LATVIJAS KUĢNIECĪBA

Public Joint Stock Company "Latvijas Kuģniecība"

Separate Financial Statements
31 December 2015

Content

General information

General information of the Company

Name	„Latvijas kuģniecība" (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 2015 – 31st December 2015
Previous reporting period	1st January 2014 – 31st December 2014

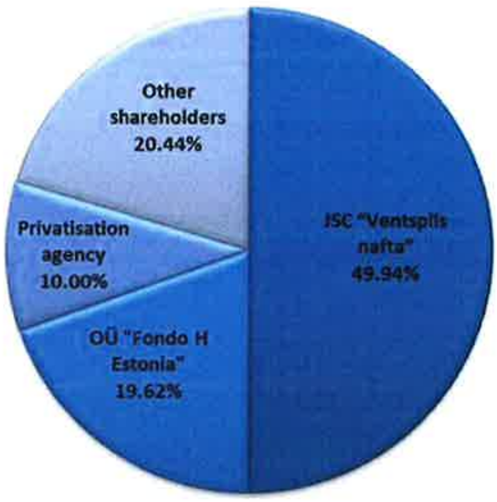
Shareholders of the Company

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

Name	Description	Ownership interest
JSC "Ventspils nafta"	Joint stock company	49.94%
OÜ "Fondo H Estonia"	Private company	19.62%
State social insurance 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 "Latvijas kuģniecība" 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 (until April 27, 2015; from May 14, 2015 until July 16, 2015; from July 31, 2015)
Deputy Chairman of the Supervisory Council	Rubel Yilmaz (until April 27, 2015; from May 14, 2015 until July 16, 2015)
	Boris Bednov (from July 31, 2015)
Members of the Supervisory Council:	Vladimir Egger (from April 27, 2015 until May 14, 2015; from July 16, 2015 until July 31, 2015)
	Rubel Yilmaz (from April 27, 2015 until May 14, 2015)
	Simon Boddy (until April 27, 2015)
	Yulia Vereschagina (until April 27, 2015)
	Ivars Girgensons (until April 27, 2015)
	Dzmitry Yudzin (from April 27, 2015)
	Boris Bednov (from April 27, 2015 until July 31, 2015)
	Artūrs Neimanis (from April 27, 2015)
	Aleksej Tarasov (from July 16, 2015)
	Andrea Schlaepfer
	Varvara Maximova
	Olga Kurenkova
	Giovanni Fagioli
	Kristo Oidermaa

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

Basic 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 2015 was 2.98 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. The fees for other management services as well as the number of vessels has not changed. In 2015 the Company operated with a profit of 1 million EUR comparing to profit of 1.6 million EUR a year before. The profit was higher in 2014 due to the sale of non-core asset owned directly by LSC.

In August of the current reporting period the Riga City Vidzeme Suburb Court decided to restore fully the solvency of "LASCO Investment" SIA (hereafter LASCO Investment). The decision was made following the settlement among its creditors. LASCO Investment is a holding company owned by LSC and managing the real estate within its group. The real estate portfolio of LASCO Investment and its subsidiaries consists of the Publishing House building, recreation centre "Liejastiezumi", hotel "Rigas Licis", Ventspils Business Centre and others.

Total assets of LSC have not substantially changed, despite the regained control over LASCO Investment and its subsidiaries, being 61.8 million EUR as at 31 December 2015. Similarly to the previous year, the major part of assets is made up of 50.2 million EUR of investments in subsidiaries; the same as last year end.

Group performance results

The consolidated financial result of LSC Group for 2015 attributable to the equity holders of the parent company is a loss of 7.09 million USD. This is primarily due to a loss arising from the reconsolidation of LASCO Investment group with total negative financial effect in the amount of USD 22.74 million. In 2014 LSC Group suffered a loss in the amount of USD 31.16 million.

2015 was an important year for the Company as series of settlement agreements were signed with a number of individuals, including Former Management Board and Supervisory Council members thus putting an end to unwanted disputes and allowing the Group to concentrate on its core business.

In 2015 the LSC Group achieved a positive result from chartering and other activities reaching a net profit before tax and exceptionals of 18.85 million USD, 6.17 million USD more than in 2014. EBITDA was 46.62 million USD, 7.03 million USD more than in 2014.

During 2015 the LSC Group recorded positive cash flow and as at 31 December 2015 the Group had cash and deposits with maturity up to twelve months in the amount of 52.70 million USD, which is 7.06 million USD more than at the beginning of 2015. This was achieved due to positive cash flow from shipping activities as well as from the sale of non-shipping assets. LSC Group sold its indirect interest in AS "Latvijas Naftas tranzīts" (LNT) to AS "Ventbunkers" via its subsidiary SIA "Skonto nafta" which held a 16% stake in LNT. The value of the transaction was 15.40 million EUR, including the repayment of a loan to the amount of 2.10 million EUR, previously issued to SIA "Skonto nafta" by LNT. In addition, one of real estate assets owned by SIA "LASCO Investment" – Ventspils sports hall was sold. The sales process of other properties was initiated and will be continued, in line with LSC Group's corporate strategy.

At 31 December 2015 the total of the LSC Group assets was 417.02 million USD. The figure at 31 December 2014 was 421.82 million USD. The decrease in LSC Group assets is mainly attributable to depreciation of the fleet, however asset value was positively affected by reconsolidation of real estate properties owned by LASCO Investment. The total equity of the Group at 31 December 2015 was 149.72 million USD (31 December 2014: 163.46 million USD).

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 – mainly in EUR in 2015. 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 securities

During 2015 the price of LSC shares quoted on the NASDAQ Riga experienced an increase of 21.67%. The OMX Baltic Benchmark GI index in 2015 increased by 14.43%. There were 1,917 trades of Latvian Shipping Company's shares during 2015 involving 13.16 million shares worth 5.25 million EUR which is 62% of the total share turnover and 13% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On 31 December 2015 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was 87.60 million EUR.

Post balance conditions and events

The Company management (approval pending from the council and shareholders) has supported the proposal to raise the equity capital in an Initial Public Offering (IPO). LSC is looking to double the share capital and raise equity of EUR 80 million. The IPO process is planned to be carried out in the first half of 2016. The newly acquired capital will be used to pay down existing shipping debts due in 2016 and 2017. The Management believes the share capital raising would allow to achieve this and place the Company in a stronger position.

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

The Company's results in 2016 will strongly depend on results of LSC Group. The product tanker market, unlike most other non-oil related shipping sectors, continued to enjoy positive earnings throughout 2015. The steady decline in the price of crude oil stimulated unexpected additional demand for refined products. In particular, gasoline consumption increased strongly in the world's two largest economies; the USA and China. This environment was especially advantageous for refineries, which benefited from positive refining margins throughout the year as a consequence of purchasing competitively priced crude oil and selling highly priced premium products.

However, increased operational activity to maximise gasoline production also created additional excess products, for example middle distillates. This further increased the need for seaborne transportation. The demands placed on shipping were further supported given the flow of refined oil from the more efficient refineries in the Middle East and India to the western markets thereby increasing tonne miles; always an indicator of higher shipping rates.

As we move into 2016 the expectations for the products tanker market look far from clear. The current worldwide macro environment remains fragile both economically and politically, with China being of a particular concern. We are in a supply rather than a demand driven environment and the considered view is that the world cannot consume the volume of crude oil currently coming to market, thus global stock builds are likely to continue through to the second half of the year.

It continues to be the management board's priority to ensure that guaranteed earnings are prioritised by continuing its policy of focusing predominantly on time charter contracts as opposed to trading our vessels on the more uncertain and volatile spot market; especially given the uncertain economic environment we are likely to encounter. We believe that this policy gives a greater visibility of vessel earnings and allows the company to budget more efficiently for its cost base and debt obligations especially with its ship lending bank syndicate.

LSC management continues to work on possible scenario to increase in the Company's share capital in order to cover shipping debt obligations becoming due in 2016/2017. Supervisory council and shareholders' meeting clearance would be required, as outlined above.

Robert Kirkup
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 16 March 2016

Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 36 to 37, 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 2015, 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 "Latvijas kuģniecība"
Riga, 16 March 2016

Separate Statement of Profit and loss and Other comprehensive income

(all from continuing operations)

	Note	2015 EUR	2014 EUR
Income from services	4	2 983 661	2 889 635
Cost of sales	5	(1 688 397)	(1 537 888)
Gross profit		**1 295 264**	**1 351 747**
Administrative expenses	6	(1 215 608)	(1 188 096)
Other operating income	7	34 219	830 754
Other operating expenses		-	(964)
Operating profit		**113 875**	**993 441**
Finance income	8	1 097 512	880 937
Finance costs	9	(1 714)	(2 014)
Profit before income tax		**1 209 673**	**1 872 364**
Income tax expense	10	(192 203)	(260 891)
Net profit for the year		**1 017 470**	**1 611 473**
Other comprehensive income/ (expenses) for the year, net of tax		-	-
Total comprehensive income for the year		**1 017 470**	**1 611 473**

The notes on pages 12 to 35 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 16 March 2016 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 16 March 2016

Separate Statement of Financial Position

	Note	EUR 31.12.2015.	EUR 31.12.2014.
Assets			
Non-Current Assets			
Intangible Assets	11	11 470	13 399
Property, plant and equipment	12	2 292 777	2 293 382
Investment properties	13	3 557	3 557
Investments in subsidiaries	14	50 178 884	50 180 606
Other non-current financial assets	16	6 176 298	5 458 638
Total Non-Current Assets		**58 662 986**	**57 949 582**
Current Assets			
Inventories	17	4 244	4 260
Trade and other receivables	18	551 106	625 757
Corporate Income Tax	20	67 086	-
Cash and Cash Equivalents	19	2 518 393	2 378 256
Total Current Assets		**3 140 829**	**3 008 273**
Total Assets		**61 803 815**	**60 957 855**
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		(2 997 454)	(4 014 924)
Total Shareholders' Equity		**61 576 908**	**60 559 438**
Non-current Liabilities			
Deferred tax liabilities	10	87 078	89 949
Total non-current Liabilities		**87 078**	**89 949**
Current Liabilities			
Trade and other payables	20	139 829	231 612
Corporate Income Tax	20	-	76 856
Total Current Liabilities		**139 829**	**308 468**
Total Shareholders' Equity and Liabilities		**61 803 815**	**60 957 855**

The notes on pages 12 to 35 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 16 March 2016 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 16 March 2016

Separate Statement of Changes in Shareholders' Equity

	EUR			
	Share Capital	Reserve of share capital denomination	Accumulated deficit	Total
At 31 December 2013	**284 574 362**	**-**	**(225 626 397)**	**58 947 965**
Reserve of share capital denomination	(4 574 362)	4 574 362	-	-
Decrease of share capital	(220 000 000)	-	220 000 000	-
Total comprehensive income for the year	-	-	1 611 473	1 611 473
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**

As of 31 December 2015 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.

On 1 January 2014 Latvia joined Euro zone therefore the denomination of the Company's bearer shares was made from LVL to EUR with the nominal value of EUR 1.40. As a result EUR 4.574 million reserve recognised and value of the share capital was EUR 280 million. After share capital denomination share capital of the Company amounted to EUR 280 million.

In addition, the Company decreased its share capital in order to cover the accumulated losses of the Company in the amount of EUR 220 million. The share capital was accordingly reduced by the accumulated losses in amount of EUR 220 million; as a result, the decreased share capital of the Company is EUR 60 million as at 31 December 2014 and 2015.

The Company has decreased share capital by decreasing the nominal value of the shares. The nominal value of the Company's bearer share was reduced by EUR 1.10, and after the reduction the nominal value of share is EUR 0.30. The number of the Company's bearer shares was not changed and the Company's share capital consists of 200 million bearer shares.

The notes on pages 12 to 35 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 16 March 2016 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 16 March 2016

Separate Statement of Cash Flows

	Note	EUR 2015	EUR 2014
Cash Flow from Operating Activities			
Profit before taxation		1 209 673	1 872 364
Adjustments for:			
Depreciation of property, plant and equipment	12	143 109	118 009
Intangible assets amortisation	11	12 392	17 426
Depreciation of investment properties	13	-	13 330
Income from investments in subsidiaries	7	(29 314)	(390 548)
Currency translation difference		(637 165)	(576 369)
Interest income	8	(429 768)	(244 238)
Profit from disposal of investment properties	7	-	(416 087)
(Profit)/loss from disposal of fixed assets	7	(4 805)	964
Profit before adjustments for movements in net working capital		**264 122**	**394 851**
Adjustments for:			
Decrease in inventories		16	142
Changes in trade and other receivables		195 776	338 107
Changes in trade and other payables		(91 783)	132 682
Gross Cash Flow generated from Operating Activities		**368 131**	**865 782**
Corporate income tax paid	20	(339 016)	(92 706)
Corporate income tax received		-	-
Net Cash Flow generated from Operating Activities		**29 115**	**773 076**
Cash Flow from Investing Activities			
Acquisition of tangible and intangible assets	11,12	(153 094)	(49 710)
Loans issued	16	-	(2 202 956)
Investments in subsidiaries		-	(2 073)
Proceeds from disposal of subsidiaries		31 036	403 367
Proceeds from sale of fixed assets		4 932	10 744
Proceeds from sale of investment properties		-	1 800 000
Interest received		35 149	-
Net Cash Flow used in Investing Activities		**(81 977)**	**(40 628)**
Result of currency exchange transactions		192 999	162 288
Net increase/(decrease) in Cash and Cash Equivalents		**140 137**	**894 736**
Cash and Cash Equivalents at the beginning of the year		2 378 256	1 483 520
Cash and Cash Equivalents at the end of the year	19	**2 518 393**	**2 378 256**

The notes on pages 12 to 35 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 16 March 2016 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 16 March 2016

Notes to the Separate Financial Statements

1. General information

The principal activity of JSC "Latvijas kuģniecība" (the Company) is management of the "Latvijas kuģniecība" 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 2015 were authorized for issue in accordance with a resolution of the Management Board on 16 March, 2016.

The members of the Management Board are as follows: Robert Kirkup, 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 4, 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 "Latvijas kuģniecība" as holding company standing alone. The financial position, results and cash flows of the JSC "Latvijas kuģniecība" 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 2015 till 31 December 2015 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.

Dividends

Revenue is recognised when the Company's right to receive the dividend payment is established.

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 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:

	31.12.2015. EUR	31.12.2014. EUR
USD	1.0887	1.2141

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 71.55% (2014: 73.80%) 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) Investments in associates

The Company's investment in its associates are measured using cost method. An associate is an entity in which the Company has significant influence, but has no control over financial and operational decisions of the associate.

Investments in associates are valued at their initial value less impairment losses. Where events or changes in circumstances indicate that the carrying amount of investments in associates may not be recoverable, 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 associates only to the extent that the Company receives distributions from accumulated profits of the associates arising after the date of acquisition. Any distributions received out of pre-acquisition profits are treated as a recovery of the cost of investment.

Upon loss of significant influence over the associate or control over the subsidiary, the Company measures and recognises any retaining investments at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or control and the fair value of the retaining investment and proceeds from disposal is recognised in the separate statement of profit and loss.

Notes to the Separate Financial Statements *(Continued)*

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

i) 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.

j) Cash and cash equivalents

Cash and cash equivalents include cash in banks.

k) Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

l) 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.

Notes to the Separate Financial Statements *(Continued)*

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

l) Financial assets *(continued)*

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*.

m) 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.

Notes to the Separate Financial Statements *(Continued)*

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

n) 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.

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.

Notes to the Separate Financial Statements *(Continued)*

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

o) 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.

p) 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.

Going Concern

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 3 001 000.

2.3.Changes in accounting policy and disclosures

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 3 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 2015.

The following guidance with effective date of 1 January 2015 did not have any impact on these separate financial statements:

- IFRIC 21 guidance on a levy imposed by government
- Annual Improvements to IFRSs

Notes to the Separate Financial Statements *(Continued)*

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 2015, and have not been applied in preparing these separate 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 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)**

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The Company is not a party to any joint arrangements.

- **IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)**

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

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

- **IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)**

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Company's separate financial statements, as the Company does not apply revenue-based methods of amortisation/depreciation.

- **IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)**

These amendments result in bearer plants being in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*, to reflect the fact that their operation is similar to that of manufacturing.

The Company does not expect that the amendments, when initially applied, will have material impact on these separate financial statements as the Company has no bearer plants.

- **IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)**

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Company does not expect the amendment to have any impact on the separate financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

- **IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)**

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Company does not expect that the amendments, when initially applied, will have a material impact on these separate financial statements as the Company intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost in accordance with IAS 39.

- **Annual Improvements to IFRSs**

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the separate financial statements of the Company.

Notes to the Separate Financial Statements *(Continued)*

4. Income from services

	EUR 2015	EUR 2014
Revenue from commercial management, management and IT services worldwide	2 631 230	2 597 551
Revenue from IT and other services in Latvia	170 434	102 306
Revenue from rent and management of real estate in Latvia	181 997	189 778
Total	**2 983 661**	**2 889 635**

5. Cost of sales

	EUR 2015	EUR 2014
Salaries, training and other personnel costs	(869 931)	(789 494)
Social security contributions	(151 847)	(154 995)
Professional charges and legal costs	(192 462)	(158 909)
IT and communication	(135 565)	(127 451)
Maintenance expenditure	(157 428)	(169 138)
Depreciation and amortisation	(92 535)	(75 579)
Transport and travelling expenses	(29 995)	(28 107)
Advertising and marketing	(7 507)	(4 642)
Other costs	(51 127)	(29 573)
Total	**(1 688 397)**	**(1 537 888)**

6. Administrative expenses

	EUR 2015	EUR 2014
Salaries, training, health insurance and other personnel costs	(574 046)	(505 846)
Social security contributions	(93 970)	(99 768)
Maintenance expenditure	(112 289)	(151 925)
Professional fees	(83 985)	(91 679)
Depreciation and amortisation	(62 966)	(73 186)
IT and communication	(39 198)	(39 478)
Real estate tax	(23 574)	(36 884)
Transport and travelling expenses	(31 070)	(25 860)
Advertising and marketing	(1 877)	(1 160)
Other expenses	(192 633)	(162 310)
Total	**(1 215 608)**	**(1 188 096)**

7. Other operating income

	EUR 2015	EUR 2014
Result from sale of investment property	-	416 087
Result from sale of SIA Medical Invest shares	-	390 548
Income from liabiliaties written off	-	20 737
Income on disposal of Santomar Holdings Company Ltd.	28 314	-
Income on disposal of fixed assets	4 805	-
Result from sale of SIA "Futbola klubs "Ventspils"" shares	1 000	-
Other income	100	3 382
Total	**34 219**	**830 754**

Notes to the Separate Financial Statements *(Continued)*

8. Finance income

	EUR	
	2015	**2014**
Net profit from foreign currency rate fluctuations/ translation	667 744	636 699
Interest income from loans to subsidiaries	429 768	244 238
Total	**1 097 512**	**880 937**

9. Finance costs

	EUR	
	2015	**2014**
Cost of services received from banks	(1 714)	(2 014)
Total	**(1 714)**	**(2 014)**

10. Corporate income tax

	EUR	
	2015	**2014**
Current income tax charge	(195 074)	(257 384)
Deferred income tax	2 871	(3 507)
Income tax expense reported in the income statement	**(192 203)**	**(260 891)**

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	
	2015	**2014**
Profit before taxes	**1 209 673**	**1 872 364**
Tax calculated at tax rate of 15%	181 451	280 855
Expenses not deductible for tax purposes	47 531	42 868
Income not subject to corporate income tax	(4 397)	(58 582)
Tax discount for donations	(32 382)	(4 250)
Income tax expense	**192 203**	**260 891**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred income tax in 2015 in amount of EUR 87 078 (31.12.2014: EUR 89 949) is reversable within one year:

	EUR	
	31.12.2015.	**31.12.2014.**
Excess of tax allowances over depreciation	99 128	100 177
Temporary difference on provisions for unused vacations	(10 560)	(8 308)
Other temporary differences	(1 490)	(1 920)
Deferred tax liabilities	**87 078**	**89 949**

Notes to the Separate Financial Statements *(Continued)*

11. Intangible assets

	Software and licences EUR
Cost	
At 1 January 2014	989 868
Additions	-
Disposals/ write off	(42 784)
At 31 december 2014	**947 084**
Additions	10 463
Disposals/ write off	(36 537)
At 31 december 2015	**921 010**
Accumulated amortisation	
At 1 January 2014	959 043
Amortisation	17 426
Disposals/ write off	(42 784)
At 31 december 2014	**933 685**
Amortisation	12 392
Disposals/ write off	(36 537)
At 31 december 2015	**909 540**
Net book value:	
At 31 december 2014	**13 399**
At 31 december 2015	**11 470**

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 2014	3 013 741	1 579 818	4 593 559
Additions	4 557	45 153	49 710
Disposals/ write off	-	(432 227)	(432 227)
At 31 december 2014	**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**
Accumulated depreciation			
At 1 January 2014	719 078	1 501 088	2 220 166
Recalculation from LVL to EUR	-	4	4
Depreciation	76 971	41 038	118 009
Disposals/ write off	-	(420 519)	(420 519)
At 31 december 2014	**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**
Net book value			
At 31 december 2014	**2 222 249**	**71 133**	**2 293 382**
At 31 december 2015	**2 165 427**	**127 350**	**2 292 777**

As at 31 December 2015 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 3 148 000 (31 December 2014: EUR 3 537 000).

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 90%.

As at 31 December 2015/2014 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 2015 is EUR 946 thousand (31 December 2014: EUR 1 031 thousand).

Notes to the Separate Financial Statements *(Continued)*

13. Investment properties

	Investment properties EUR
Cost	
At 1 January 2014	3 962 554
Disposals	(1 590 614)
At 31 december 2014	**2 371 940**
At 31 december 2015	**2 371 940**
Accumulated depreciation and impairment	
At 1 January 2014	2 561 754
Depreciation	13 330
Disposals	(206 701)
At 31 december 2014	**2 368 383**
At 31 december 2015	**2 368 383**
Net book value	
At 31 december 2014	**3 557**
At 31 december 2015	**3 557**

As at 31 December 2015 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 2014: EUR 3 300).

The fair value of investment properties as at 31 December 2015, 31 December 2014 is disclosed in *Note 25*.

For valuation purposes the appraiser used a discounted cash flow method as at 31 December 2015 and 2014.

In August 2014 the investment property owned by the Company in Riga on Jekaba street 30 was sold.

In 2015/2014, 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 (2014: EUR 1.5 per square meter);
- Occupancy: 100% May – September (2014: May – September);
- Capitalisation rate: 10% (2014: 11%).

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 31.12.2015	EUR 31.12.2014
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	-	-
Santomar Holdings Company Ltd.			
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	100	-	1 722
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)
		50 178 884	**50 180 606**

According to the decision of the Court made on 3 January 2011, SIA LASCO Investment insolvency proceedings was considered to be initiated as of 17 December 2010. Accordingly it was considered that the Company had lost the control over this company at that date.

On 24 August 2015, Riga City Vidzeme Suburb Court made the decision on full re-establishment of solvency of SIA "LASCO Investment", a subsidiary of AS "Latvijas kuģniecība", and since that date the Company regained control over the subsidiary. This decision was made after settlement was reached with the company's creditors.

(b) Information on subsidiaries

Name and address	EUR Shareholders' Equity of the subsidiaries 31.12.2015.	EUR Shareholders' Equity of the subsidiaries 31.12.2014	EUR (Loss)/ Profit of the subsidiaries 2015	EUR (Loss)/ Profit of the subsidiaries 2014
Latmar Holdings Corporation				
80 Broad Street, Monrovia, Liberia	172 532 564	160 660 633	37 564	7 863 949
LSC Holdings Limited				
Manning House, 21 Bucks Road, Douglas, Isle of Man	(12 899 939)	(23 200 699)	12 156 084	(35 579 538)
Arctic Holding Corporation				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	(13 221 112)	(13 095 775)	869 370	833 786
Santomar Holdings Company Ltd.				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	-	28 024	-	-
SIA "LASCO Investment"				
Elizabetes street 1, Riga, LV-1010, Latvia	(80 502 234)	-	19 395	-

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. Santomar Holdings Company Ltd. is a dormant investment holding company registered in Cyprus that was liquidated in September 2014.

SIA "LASCO Investment" (a holding company) manages three operating companies and three companies under reorganisation, all registered in Latvia. The line of business of SIA "LASCO Investment" is lease of real estate properties and management of subsidiaries.

Notes to the Separate Financial Statements *(Continued)*

15. Investments in associates

Name and address	Percentage holding, 31.12.2015.	Percentage holding, 31.12.2014.	EUR Investment Value, net 31.12.2015.	EUR Investment Value, net 31.12.2014.
SIA „Via Una"				
Katrinas dambis 10, Riga, LV-1045, Latvia	-	-	-	-
SIA „Futbola klubs „Ventspils""				
Dzintaru street 54, Ventspils, LV-3602, Latvia	-	23.06%	-	-
			-	-

The investment in the shares of "Futbola klubs "Ventspils"" SIA has been fully impaired and sold in January 2015 .The Company did not have financial operational information about SIA "Futbola klubs "Ventspils"" as at 31 December 2014 and for the year then ended.

The subsidiary company SIA "Medical Invest" was established in 2014 by investing 45.45% of medical clinic SIA "Via Una" with the following sale of investment in November 2014.

16. Other non-current financial assets

	EUR 31.12.2015.	EUR 31.12.2014.
Loans to Latmar Holdings Corporation	6 163 555	5 348 433
Loan to Arctic Holding Corporatiom	-	110 205
Other assets	12 743	-
Total	**6 176 298**	**5 458 638**

Other financial assets at 31 December 2014 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 USD LIBOR and 6.15% linked to 3m EURIBOR with a repayment term in December 2017. During 2014 two loans were issued to Latmar Holdings Corporation; USD 700 000 (EUR 510 093 equivalent) and EUR 1 600 000. As at 31 December 2015 loans principal amounts and capitalised interest to EUR 6 135 787 and accrued interest amounts to EUR 27 768 (31.12.2014: EUR 5 325 081 and EUR 23 352 accordingly).

During 2014 the loan to Arctic Holding Corporation was issued in the amount of USD 127 000 (EUR 92 863 equivalent) and bears an interest at a margin of 8.23% linked to 3m USD LIBOR. Maturity of the loan is December 2016 and a 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 (31.12.2014: EUR 109 178 and EUR 1 027 accordingly). See *Note 18.*

Information on transactions with related parties see in *Note 24*.

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.

17. Inventories

The inventories as at 31 December 2015 represent other materials and inventories (including fuel) in the amount of EUR 4 244 (2014: EUR 4 260).

Notes to the Separate Financial Statements *(Continued)*

18. Trade and other receivables

	EUR 31.12.2015.	EUR 31.12.2014.
Trade receivables, gross	110 705	178 811
Impairment of doubtful debts	-	(7 587)
Amounts due from related companies	335 537	364 513
Impairment of doubtful debts	(6 207)	-
Deferred expenses	62 779	41 114
Overpaid taxes *(see Note 20)*	606	-
Other receivables, net	47 686	48 906
Total	**551 106**	**625 757**
Of which:		
Financial assets	*487 721*	*584 643*
Non financial assets	*63 385*	*41 114*

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 2015	493 928	487 696	-	-	-	25	6 207
At 31 December 2014	592 230	457 134	127 484	-	-	25	7 587

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 31.12.2015.	EUR 31.12.2014.
Group 1	487 696	457 134
Group 2	25	127 509
Kopā	**487 721**	**584 643**

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 2015 and 2014 the Company holds first commercial pledge as a security of trade receivables in amount of EUR 101 897 (31.12.2014.: EUR 155 373).

Changes in provisions for doubtful debts:

	EUR 2015	EUR 2014
At 1 January	7 587	60 296
Increase due to restatement	-	7 587
Decrease due to write off	-	(60 296)
Decrease due to repayment	(1 380)	-
At 31 December	**6 207**	**7 587**

Notes to the Separate Financial Statements *(Continued)*

18. Trade and other receivables *(continued)*

Amounts due from related companies

	EUR	
	31.12.2015.	**31.12.2014.**
Arctic Holding Corporation	133 868	-
SIA „LSC Shipmanagement"	32 377	19 183
Stende Navigation Inc.	10 406	17 479
Straupe Navigation Inc.	10 326	17 749
Smiltene Navigation Inc.	10 190	17 940
Kandava Navigation Inc.	10 173	17 331
Saulkrasti Navigation Inc.	10 038	17 890
Kazdanga Navigation Inc.	9 959	17 668
Sloka Navigation Inc.	9 849	17 173
Salacgriva Navigation Inc.	9 812	17 204
Sigulda Navigation Inc.	9 800	17 264
Kursa Navigation Inc.	9 762	17 455
Sabile Navigation Inc.	9 747	17 173
Skrunda Navigation Inc.	9 690	17 173
Saldus Navigation Inc.	9 645	17 184
Kabile Navigation Inc.	9 623	17 639
SIA "LASCO investment "	6 207	-
SIA "LatRosTrans"	5 857	5 238
Mansel Ltd.	4 404	3 052
Latmar Holdings Corporation	4 217	10 017
SIA "Vitol Baltics"	3 619	49 955
AS "Ventspils nafta"	2 903	28 894
Imula Shipping Corporation	1 437	1 629
Brasla Shipping Corporation	1 384	1 767
SIA "Nafta Invest"	181	228
SIA "Skonto Nafta"	63	228
Kopā	**335 537**	**364 513**

Information on transactions with related parties see *Note 24.*

19. Cash and Cash Equivalents

	EUR	
	31.12.2014.	**31.12.2014.**
Cash in banks	2 518 393	2 378 256
Total	**2 518 393**	**2 378 256**

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)*

20. Trade and other payables

	EUR 31.12.2015.	EUR 31.12.2014.
Trade payables	52 080	57 674
Amounts due to related companies	2 919	2 618
Taxes and social security contribution	534	46 567
Other accounts payable	3 963	56 568
Accrued liabilities	80 333	68 185
Total	**139 829**	**231 612**
Of which:		
Financial liabilities	*68 897*	*77 499*
Non financial liabilities	*70 932*	*154 113*

Amounts due to related parties

	EUR 31.12.2015.	EUR 31.12.2014.
AS "Ventspils nafta"	2 919	2 618
	2 919	**2 618**
Of which: Financial liabilities	*2 919*	*2 618*

Information on transactions with related parties see in *Note 24.*

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) 31.12.2014.	**(76 856)**	**(1 660)**	**-**	**(21 700)**	**(23 198)**	**(9)**	**(123 423)**
Charge	(195 074)	88 390	(23 574)	(369 359)	(288 242)	(116)	(787 975)
Reimbursed	-	(88 924)	-	12 771	-	-	(76 153)
Paid	339 016	1 660	23 574	378 453	311 881	125	1 054 709
(Payable) 31.12.2015.	**-**	**(534)**	**-**	**-**	**-**	**-**	**(534)**
Overpaid 31.12.2015.	**67 086**	**-**	**-**	**165**	**441**	**-**	**67 692**

The overpaid tax positions are represented in separate statement of financial position line „Trade and other receivables", except for corporate income tax *(See Note 18).*

Other accounts payable

	EUR 31.12.2015.	EUR 31.12.2014.
Salaries	-	52 161
Deferred income	224	-
Other payables	3 739	4 407
Total	**3 963**	**56 568**

Notes to the Separate Financial Statements *(Continued)*

20.Trade and other payables *(continued)*

Accrued liabilities

	EUR			
	Accruals for employee vacations	**Accruals for other expenses**	**Other accruals**	**Total**
31.12.2013	**68 458**	**15 171**	**1 437**	**85 066**
Increase	-	12 800	-	12 800
Decrease	(13 073)	(15 171)	(1 437)	(29 681)
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**

21. Fees paid to external auditors

	EUR	
	2015	**2014**
Audit of the financial statements	27 850	27 800
Total	**27 850**	**27 800**

22. 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 and England. According to the Managements assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. According to the management's view on the outcome of this litigation and the settlement reached in July 2015, it is not expected that an outflow of economic benefits will be required from the Company 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)*

23. Employment costs and staff numbers

	EUR	
	2015	**2014**
Salaries, included in		
- cost of sales	868 346	789 494
- administrative expenses	554 386	482 908
Social security contributions included in		
- cost of sales	151 847	154 995
- administrative expenses	93 970	99 768
Other staff costs		
- cost of sales	1 585	-
- administrative expenses	19 660	22 938
Total	**1 689 794**	**1 550 103**

The average number of the Company's employees during 2015 was 28 (2014: 30).

24. 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 2015 was EUR 102 000 (2014: EUR 102 000), social security contributions amounted to EUR 11 465 (2014: EUR 15 003). There were no remuneration paid for Supervisory Council members in 2015 and 2014, accordingly no social security contributions paid.

During 2015 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 8 to 13 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	
	2015	**2014**
Income from commercial management, management and IT services worldwide	2 535 625	2 551 328
Income from the goods sold and services rendered	242 030	185 743
Interest income on loans to subsidiaries	429 768	244 238
Total	**3 207 423**	**2 981 309**

Notes to the Separate Financial Statements *(Continued)*

24. Transactions with related parties *(continued)*

d) Transactions with Shareholders and other related parties

In 2015 the Company has received services from related party – JSC "Ventspils nafta" in amount of EUR 10 797 (2014: EUR 10 403)

In 2015 income from services provided to other related parties amounted to EUR 162 777 (20143: EUR 136 910) and income from the goods sold to other related parties amounted toEUR 275 (2014: EUR 16 255).

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

See also Notes 16, 18 and 20 for outstanding balances of related parties.

25. Fair values and financial risk management

The Company's most important financial instruments are cash and cash equivalents and loans granted. 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	
	31.12.2015. Carrying amount	31.12.2014. Carrying amount	31.12.2015. Fair value	31.12.2014. Fair value
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	3 557	3 557	11 000	3 300
Other non-current financial assets	6 163 555	5 458 638	6 163 555	5 458 638
Trade and other receivables	487 721	584 643	487 721	584 643
Cash and cash equivalents	2 518 393	2 378 256	2 518 393	2 378 256
Total assets	**9 173 226**	**8 425 094**	**9 180 669**	**8 424 837**
Liabilities at amortized cost				
Trade and other payables	68 897	77 499	68 897	77 499
Total liabilities	**68 897**	**77 499**	**68 897**	**77 499**

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)*

25. 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):

	31.12.2015.			
	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**

	31.12.2014.			
	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	-	-	5 458 638	5 458 638
Trade and other receivables	-	-	584 643	584 643
Cash and cash equivalents	2 378 256	-	-	2 378 256
Total assets	**2 378 256**	**-**	**6 046 838**	**8 425 094**
Liabilities at amortized cost				
Trade and other payables	-	-	77 499	77 499
Total liabilities	**-**	**-**	**77 499**	**77 499**

There have been no transfers (in or out) from Level 3 during 2015 and 2014.

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)*

25. 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 764 731 or decreasing it by EUR 625 498, respectively.

	31.12.2015.	31.12.2014.
Financial assets USD	7 490 773	7 652 802
Financial liabilities USD	-	-
Net financial position, USD	**7 490 773**	**7 652 802**
Net financial position, EUR	**6 880 475**	**6 303 272**

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 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 2015 and 2014.

	31.12.2015.	31.12.2014.
Non-current and current liabilities	(226 907)	(398 417)
Cash and cash equivalents	2 518 393	2 378 256
Excess of cash and cash equivalents over liabilities:	**2 291 486**	**1 979 839**
Equity	61 576 908	60 559 438
Total assets	61 803 815	60 957 855
Debt- to- equity ratio:	**0.37%**	**0.66%**

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)*

26. 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. Nine of the thirteen effective lease agreements are open-ended and annual revenues from these agreements could comprise EUR 1 512. Lease income from fixed-term agreements is as follows:

	EUR
Rent income for the next year	162 962
Rent income in 2017	108 804
Total:	**271 766**

27. Events after the reporting period

The Company management (approval pending from the council and shareholders) has supported the proposal to raise the equity capital in an Initial Public Offering (IPO). LSC is looking to double the share capital and raise equity of EUR 80 million. The IPO process is planned to be carried out in the first half of 2016. The newly acquired capital will be used to pay down existing shipping debts due in 2016 and 2017. The Management believes the share capital raising would allow to achieve this and place the Company in a stronger position.

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.

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Independent Auditors' Report

To the shareholders of AS "Latvijas Kuģniecība"

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of AS "Latvijas Kuģniecība" ("the Company"), which comprise the separate statement of financial position as at 31 December 2015, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 35.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these separate financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of these separate financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Company management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2015, and of its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

The corresponding figures presented are based on separate financial statements of the Company as at and for the year ended 31 December 2014, which were audited by other independent auditors, whose report dated 18 March 2015 expressed an unqualified opinion.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 5 to 6, the preparation of which is the responsibility of management, is consistent with the separate financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate financial statements of the Company. In our opinion, the Management Report is consistent with the separate financial statements.

Furthermore, we have obtained Statement of corporate governance for the year ended 31 December 2015 prepared by the Company. In our opinion, the Statement contains information required by Article $56.^2$ (third paragraph, clause 1) of the Financial Instruments Market Law of the Republic of Latvia.

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairman of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
18 March 2016

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