-8 of the accompanying Annual Report,

- the Statement on Management Responsibility, as set out on page 9 of the accompanying Annual Report,
- the Statement on Corporate Governance, prepared as a separate part of the 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 financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia, 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.

Nexia Audit Advice

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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