LATVIJAS KUĢNIECĪBA

Public Joint Stock Company "Latvian Shipping Company"

Separate Financial Statements
31 December 2016

Content

General information

General information of the Company

Name	„Latvian Shipping Company" (hereinafter also referred to as „Company")
Legal status	Joint Stock Company
Registration number, place and date	40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	Elizabetes street 1, Riga, LV-1010, Latvia
Main activity (NACE classificatory)	64.20 – Activities of holding companies, 70.10 – Activities of head offices
Reporting period	1st January 2016 – 31st December 2016
Previous reporting period	1st January 2015 – 31st December 2015

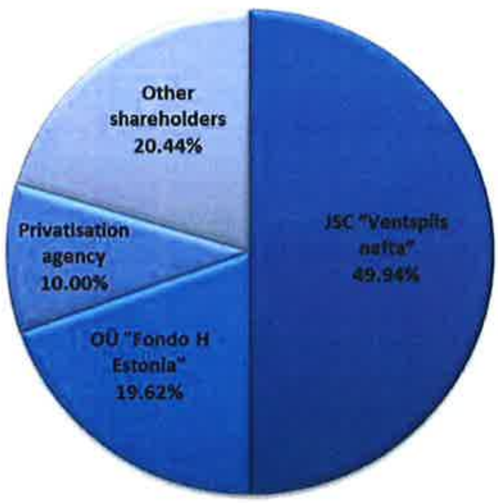
Shareholders of the Company

JSC "Latvian Shipping Company" shareholders (over 5%) as of the date when the report is signed:

Name	Description	Ownership interest
JSC "Ventspils nafta"	Private company	49.94%
OÜ "Fondo H Estonia"	Private company	19.62%
Privatisation agency	Government institution	10.00%

No individual shareholder has legal control through holding of more than 50% shareholding, but JSC "Ventspils nafta" has *de facto* control; therefore JSC "Latvian Shipping Company" and its subsidiaries are consolidated in to JSC "Ventspils nafta" Group financial statements.

Shareholders structure of the Company as of date when the report is released:



The Auditors of the Company

Name and address of the Auditors:	KPMG Baltics SIA Licence No. 55 Vesetas street 7, Riga, LV-1013, Latvia Certified auditor in charge Armine Movsisjana Sworn Auditor Certificate No. 178

General information (*Continued*)

The Supervisory Council of the Company

Chairman of the Supervisory Council	Vladimir Egger
Deputy Chairman of the Supervisory Council	Kaspars Bunne (from April 29, 2016)
	Boris Bednov (from July 31, 2015 until April 29, 2016)
Members of the Supervisory Council:	
	Dzmitry Yudzin
	Aleksej Tarasov
	Artūrs Neimanis
	Andrea Schlaepfer
	Varvara Maximova
	Olga Kurenkova
	Giovanni Fagioli
	Kristo Oidermaa
	Kaspars Bunne (from April 26, 2016 until April 29, 2016)

The Management Board of the Company

Chairman of the Management Board	Robert Kirkup
Members of the Management Board	Paul Thomas
	Christopher James Kernon

Management report

Dear Shareholders and Business Partners!

Type of operation

Core activity of the Joint Stock Company "Latvian Shipping Company" (hereafter LSC or Company) is LSC and its subsidiaries (hereafter Group or LSC Group) management and provision of vessel commercial management services. The LSC also provides other services to ensure everyday operation of the LSC Group companies (JSC "Latvian Shipping Company" and its subsidiaries).

Company's operation and results during the financial year

Net turnover of the LSC in 2016 was 2.82 million EUR, which compared to the previous year is at the same level and mainly can be explained by the same number of vessels under commercial management. Also the fees for other management services as well as the number of vessels has not changed. In 2016 the Company operated with a profit of 696 thousand EUR comparing to profit of 1 million EUR a year before. The profit was lower than in 2015 due to the decrease of profit from currency exchange fluctuations.

Total assets of LSC have slightly increased being 62.5 million EUR as at 31 December 2016, which is 690 thousand EUR more than last year. Increase in cash and cash equivalents in reporting period amounts to 307 thousand EUR. Similarly to the previous year, the major part of assets is made up of 50.2 million EUR of investments in subsidiaries.

Group performance results

The consolidated financial result of LSC Group for 2016 attributable to the equity holders of the parent company is a loss of 25 million USD. The result was mainly affected by to the steady erosion in the value of the LSC Group's fleet throughout 2016 in the amount of USD 24.13 million. The balance of the net loss expressed in USD - USD 3.20 million was influenced by changes in USD/EUR exchange rate.

Notwithstanding the negative financial result of the Group there was an increase in its operating profit before interest, tax, depreciation and amortisation (EBITDA) in the amount of USD 49.77 million (2015: USD 46.62 million) due to slightly higher average TCE (time charter equivalent earnings) achieved in the reporting year as well as an increase in revenue from technical management services to third parties and rent revenue from the groups real estate portfolio.

Administrative costs have continued to decrease and were USD 5.71 million for the reporting period down from USD 7.21 million in 2015 predominantly due to lower legal costs.

Administrative costs are also gradually reducing due to the liquidation and restructuring of subsidiaries in Latvia and foreign jurisdictions. During 2016 twenty five companies in foreign jurisdictions were dissolved, including those which were involved in settlement agreements concluded in July 2015. In Latvia, the reorganisation of SIA "NAFTA Invest", SIA "Skonto nafta" and real estate SPVs' SIA "LASCO nekustamie īpašumi", SIA "Darījumu Centrs Daugava" and SIA "Rīgas līcis" was carried out by incorporating them into the parent company SIA "LASCO Investment".

Subsidiary SIA "LSC IT" was established in November 2016 to provide a more cost efficient IT service within the Group. The LSC Group continues the disposal of non-core assets to help meet its financial obligations and maintain its focus on its core shipping business.

The Group's cash position at the end of 2016 was USD 47.68 million down from USD 52.70 million at the end of 2015. During 2016, the Group repaid USD 27.07 million in regular loan payments and also made an additional voluntary payment of 11 million USD under the 360 million USD syndicated shipping loan facility. In 2016 the Group repaid USD 16 million to joint stock company "Ventspils nafta" with USD 3 million balance due in June 2017.

Financial risk management

One of the main operational risks related to the Company's business is the reduction of number of vessels of the LSC Group's fleet, because the LSC's main source of income is provision of vessel commercial management services to the vessels of the LSC Group's fleet.

The Company's operation is exposed to various financial risks, including foreign currency risk, liquidity risk and credit risk. The Company's Management tries to minimise the potential negative impact of the financial risks on the Company's financial position.

The Company is subject to foreign currency exchange rate fluctuation risk caused by various currencies, mainly because the largest part of the Company's income is in USD, but expenses similar to previous year was mainly in EUR. The Company's Management is considering possibility to apply hedging instruments in order to reduce the impact of the USD exchange rate fluctuations. Company's issued loans are with variable interest rates. The Company observes prudent liquidity risk management ensuring that there are sufficient resources for settlement of liabilities within the set terms.

Management report *(Continued)*

Information on Company's shares

During 2016 the price of LSC shares quoted on the Nasdaq Riga experienced an increase of 7.31%. The OMX Baltic Benchmark GI index in 2016 increased by 21.57%. There were 1 021 trades of "Latvian Shipping Company's" shares during 2016 involving 1.44 million shares worth 0.69 million EUR which is 8% of the total share turnover and 50% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On the 31st of December 2016 the capitalization of "Latvian Shipping Company" shares at Nasdaq Riga was 94 million EUR.

Post balance conditions and events

On the 28th of February 2017 the Group successfully completed its loan refinancing procedure, receiving a loan of USD 121 million from a syndicate of three banks and simultaneously repaying the previous loan. The new loan has been issued with a repayment deadline of the 30th of June 2022.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

Distribution of profit suggested by the Management Board

The Management Board suggests using the profit of the reporting year to cover losses of previous periods.

Future prospects

Increased exposure to the spot market has had a negative impact on LSC Group's earnings especially in Q3 and Q4 where daily spot earnings have been below breakeven.

The world MR tanker fleet grew by approximately 6.5pct in 2016 with 87 Medium range tankers delivered. In 2017 a further 63 Medium range tankers will be delivered resulting in a further 6pct year on year growth in the Medium range tanker fleet. This incremental increase in the size of the fleet will continue to have a negative impact on ship-owners earnings should the weak economic environment continue. Post 2017 the order-book is minimal so one would hope, from a ship-owners perspective that the fleet growth we have experienced in the last few years will abate.

However overall the LSC Group's earnings for 2016 were protected from the full impact of a weak spot market due to the fact that a large portion of the fleet (69pct as at 31 December 2016) was on time charter, mostly negotiated during a stronger shipping cycle in mid 2015. This has provided some protection from the severity of the downturn in earnings and these contracts will continue to afford some protection in the coming months. However as we progress into 2017, given current evidence, spot and time charter earnings will decrease. Additionally due to the weak shipping markets there is a reluctance on the part of charterers to time charter tonnage so this may well mean that there will be a much smaller proportion of the LSC Group's fleet with time charter coverage in the future, at least at the attractive levels witnessed in the recent past.

Looking back on 2016 and reflecting on the challenges faced by LSC Group we can be confident the Group achieved its key objective of being in a position to renew the 360m USD loan facility expiring in June 2017.

LSC Shipmanagement Ltd. as anticipated has continued to grow its third party activities throughout 2016 adding three vessels under technical management, providing additional revenue to the Group. It is anticipated that two additional vessels already contracted to LSC Shipmanagement Ltd. for technical management will be delivered in the first half of 2017.

Looking forward to 2017 the key objective will be to focus on trying to achieve sufficient earnings to service the Group's opex/capex costs without any further deterioration in the cash position of the Group.

On a more cautious note the Group was unable to raise sufficient support from its shareholders to improve the equity of the Company, that may have enabled the Group to modernise the existing fleet which now has an average age of ten years. At this present time there are insufficient funds within the Group to expand the fleet and we are acutely aware that shipping is an asset with a finite life span.

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 37 to 41, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the separate financial statements of JSC "Latvian Shipping Company" (the "Company").

Management is responsible for the preparation of the separate financial statements that present truly and fairly the financial position of the Company as of 31 December 2016, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by EU.

In preparing the separate financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS as adopted by EU are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's separate financial statements; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the separate financial position of the Company, and which enable them to ensure that the separate financial statements of the Company comply with IFRS as adopted by EU;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

For and on behalf of the Management Board

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Separate Statement of Profit and loss and Other comprehensive income

(all from continuing operations)

	Note	EUR 2016	EUR 2015
Income from services	4	2 822 529	2 983 661
Cost of sales	5	(1 596 909)	(1 688 397)
Gross profit		**1 225 620**	**1 295 264**
Administrative expenses	6	(1 088 402)	(1 215 608)
Other operating income	7	1 271	34 219
Operating profit		**138 489**	**113 875**
Finance income	8	713 232	1 097 512
Finance costs	9	(1 915)	(1 714)
Profit before income tax		**849 806**	**1 209 673**
Income tax	10	(153 559)	(192 203)
Net profit for the year		**696 247**	**1 017 470**
Other comprehensive income/ (expenses) for the year, net of tax		-	-
Total comprehensive income for the year		**696 247**	**1 017 470**

The notes on pages 12 to 36 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 17 March 2017 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Separate Statement of Financial Position

	Note	EUR 31.12.2016.	EUR 31.12.2015.
Assets			
Non-Current Assets			
Intangible Assets	11	14 280	11 470
Property, plant and equipment	12	2 211 775	2 292 777
Investment properties	13	3 557	3 557
Investments in subsidiaries	14	50 181 684	50 178 884
Other non-current financial assets	15	6 899 470	6 176 298
Total Non-Current Assets		**59 310 766**	**58 662 986**
Current Assets			
Inventories	16	3 712	4 244
Trade and other receivables	17	265 819	551 106
Corporate Income Tax	19	87 918	67 086
Cash and Cash Equivalents	18	2 825 515	2 518 393
Total Current Assets		**3 182 964**	**3 140 829**
Total Assets		**62 493 730**	**61 803 815**
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		60 000 000	60 000 000
Reserve of share capital denomination		4 574 362	4 574 362
Accumulated deficit		(2 301 207)	(2 997 454)
Total Shareholders' Equity		**62 273 155**	**61 576 908**
Non-current Liabilities			
Deferred tax liabilities	10	100 419	87 078
Total non-current Liabilities		**100 419**	**87 078**
Current Liabilities			
Trade and other payables	19	120 156	139 829
Total Current Liabilities		**120 156**	**139 829**
Total Shareholders' Equity and Liabilities		**62 493 730**	**61 803 815**

The notes on pages 12 to 36 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 17 March 2017 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Separate Statement of Changes in Shareholders' Equity

	EUR			
	Share Capital	Reserve of share capital denomination	Accumulated deficit	Total
At 31 December 2014	**60 000 000**	**4 574 362**	**(4 014 924)**	**60 559 438**
Total comprehensive income for the year	-	-	1 017 470	1 017 470
At 31 December 2015	**60 000 000**	**4 574 362**	**(2 997 454)**	**61 576 908**
Total comprehensive income for the year	-	-	696 247	696 247
At 31 December 2016	**60 000 000**	**4 574 362**	**(2 301 207)**	**62 273 155**

As of 31 December 2016 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of EUR 0.30 per share. All 200 000 000 shares are publicly traded and listed on Nasdaq OMX Riga Official list. All shares are ordinary shares with voting rights.

The notes on pages 12 to 36 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 17 March 2017 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Separate Statement of Cash Flows

	Note	EUR 2016	EUR 2015
Cash Flow from Operating Activities			
Profit before taxation		849 806	1 209 673
Adjustments for:			
Depreciation of property, plant and equipment	12	118 869	143 109
Intangible assets amortisation	11	6 860	12 392
Income from investments in subsidiaries	7	-	(29 314)
Currency translation difference		(290 838)	(637 165)
Interest income	8	(438 111)	(429 768)
Profit from disposal of fixed assets	7	(1 221)	(4 805)
Profit before adjustments for movements in net working capital		**245 365**	**264 122**
Adjustments for:			
Decrease in inventories		532	16
Changes in trade and other receivables		164 162	195 776
Changes in trade and other payables		(19 673)	(91 783)
Gross Cash Flow generated from Operating Activities		**390 386**	**368 131**
Corporate income tax paid	19	(161 050)	(339 016)
Net Cash Flow generated from Operating Activities		**229 336**	**29 115**
Cash Flow from Investing Activities			
Acquisition of tangible and intangible assets	11,12	(47 629)	(153 094)
Investments in subsidiaries	14	(2 800)	-
Proceeds from disposal of subsidiaries		-	31 036
Proceeds from sale of fixed assets		1 313	4 932
Interest received		-	35 149
Net Cash Flow used in Investing Activities		**(49 116)**	**(81 977)**
Result of currency exchange transactions		126 902	192 999
Net increase in Cash and Cash Equivalents		**307 122**	**140 137**
Cash and Cash Equivalents at the beginning of the year		2 518 393	2 378 256
Cash and Cash Equivalents at the end of the year	18	**2 825 515**	**2 518 393**

The notes on pages 12 to 36 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 17 March 2017 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvian Shipping Company"
Riga, 17 March 2017

Notes to the Separate Financial Statements

1. General information

The principal activity of JSC "Latvian Shipping Company" (the Company) is management of the "Latvian Shipping Company" Group. The Company was registered at the Enterprise register on 13 September 1991 and reregistered in the Commercial register on 17 November 2004. All the shares of the Company are publicly traded and listed on the Nasdaq OMX Riga Official list. Basic activity of the Company is management of LSC Group and provision of vessel commercial management services (NACE code: 70.10) and holding company activities (NACE code: 64.20). The Company also provides other services to ensure everyday operation of the LSC Group companies.

The separate financial statements of the Company for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Management Board on 17 March, 2017.

The members of the Management Board are as follows: Robert Kirkup (Chairman), Paul Thomas (Member) and Christopher James Kernon (Member).

The Shareholders of the Company and the Group has the right to dispute the accuracy of the financial statement line items and to postpone the approval of the financial statements in the shareholders' meeting.

The party with ultimate control over the Company is Vitol SA, with registered office at Boulevard du pont - D`arve 28, p.o. box 384, 1211 Geneva, Switzerland.

2. Basis of preparation and adoption of IFRS

The financial statements of the Company represent the separate financial position, results and cash flows of JSC "Latvian Shipping Company" as holding company standing alone. The financial position, results and cash flows of the JSC "Latvian Shipping Company" and its subsidiaries (the "Group") are presented in the consolidated financial statements of the Group.

2.1. Statement of compliance

The separate financial statements of the Company standing alone are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by European Union (EU). The same accounting policies have been applied throughout all periods presented.

The separate financial statements of the Company are presented in euro (EUR) which is the functional currency of the primary business as the Company is registered in Latvia and expenses related to the primary business are in euro.

The financial statements have been prepared on a historical cost basis. The reporting period for the financial statements is from 1 January 2016 till 31 December 2016 and financial statements are prepared in Euro (EUR).

2.2.Summary of significant accounting policies

a) Revenue recognition

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from services rendered or goods delivered

Revenue from services rendered is recognised when the services is provided. Revenue from goods delivered is recognised upon delivery of goods.

Interest income

For all financial instruments measured at amortised cost interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Income from disposal of shares in subsidiaries and associates

Income is recognised on the transfer of legal rights over the shares from the Company to the buyer.

Rental income

Rental income generated from operating lease agreements of property is recognised over the entire period of lease on a straight line basis and recognized in income as they relate to business activities.

Notes to the Separate Financial Statements *(Continued)*

2.2. Summary of significant accounting policies *(continued)*

b) Foreign currency translation

Foreign currency transactions are translated to euro using the official exchange rates of the European Central Bank prevailing at the transaction date. When the European Central Bank does not quote a particular currency, the official exchange rate against the Euro of the central bank issuing the currency is used as the basis.

Exchange rate differences resulting from the settlement of such transactions are reported in the statement of profit and loss and comprehensive income when they occur.

Monetary assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the European Central Bank prevailing at the date of the statement of financial position or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the European Central Bank does not quote the particular currency.

In the table below are the main foreign currency rates of European Central Bank (foreign currency against 1 EUR), which were used when preparing these financial statements of the Company:

	31.12.2016. EUR	31.12.2015. EUR
USD	1.0541	1.0887

c) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in the separate statement of profit and loss in Cost of sales and Administrative expenses on an accrual basis.

The Company pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 69.99% (2015: 71.55%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Company.

d) Intangible assets

All intangible assets are recorded at historical cost net of amortization. Intangible assets include licences and software. Cost of licences includes purchase costs and costs of implementation. Amortization is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life as follows – 33.33 % per annum. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Gains or losses arising from de-recognition 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 separate statement of profit and loss when the asset is derecognised.

e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the fixed asset is put into operation or engaged in commercial activity. Each part of an item of fixed asset 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 fixed asset, it also depreciates separately.

When tangible fixed assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the separate statement of profit and loss.

The following depreciation rates were established and applied:

	% per annum
Buildings and constructions	2 – 20
Machinery and equipment	14.29
Other fixed assets	14.29 – 50

Notes to the Separate Financial Statements *(Continued)*

2.2. Summary of significant accounting policies *(continued)*

e) Property, plant and equipment *(continued)*

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the fixed assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the separate statement of comprehensive income in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalized as an additional cost of property, plant and equipment. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the separate statement of profit and loss.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Assets under construction or in progress are not depreciated as long as the respective assets are not completed and put into operation.

f) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the useful life of the asset using 2% per annum.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the separate statement of profit and loss in the period of derecognition.

Transfers are made to or from investment property 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.

g) Investments in subsidiaries

Investments in subsidiary undertakings (ie. such entities that are controlled by the Company - the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) are measured using cost method. Investments in subsidiaries are valued at their initial value less impairment losses. Where events or changes in circumstances indicate that the carrying amount of investments in subsidiaries may be higher than its recoverable amount, the respective investments are tested for impairment. Recoverable value of investment is determined on the basis of cash flow forecasts based on budgets and business plans prepared by the management of companies.

The Company recognises income from its investments in subsidiary only to the extent that the Company receives distributions from accumulated profits of the subsidiary or arising after the date of acquisition. Any distributions received out of pre-acquisition profits are accounted for by reducing the cost of investment.

h) Inventories

Cost is determined by the first-in, first-out (FIFO) method. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. When necessary, the provisions are made for obsolete, slow-moving or damaged inventories, or their value is written-down.

i) Cash and cash equivalents

Cash and cash equivalents include cash in banks.

Notes to the Separate Financial Statements *(Continued)*

2.2. Summary of significant accounting policies *(continued)*

j) Accrued liabilities

Accrued liabilities 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 of the amount of the obligation can be made.

Accrued liabilities for unused vacations are calculated based on unused vacation days at the reporting balance date and daily average salary for the last six months of the reporting period. See note 19.

k) Financial assets

Initial recognition and measurement

The Company's financial assets include cash and cash equivalents, trade and other receivables and loans.

Financial assets of the Company have been classified as loans and receivables. 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 financial assets not at fair value through profit or loss, directly attributable transaction costs. Regular purchases and sales of financial assets are recognised on the trade-date.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income for cash and cash equivalents and in other operating income for other loans and receivables. The losses arising from impairment are recognised in the separate statement of profit and loss in other operating expense.

Derecognition

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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 using the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in *Note 25*.

Notes to the Separate Financial Statements *(Continued)*

2.2. Summary of significant accounting policies *(continued)*

l) Financial liabilities

Initial recognition and measurement

The Company's financial liabilities include trade and other payables.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of a financial liability not at fair value through profit or loss directly attributable transaction costs.

Subsequent measurement

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate (EIR) method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the separate statement of profit and loss.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the separate statement of profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

m) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods 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, by the reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income, respectively and not in the separate statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries and associates the deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Separate Financial Statements *(Continued)*

2.2. Summary of significant accounting policies *(continued)*

m) Taxes *(continued)*

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 the separate statement of profit and loss is recognised outside the separate statement of profit and loss. Deferred tax items are recognised in correlation to the underlying transaction in other comprehensive income.

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.

Value added 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 that 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 separate statement of financial position.

n) 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 separate statement of profit and loss 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.

o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported values of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

The Company's policy in relation to fair value of its financial instruments is disclosed in the Note 25.

<u>Going Concern</u>

Taking into considerations the budgeted results of the Company, Company management is believes that going concern basis is applicable in the preparation of these separate financial statements. In addition to that, the Company's current assets exceed its current liabilities by EUR 3 062 808.

Notes to the Separate Financial Statements *(Continued)*

2.3.Changes in accounting policy and disclosures

The Company has consistently applied the accounting policies to all periods presented in these separate financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

The adoption of the following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements and
- Annual Improvements to IFRSs.

3. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

- **IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018)**

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.
Extensive additional disclosures regarding a Company's risk management and hedging activities are required.

The Company does not expect IFRS 9 (2014) to have material impact on the separate financial statements. The classification and measurement of the Company's financial instruments are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds. However the Company believes that impairment losses may increase and become more volatile for assets in the scope of expected credit loss impairment model. The Company has not yet finalised the impairment methodologies that it will apply under IFRS 9.

- **IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)**

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) a Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Company's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that a Company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's separate financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's separate financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

- **IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, this pronouncement is not yet endorsed by the EU)**

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Notes to the Separate Financial Statements *(Continued)*

3. Standards issued but not yet effective *(continued)*

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

It is expected that the new Standard, when initially applied, will have no material impact on the Company's separate financial statements. The Company has not yet fully completed its initial assessment of the potential impact of IFRS 16.

- **IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, this pronouncement is not yet endorsed by the EU)**

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company because the Company does not enter into share-based payment transactions.

- **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, this pronouncement is not yet endorsed by the EU)**

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company does not expect that the amendments, when initially applied, will have material impact on the separate financial statements as the Company is not insurance provider.

- **Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (the effective date has not yet been determined by the IASB)**

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the Company's separate financial statements as the Company has no associates or joint ventures.

- **Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017, this pronouncement is not yet endorsed by the EU)**

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company.

- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, this pronouncement is not yet endorsed by the EU)**

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company.

Notes to the Separate Financial Statements *(Continued)*

3. Standards issued but not yet effective *(continued)*

- **Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018, this pronouncement is not yet endorsed by the EU)**

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the Company's separate financial statements as the Company transfer into, or out of, investment property only if there has been a change in use of the property.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018, this pronouncement is not yet endorsed by the EU)**

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which a Company initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the separate financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

- **Annual Improvements to IFRSs**

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the separate financial statements of the Company. The Company plans to implement above mentioned standards, amendments to standards and interpretations on the date they will become effective.

Notes to the Separate Financial Statements *(Continued)*

4. Income from services

	EUR 2016	EUR 2015
Revenue from commercial management, management and IT services worldwide	2 447 224	2 631 230
Revenue from IT and other services in Latvia	170 391	170 434
Revenue from rent and management of real estate in Latvia	204 914	181 997
Total	**2 822 529**	**2 983 661**

5. Cost of sales

	EUR 2016	EUR 2015
Salaries, training and other personnel costs	(795 474)	(869 931)
Social security contributions	(186 284)	(151 847)
Maintenance expenditure	(182 131)	(157 428)
IT and communication	(165 921)	(135 565)
Professional charges and legal costs	(125 883)	(192 462)
Depreciation and amortisation	(80 706)	(92 535)
Transport and travelling expenses	(17 887)	(29 995)
Advertising and marketing	(6 844)	(7 507)
Other costs	(35 779)	(51 127)
Total	**(1 596 909)**	**(1 688 397)**

6. Administrative expenses

	EUR 2016	EUR 2015
Salaries, training, health insurance and other personnel costs	(453 586)	(574 046)
Social security contributions	(83 102)	(93 970)
Maintenance expenditure	(94 978)	(112 289)
Professional fees	(90 356)	(83 985)
Depreciation and amortisation	(45 023)	(62 966)
IT and communication	(37 725)	(39 198)
Real estate tax	(25 894)	(23 574)
Transport and travelling expenses	(24 609)	(31 070)
Advertising and marketing	(1 711)	(1 877)
Other expenses	(231 418)	(192 633)
Total	**(1 088 402)**	**(1 215 608)**

7. Other operating income

	EUR 2016	EUR 2015
Income on disposal of fixed assets	1 221	4 805
Income on disposal of Santomar Holdings Company Ltd.	-	28 314
Result from sale of SIA "Futbola klubs "Ventspils"" shares	-	1 000
Other income	50	100
Total	**1 271**	**34 219**

SIA "Futbola klubs "Ventspils"" (associated company 23.06%) sold in January 2015.

Notes to the Separate Financial Statements *(Continued)*

8. Finance income

	EUR 2016	EUR 2015
Interest income from loans to subsidiaries	438 111	429 768
Net profit from foreign currency rate fluctuations/ translation	275 085	667 744
Other interest income	36	-
Total	**713 232**	**1 097 512**

9. Finance costs

	EUR 2016	EUR 2015
Cost of services received from banks	(1 915)	(1 714)
Total	**(1 915)**	**(1 714)**

10. Corporate income tax

	EUR 2016	EUR 2015
Current income tax charge	(140 218)	(195 074)
Deferred income tax	(13 341)	2 871
Income tax expense reported in the income statement	**(153 559)**	**(192 203)**

The Company's corporate income tax charge differs from the theoretical amount that would arise applying the tax rate of 15% to the Company's profit before tax:

	EUR 2016	EUR 2015
Profit before taxes	**849 806**	**1 209 673**
Tax calculated at tax rate of 15%	127 471	181 451
Expenses not deductible for tax purposes	50 453	47 531
Income not subject to corporate income tax	-	(4 397)
Tax discount for donations	(24 365)	(32 382)
Income tax expense	**153 559**	**192 203**

Deferred income tax is recognized in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet:

	EUR 31.12.2016.	EUR 31.12.2015.
Excess of tax allowances over depreciation	100 466	99 128
Temporary difference on provisions for unused vacations	-	(10 560)
Other temporary differences	(47)	(1 490)
Deferred tax liabilities	**100 419**	**87 078**

Notes to the Separate Financial Statements *(Continued)*

11. Intangible assets

	Software and licences EUR
Cost	
At 1 January 2015	947 084
Additions	10 463
Disposals/ write off	(36 537)
At 31 december 2015	**921 010**
Additions	9 670
Disposals/ write off	(2 593)
At 31 december 2016	**928 087**
Accumulated amortisation	
At 1 January 2015	933 685
Amortisation	12 392
Disposals/ write off	(36 537)
At 31 december 2015	**909 540**
Amortisation	6 860
Disposals/ write off	(2 593)
At 31 december 2016	**913 807**
Net book value:	
At 31 december 2015	**11 470**
At 31 december 2016	**14 280**

Notes to the Separate Financial Statements *(Continued)*

12. Property, plant and equipment

	EUR		
	Land, buildings and construction	**Other fixed assets**	**Total**
Cost			
At 1 January 2015	3 018 298	1 192 744	4 211 042
Additions	41 700	100 931	142 631
Disposals/ write off	-	(155 997)	(155 997)
At 31 december 2015	**3 059 998**	**1 137 678**	**4 197 676**
Additions	-	37 959	37 959
Disposals/ write off	-	(65 590)	(65 590)
At 31 december 2016	**3 059 998**	**1 110 047**	**4 170 045**
Accumulated depreciation			
At 1 January 2015	796 049	1 121 611	1 917 660
Depreciation	98 522	44 587	143 109
Disposals/ write off	-	(155 870)	(155 870)
At 31 december 2015	**894 571**	**1 010 328**	**1 904 899**
Depreciation	77 868	41 001	118 869
Disposals/ write off	-	(65 498)	(65 498)
At 31 december 2016	**972 439**	**985 831**	**1 958 270**
Net book value			
At 31 december 2015	**2 165 427**	**127 350**	**2 292 777**
At 31 december 2016	**2 087 559**	**124 216**	**2 211 775**

As at 31 December 2016 the fair value of real estate owned by the Company was estimated based on a certified appraiser's valuation. The market value of the real estate was determined in the amount of EUR 2 920 000 (31 December 2015: EUR 3 148 000).

The fair value of assets estimated by appraisers using the income and comparable transactions approach as the property to be valued was characterised as leased and generating income, the lease market at the date of appraisal was comparatively active and the appraiser had sufficient information on transactions where similar real estate properties were sold.

The key assumptions for the income approach are the capitalisation rate of 7%, rental income of 12 EUR/m2 and the occupancy rate of 95%.

As at 31 December 2016/2015 the real estate owned by the Company in Riga on Elizabetes street 1 is pledged on behalf of JSC "Ventspils nafta".

Part of the fully depreciated Other fixed assets is still being used in operating activities of the Company. Total cost value of those Other fixed assets as at 31 December 2016 is EUR 895 thousand (31 December 2015: EUR 946 thousand).

Notes to the Separate Financial Statements *(Continued)*

13. Investment properties

	Investment properties
	EUR
Cost	
At 1 January 2015	2 371 940
At 31 december 2015	**2 371 940**
At 31 december 2016	**2 371 940**
Accumulated impairment	
At 1 January 2015	2 368 383
At 31 december 2015	**2 368 383**
At 31 december 2016	**2 368 383**
Net book value	
At 31 december 2015	**3 557**
At 31 december 2016	**3 557**

As at 31 December 2016 the fair value of the only investment property owned by the Company was estimated based on a certified appraiser's valuation and amounted to EUR 11 000 (31 December 2015: EUR 11 000).

The fair value of investment properties as at 31 December 2016, 31 December 2015 is disclosed in *Note 24*.

For valuation purposes the appraiser used a discounted cash flow method as at 31 December 2016 and 2015.

In 2016/2015 no impairment was recognised on investment properties. The valuation of the respective investment property was based on the following assumptions:

- Rent rates: EUR 3 per square meter (2015: EUR 3 per square meter);
- Occupancy: 100% May – September (2015: May – September);
- Capitalisation rate: 10% (2015: 10%).

Notes to the Separate Financial Statements *(Continued)*

14. Information on the subsidiaries and investments in those

(a) Investments in subsidiaries

Name and address	Percentage holding %	EUR 31.12.2016	EUR 31.12.2015
Latmar Holdings Corporation			
80 Broad Street, Monrovia, Liberia	100	50 163 346	50 163 346
LSC Holdings Limited			
Manning House, 21 Bucks Road, Douglas, Isle of Man	100	15 538	15 538
Arctic Holding Corporation			
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-
SIA "LSC IT"			
Elizabetes street 1, Riga, LV -1010, Latvia	100	2 800	-
SIA „LASCO Investment"			
Elizabetes street 1, Riga, LV -1010, Latvia	100	28 863 375	28 863 375
Impairment in SIA „LASCO Investment" investment		(28 863 375)	(28 863 375)
		50 181 684	**50 178 884**

In November 2016 new company SIA "LSC IT" was established with the aim to ensure more cost efficient IT services within the group.

(b) Information on subsidiaries

Name and address	EUR Shareholders' Equity of the subsidiaries 31.12.2016.	31.12.2015.	(Loss)/ Profit of the subsidiaries 2016	2015
Latmar Holdings Corporation				
80 Broad Street, Monrovia, Liberia	192 785 004	172 532 564	(5 587 769)	37 564
LSC Holdings Limited				
Manning House, 21 Bucks Road, Douglas, Isle of Man	(31 388 337)	(12 899 939)	(17 457 557)	12 156 084
Arctic Holding Corporation				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	(17 673 324)	(13 221 112)	(4 034 749)	869 370
SIA "LSC IT"				
Elizabetes street 1, Riga, LV-1010, Latvia	2 613	-	(187)	-
SIA "LASCO Investment"				
Elizabetes street 1, Riga, LV-1010, Latvia	(77 881 712)	(80 502 234)	2 620 522	19 395

Notes to the Separate Financial Statements *(Continued)*

14. Information on the subsidiaries and investments in those *(continued)*

Latmar Holdings Corporation (holding company) has one active company 100% owned by the Latmar Holdings Corporation registered in Latvia (technical management company).

LSC Holdings Limited (holding company) has fourteen 100% owned subsidiaries (active single vessel companies) registered in Marshall Islands.

Arctic Holding Corporation (holding company) has two active single vessel companies registered in Marshall Islands.

SIA "LASCO Investment" (a holding company) manages one operating 100% owned company registered in Latvia. The line of business of SIA "LASCO Investment" is lease of real estate properties and management of subsidiaries.

In 2016 the reorganisation of SIA "NAFTA Invest", SIA "Skonto nafta" and real estate SPVs' SIA "LASCO nekustamie īpašumi", SIA "Darījumu Centrs Daugava" and SIA "Rīgas līcis" was carried out by incorporating them into the parent company SIA "LASCO Investment".

15. Other non-current financial assets

	EUR	
	31.12.2016.	**31.12.2015.**
Loans to Latmar Holdings Corporation	6 748 246	6 163 555
Loan to Arctic Holding Corporatiom	151 224	-
Other assets	-	12 743
Total	**6 899 470**	**6 176 298**

Other financial assets at 31 December 2016 represent loans issued to related party Latmar Holdings Corporation and bears an interest at a margins from 5.88% to 8.23% linked to 3m LIBOR and 6.15% linked to 3m EURIBOR with a repayment term in December 2018. As at 31 December 2016 loans principal amounts and capitalised interest to EUR 6 715 887 and accrued interest amounts to EUR 32 359 (31.12.2015: EUR 6 135 787 and EUR 27 768 accordingly).

During 2014 the loan to Arctic Holding Corporation was issued in the amount of USD 127 000 and bears an interest at a margin of 8.23% linked to 3m LIBOR. Maturity of the loan was December 2016 and as at 31 December 2015 the loan was included in trade and othere receivables principal and capitalised interest EUR 132 600 and accrued interest EUR 1 268. See *Note 17.*

In 2016 maturity of the loan was prolongd until December 2018. As at 31 December 2016 the loan principal was represented together with capitalised interest in amount of EUR 149 701 and accrued interest EUR 1 523.

Information on transactions with related parties see in *Note 23.*

The Company's management believes that the loans are fully recoverable because it has access to information on financial position, commercial activities and strategic plans of related parties.

Notes to the Separate Financial Statements *(Continued)*

16. Inventories

The inventories as at 31 December 2016 represent other materials and inventories (including fuel) in the amount of EUR 3 712 (2015: EUR 4 244).

17. Trade and other receivables

	EUR 31.12.2016.	EUR 31.12.2015.
Trade receivables, gross	72 008	110 705
Amounts due from related companies	86 600	335 537
Impairment of doubtful debts	-	(6 207)
Deferred expenses	98 127	62 779
Overpaid taxes *(see Note 19)*	3 896	606
Other receivables, net	5 188	47 686
Total	**265 819**	**551 106**
Of which:		
Financial assets	*163 796*	*487 721*
Non financial assets	*102 023*	*63 385*

The analysis of credit quality of financial assets represented below:

	Total	Neither past due nor impaired	Past due: up to 90 days	Past due: 91 to 180 days	Past due: 181 to 365 days	Past due: More than 365 days	Impaired
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 31 December 2016	163 796	163 796	-	-	-	-	-
At 31 December 2015	493 928	487 696	-	-	-	25	6 207

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates.

Counterparties

	EUR 31.12.2016.	EUR 31.12.2015.
Group 1	163 796	487 696
Group 2	-	25
Total	**163 796**	**487 721**

Group 1 – existing customers with no defaults in the past.
Group 2 – existing customers with some defaults in the past. All defaults are fully recoverable in accordance to management assessment.

Carrying value of the trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. As at 31 December 2016 and 2015 the Company holds first commercial pledge as a security of trade receivables in amount of EUR 53 760 (31.12.2015.: EUR 101 897).

Changes in provisions for doubtful debts:

	EUR 2016	EUR 2015
At 1 January	6 207	7 587
Decrease due to repayment	(6 207)	(1 380)
At 31 December	**-**	**6 207**

Notes to the Separate Financial Statements *(Continued)*

17. Trade and other receivables *(continued)*

Amounts due from related companies

	EUR	
	31.12.2016.	**31.12.2015.**
Mansel Ltd.	6 613	4 404
SIA "LatRosTrans"	5 219	5 857
Kursa Navigation Inc.	4 967	9 762
Latmar Holdings Corporation	4 649	4 217
AS "Ventspils nafta"	4 628	2 903
SIA "Vitol Baltics"	4 348	3 619
Kabile Navigation Inc.	4 315	9 623
Kazdanga Navigation Inc.	4 198	9 959
Salacgriva Navigation Inc.	4 134	9 812
Sloka Navigation Inc.	4 054	9 849
Saulkrasti Navigation Inc.	4 016	10 038
Smiltene Navigation Inc.	4 015	10 190
Sigulda Navigation Inc.	3 978	9 800
Stende Navigation Inc.	3 974	10 406
Straupe Navigation Inc.	3 859	10 326
Sabile Navigation Inc.	3 893	9 747
Saldus Navigation Inc.	3 849	9 645
Skrunda Navigation Inc.	3 848	9 690
Kandava Navigation Inc.	3 795	10 173
SIA „LSC Shipmanagement"	1 417	32 377
Imula Shipping Corporation	1 381	1 437
Brasla Shipping Corporation	1 234	1 384
SIA "LSC IT"	216	-
Arctic Holding Corporation	-	133 868
SIA "LASCO investment "	-	6 207
SIA "Nafta Invest"	-	181
SIA "Skonto Nafta"	-	63
Total	**86 600**	**335 537**

Information on transactions with related parties see *Note 23*.

18. Cash and Cash Equivalents

	EUR	
	31.12.2016.	**31.12.2015.**
Cash in banks	2 825 515	2 518 393
Total	**2 825 515**	**2 518 393**

Credit quality of cash according to Fitch's is F1 (indicates the strongest intrinsic capacity for timely payment of financial commitments).

Notes to the Separate Financial Statements *(Continued)*

19. Trade and other payables

	EUR 31.12.2016.	EUR 31.12.2015.
Trade payables	45 502	52 080
Amounts due to related companies	-	2 919
Taxes and social security contribution	-	534
Other accounts payable	162	3 963
Accrued liabilities	74 492	80 333
Total	**120 156**	**139 829**
Of which:		
Financial liabilities	*52 874*	*68 897*
Non financial liabilities	*67 282*	*70 932*

Amounts due to related parties

	EUR 31.12.2016.	EUR 31.12.2015.
AS "Ventspils nafta"	-	2 919
	-	**2 919**
Of which: Financial liabilities	-	*2 919*

Information on transactions with related parties see in *Note 23.*

Taxes and social security contributions

EUR	Income tax	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	Total
(Payable) 31.12.2015.	-	(534)	-	-	-	-	(534)
Overpaid 31.12.2015.	**67 086**	**-**	**-**	**165**	**441**	**-**	**67 692**
Charge	(140 218)	47 056	(25 894)	(417 835)	(243 067)	(112)	(780 070)
Reimbursed	-	(43 955)	-	-	-	-	(43 955)
Sett-off	-	-	-	19 269	-	-	19 269
Paid	161 050	1 329	25 894	398 401	242 626	112	829 412
Overpaid 31.12.2016.	**87 918**	**3 896**	**-**	**-**	**-**	**-**	**91 814**

The overpaid tax positions are represented in separate statement of financial position line „Trade and other receivables", except for corporate income tax *(See Note 17).*

Other accounts payable

	EUR 31.12.2016.	EUR 31.12.2015.
Deferred income	-	224
Other payables	162	3 739
Total	**162**	**3 963**

Notes to the Separate Financial Statements *(Continued)*

19. Trade and other payables *(continued)*

Accrued liabilities

	EUR		
	Accruals for employee vacations	Accruals for other expenses	Total
31.12.2014.	**55 385**	**12 800**	**68 185**
Increase	15 013	9 935	24 948
Decrease	-	(12 800)	(12 800)
31.12.2015.	**70 398**	**9 935**	**80 333**
Increase	-	7 210	7 210
Decrease	(3 116)	(9 935)	(13 051)
31.12.2016.	**67 282**	**7 210**	**74 492**

20. Fees paid to external auditors

	EUR	
	2016	**2015**
Audit of the financial statements	23 000	27 850
Total	**23 000**	**27 850**

21. Off balance sheet liabilities

Guarantees issued

In 2004, the Group companies entered into a long term loan agreement for the maximum amount of USD 360 million with the purpose of financing the construction of 14 newbuildings, all forming the LSC Holdings fleet. The USD 360 million loan has been advanced to single vessel companies, 100% subsidiaries of LSC Holdings Limited. As security for the loan, the lenders hold first preferred mortgages over the financed vessels together with common assignments and pledges. The debt is also secured by two corporate guarantees issued in the normal course of business – one by LSC Holdings Limited and one by JSC "Latvian Shipping Company". The guarantees require the LSC Group to maintain specified financial ratios and satisfy financial covenants.

Legal cases

The entities within LSC Group have been involved in several court cases as defendant, mainly in Latvia. According to the Managements assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Contingent liabilities

The tax authorities have the right to inspect the tax computations for the last three taxation years. Potentially the tax computations of unaudited taxes may be reassessed by the tax authorities. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Notes to the Separate Financial Statements *(Continued)*

22. Employment costs and staff numbers

	EUR	
	2016	2015
Salaries, included in		
- cost of sales	792 864	868 346
- administrative expenses	434 514	554 386
Social security contributions included in		
- cost of sales	186 284	151 847
- administrative expenses	83 102	93 970
Other staff costs		
- cost of sales	2 610	1 585
- administrative expenses	19 072	19 660
Total	**1 518 446**	**1 689 794**

The average number of the Company's employees during 2016 was 27 (2015: 28).

23. Transactions with related parties

Parties are considered to be related if one party can and does influence on another party's financial and operating decisions. The related parties include the subsidiaries of the Company, subsidiaries of those subsidiaries owned by the Company, Company's management and shareholders which own significant portion of the Company's share capital and has *de facto* control. Services received and rendered with related parties are carried out on the arm's length terms and conditions.

a) Compensation of the Management Board and Supervisory Council

Management Board remuneration for 2016 was EUR 102 000 (2015: EUR 102 000), social security contributions amounted to EUR 24 062 (2015: EUR 11 465). There were no remuneration paid for Supervisory Council members in 2016 and 2015, accordingly no social security contributions paid.

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

b) Interests of the members of the Supervisory Council and the Management Board

Information on members of the Supervisory Council or Management Board owned shares of the Parent company or its subsidiaries are disclosed on pages 11 to 15 of LSC consolidated financial report. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent company's office upon request.

To the best of the Company's knowledge no member of the Supervisory Council has more than 5% of direct ownership in any of LSC Group's business partners, suppliers, clients or related companies.

No member of the Management Board has more than 5% of direct ownership in any of LSC Group's business partners, suppliers, clients or related companies.

c) Transactions with subsidiaries and subsidiaries owned by those subsidiaries

In the process of normal course of business the Company provides and receives services from related parties - subsidiaries and subsidiaries owned by those subsidiaries as well as received services from them. Due to the Company's policies in providing and receiving the services within the LSC Group, a pricing policy is the same as would be applied to knowledgeable, willing parties in an arms' length transactions.

The income and expenses related to the transactions with subsidiaries and subsidiaries owned by those subsidiaries were as follows:

	EUR	
	2016	2015
Income from commercial management, management and IT services worldwide	2 221 878	2 535 625
Income from the goods sold and services rendered	265 637	242 030
Interest income on loans to subsidiaries	438 111	429 768
Total	**2 925 626**	**3 207 423**

Notes to the Separate Financial Statements *(Continued)*

23. Transactions with related parties *(continued)*

d) Transactions with Shareholders and other related parties

In 2016 the Company has received services from related party – JSC "Ventspils nafta" in amount of EUR 9 115 (2015: EUR 10 797)

In 2016 income from services provided to other related parties amounted to EUR 158 827 (2015: EUR 162 777) and income from the goods sold to other related parties amounted toEUR 62 (2015: EUR 275).

The related parties include the significant shareholders of the Company's major shareholder and parties related to these entities.

See also Notes 15, 17 and 19 for outstanding balances of related parties.

24. Fair values and financial risk management

The Company's most important financial instruments are cash and cash equivalents. The main objective of the above financial instrument is to finance the Company's business activities. The Company also deals with a number of other instruments, like trade and other receivables and trade and other payables that arise directly from its business activities.

Fair value

The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables, other non-current financial assets, and trade and other payables. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Company's operations.

Fair value of assets and liabilities

The carrying amounts and fair values of the Company's assets and liabilities and investment properties by categories are as follows:

	EUR		EUR	
	31.12.2016. Carrying amount	**31.12.2015. Carrying amount**	**31.12.2016. Fair value**	**31.12.2015. Fair value**
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	3 557	3 557	11 000	11 000
Other non-current financial assets	6 899 470	6 163 555	6 899 470	6 163 555
Trade and other receivables	163 796	487 721	163 796	487 721
Cash and cash equivalents	2 825 515	2 518 393	2 825 515	2 518 393
Total assets	**9 892 338**	**9 173 226**	**9 899 781**	**9 180 669**
Liabilities at amortized cost				
Trade and other payables	52 874	68 897	52 874	68 897
Total liabilities	**52 874**	**68 897**	**52 874**	**68 897**

Hierarchy of input data for determining the fair value of financial assets and liabilities and investment properties

The Company use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities.

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 - Cash and cash equivalents are assets with short term maturity (less than 3 month), as a result the Company assumes that the fair value of those assets approximates to their carrying amount.

There are no financial assets or financial liabilities, which are included in Level 2.

Level 3 contains investment properties, trade and other receivables, other financial assets, loans issued and trade and other payables. Assets and liabilities mentioned before, except for loan issued to related party, are assets/ liabilities with short term remaining maturity (less than 1 year). As a result the Company assumes that the fair value of those assets and liabilities approximates to their carrying amount.

Notes to the Separate Financial Statements *(Continued)*

24. Fair values and financial risk management *(continued)*

Fair value*(continued)*

Fair value of the investment property is determined according to the valuations performed by independent and certified real estate valuators.

Loan issued to related party is at arm's length and carry margin plus USD LIBOR rate or EURIBOR rate; therefore the Company assumes that the carrying value of the loan approximates its fair value.

The Company's assets and liabilities according to the hierarchy of input data for determining fair value (disclosed in the carrying value):

	31.12.2016.			
	EUR Level 1	EUR Level 2	EUR Level 3	EUR Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	3 557	3 557
Other non-current financial assets			6 899 470	6 899 470
Trade and other receivables	-	-	163 796	163 796
Cash and cash equivalents	2 825 515	-	-	2 825 515
Total assets	**2 825 515**	**-**	**7 066 823**	**9 892 338**
Liabilities at amortized cost				
Trade and other payables	-	-	52 874	52 874
Total liabilities	**-**	**-**	**52 874**	**52 874**

	31.12.2015.			
	EUR Level 1	EUR Level 2	EUR Level 3	EUR Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	3 557	3 557
Other non-current financial assets	-	-	6 163 555	6 163 555
Trade and other receivables	-	-	487 721	487 721
Cash and cash equivalents	2 518 393	-	-	2 518 393
Total assets	**2 518 393**	**-**	**6 654 833**	**9 173 226**
Liabilities at amortized cost				
Trade and other payables	-	-	68 897	68 897
Total liabilities	**-**	**-**	**68 897**	**68 897**

There have been no transfers (in or out) from Level 3 during 2016 and 2015.

The Company has a policy of regularly reviewing its approach to risk management. The main financial risks arising from the Company's financial instruments are credit risk, liquidity risk and foreign currency risk. The Management Board reviews and agrees policies for managing each of these risks which are summarised below.

Notes to the Separate Financial Statements *(Continued)*

24. Financial instruments and financial risk management *(continued)*

Financial risks

The main financial risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The main financial risk arising from the Company's financial instruments is foreign currency risk. The Company is exposed to foreign currency risk through cash, loans issued, trade and other receivables and trade and other payables. Fluctuations in the USD exchange rate by +\- 10% have an impact on the Company's profit before tax and equity increasing it by EUR 879 225 or decreasing it by EUR 719 366, respectively.

	31.12.2016.	31.12.2015.
Financial assets USD	8 341 597	7 490 773
Financial liabilities USD	(480)	-
Net financial position, USD	**8 341 117**	**7 490 773**
Net financial position, EUR	**7 913 022**	**6 880 475**

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or the related cash flows could change as a result of changes in the market interest rates. The management believes that interest rate risk is not material as interest income that the Company generates is not critical for the Company's activities. There is sufficient operating income to cover the cost of sales and current liabilities.

Liquidity risk

The Company's liquidity risk policy is based on a conservative approach whose main objective is to ensure the safeguarding of cash flows generated from operations and investments.

To ensure liquidity the LSC Group's dividend policy entitles the Company as a parent of the LSC Group to receive dividends from its subsidiaries, thereby part of accrued free financial resources in subsidiaries are used to improve cash flow of the Company.

The maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows payments is from 3 to 12 months.

Credit risk

The Company is exposed to credit risk through its other non-current financial assets, trade and other receivables. The Company manages its credit risk by continuously assessing the credit history. Stable credit institutions with the possible highest ratings are used for placement of free cash. In addition, receivable balances are monitored on an on-going basis to ensure that the Company's exposure to bad debts is minimised.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders investments value. The Company monitors the structure of its capital and adjusts it if required by changes in economic conditions.

The capital structure of the Company is managed taking into consideration the economic situation in Latvia and the European Union, capital market trends and changes in interest rates. An optimum capital structure is maintained by the Company by means of increasing or decreasing share capital of Group companies and payout of dividends, as well as using borrowed capital of various types. The objectives, policies and procedures of capital management did not change during 2016 and 2015.

	31.12.2016.	31.12.2015.
Non-current and current liabilities	(220 575)	(226 907)
Cash and cash equivalents	2 825 515	2 518 393
Excess of cash and cash equivalents over liabilities:	**2 604 940**	**2 291 486**
Equity	62 273 155	61 576 908
Total assets	62 493 730	61 803 815
Debt- to- equity ratio:	**0.35%**	**0.37%**

The capital structure is monitored using the debt-to-equity ratio which is calculated by dividing total capital by equity. Total capital is the sum of non-current and current liabilities and equity. Net assets are calculated by subtracting non-current and current liabilities from cash and cash equivalents. Equity includes share capital, share capital denomination reserve and accumulated losses. It is the Company's policy that the medium term debt-to-equity ratio should not exceed 20%. The debt-to-equity ratio as at the reporting date and the end of the previous year is low as the Company does not have any borrowings.

Notes to the Separate Financial Statements *(Continued)*

25. Information on operating lease and rent agreements with a significant impact on the Company's activities

As at the reporting date, the Company has thirteen effective operating lease agreements for rent of premises. Four of the thirteen effective lease agreements are open-ended and annual revenues from these agreements could comprise EUR 672. Lease income from fixed-term agreements is as follows:

	EUR
Rent income for the next year	170 395
From one to three years	90 279
Total:	**260 674**

26. Events after the reporting period

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

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Independent Auditors' Report

To the shareholders of JSC "Latvian Shipping Company"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvian Shipping Company" ("the Company") set out on pages 8 to 36 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of JSC "Latvian Shipping Company" 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 *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the '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 value of investments in subsidiaries in separate financial statements as at 31 December 2016: 50 182 EUR thousand. *We refer to the separate financial statements: Note 2.2 g) (accounting policy) and Note 14 (financial information).* Investments in subsidiaries are carried at cost less any accumulated impairment losses. Investment in Latmar Holdings Corporation makes up substantially all of the investments in subsidiaries balance. 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. As Latmar Holdings Corporation includes a number of non-operating entities and issued a number of significant loans to other group companies, 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's 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 subsidiary's financial information as at and for the year ended 31 December 2016, discussing the subsidiary's performance with the Company's Board members, and assessing their strategy and cash flows forecasts.

Reporting on Other Information

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

- general information about JSC "Latvian Shipping Company", as set out on pages from 3 to 4 of the accompanying Annual Report,
- the Management Report, as set out on pages from 5 to 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,
- the Statement of Corporate Governance, as published on the Company's homepage www.lk.lv and publicly available.

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 Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

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

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

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

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairman of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
17 March 2017

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.