

**Pillar Investment Group, AS  
(Pillar Investment Group, SIA  
Elizabetes Park House, SIA)**

Annual Report

For the year ended 31 December 2015

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## Information of the Company

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Name of the company	Pillar Investment Group
Legal status of the company	Joint stock company (until 3 August 2016, limited liability company)
Number, place and date of registration	50003831571, Riga, 6 June 2006
Legal address	Elizabetes iela 23, Riga, LV-1010, Latvia
Postal address	Pulkveža Brieža iela 28A, Riga, LV-1045, Latvia
Shareholders	<p>From 13 April 2016:</p> <p>Pillar Holding Company, KS Elizabetes iela 23, Riga, LV-1010, Latvia Holding: 88%</p> <p>PREMIUM FINANCE GROUP, SIA Lāčplēša iela 47-2, Riga, LV-1011, Latvia Holding: 8%</p> <p>Cassandra Holding Company, SIA Nometnes iela 14A, Jurmala, LV-2015, Latvia Holding: 4%</p> <p>Until 12 April 2016:</p> <p>Pillar Holding Company, KS Elizabetes iela 23, Riga, LV-1010, Latvia Holding: 91.5993%</p> <p>LIELIE RĪTABUĻI, SIA Lāčplēša iela 47-2, Riga, LV-1011, Latvia Holding: 8.4007%</p>
Ultimate parent company	ABLV Bank, AS
Names of the Council members, their positions	<p>From 4 August 2016:</p> <p>Ernestis Bernis, Chairman of the Council Ieva Valtere, Deputy Chairman of the Council Māris Kanneieks, Council Member</p>
Names and positions of board members	<p>From 4 August 2016:</p> <p>Andris Kovaļčuks, Chairman of the Board Arnolds Romeiko, Board Member</p> <p>Until 3 August 2016:</p> <p>Māris Kanneieks, Chairman of the Board Ernestis Bernis, Board Member</p>
Reporting period	1 January 2015 – 31 December 2015
Auditors	<p>KPMG Baltics SIA Licence No. 55 Vesetas iela 7 Riga, LV-1013 Latvia</p>

## Management Report

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Joint stock company Pillar Investment Group, AS, ("the Company") commenced conducting business operations on 6 June 2006.

The Company was founded to develop real estate property in Riga, Elizabetes street 21a, by performing renovation of this property, as a result of which the property was divided into separate apartments and non-residential premises with the objective of selling and renting out these separate properties. The reconstruction commenced in 2010 and was completed in 2013 and resulted in building 18 high class apartments and sales premises. As at the reporting date, all apartments of the Elizabetes street 21a project were sold. Commercial premises located in the building remained the property of the Company and were rented out to long-term tenants. This marked the end of the development project of the property in Riga, Elizabetes street 21a.

On 4 November 2015, the name of the Company was changed from Elizabetes Park House, SIA, to Pillar Investment Group, SIA and changes were made in its share capital, increasing it from EUR 2 845 to EUR 1 500 000.

As of 4 August 2016, the legal status of the Company is a joint stock company, which replaces the former status of a limited liability company.

The company has concluded the year with profit EUR 85 631 (annual report prepared according to the Law on the Annual Reports of Latvia). An informative report was prepared according to the International Financial Reporting Standards, in which the profit of the company in the accounting period is EUR 84 750 (2014 year: EUR 336 817), which will be left as undistributed profit.

The financial result of the reporting year is a profit of EUR 84 750 (2014: EUR 336 817), which will be added to retained earnings.

In 2016 the company has decided to invest in cash flow generating commercial real estate objects in Latvia, Germany and Luxembourg, which includes office buildings, warehouses and logistics centres. Commissioned objects will be the priority, however, it is not excluded that the acquisition of real estate development projects in various stages could also be possible. To that end, in the beginning of 2016, the share capital of the Company was increased to EUR 5 000 000. On 5 December 2016 the Company's share capital was increased to EUR 15 000 000.

The future operational goal of the Company is to secure a long term capital growth with an annual return rate of 10%, by investing in real estate.

The company's annual report for the year 2015 has been prepared in accordance with International Financial Reporting Standards (IFRS), approved in European Union, on the operation continuation principle. The report is of an informative nature. The company's annual reports until 31 December 2015 are prepared on the basis of the Law on the Annual Reports of Latvia. When preparing the 2015 annual report in accordance to IFRS, all changes that have affected the company's financial situation, financial performance and cash flow are provided in Annex 26 and will be taken into account in preparing the report for the year 2016.



Andris Kovaļčuks  
*Chairman of the Board*



Arnolds Romeiko  
*Board Member*

5 December 2016

## Financial Report

### Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2015

		2015	2014
	Notes	EUR	(unaudited) EUR
Net sales	10	659 614	2 022 252
Operating expenses	11	(527 963)	(1 489 855)
<b>Gross profit</b>		<b>131 651</b>	<b>532 397</b>
Selling expenses		(2 506)	(72 085)
Administrative expenses	12	(12 497)	(5 643)
Other operating income		24	3 433
Income / (loss) on investment property revaluation	15	3 000	(105 028)
Interest income	16	1 045	-
Interest expense	13	(22 264)	(18 548)
<b>Profit before tax</b>		<b>98 453</b>	<b>334 526</b>
Deferred tax	14	(13 703)	2 291
<b>Profit for the reporting period</b>		<b>84 750</b>	<b>336 817</b>

The accompanying notes on pages 10 to 36 form an integral part of these financial statements.



Andris Kovaļčuks  
Chairman of the Board



Arnolds Romeiko  
Board Member

5 December 2016

**Financial Statements****Statement of financial position as at 31 December 2015**

		<b>31 December</b>	<b>31 December</b>
		<b>2015</b>	<b>2014</b>
	<b>Notes</b>	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>	<b>EUR</b>
<b>Long-term investments</b>			
Investment property	15	748 000	745 000
Deferred tax assets	14	-	2 291
Loans	16	25 704	33 858
<b>Total long-term investments</b>		<b>773 704</b>	<b>781 149</b>
<b>Current assets</b>			
<b>Inventories</b>			
Inventories	15	-	511 252
<b>Total inventories</b>		<b>-</b>	<b>511 252</b>
<b>Receivables</b>			
Other receivables	17	319 882	9 017
Loans	16	8 154	7 955
<b>Total receivables</b>		<b>328 036</b>	<b>16 972</b>
Cash and cash equivalents	18	716 873	66 890
<b>Total current assets</b>		<b>1 044 909</b>	<b>595 114</b>
<b>Total assets</b>		<b>1 818 613</b>	<b>1 376 263</b>

The accompanying notes on pages 10 to 36 form an integral part of these financial statements.



Andris Kovaļčuks  
Chairman of the Board



Arnolds Romeiko  
Board Member

5 December 2016

**Financial Statements****Statement of financial position as at 31 December 2015**

		<b>31 December</b>	<b>31 December</b>
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
		<b>EUR</b>	<b>(unaudited)</b>
			<b>EUR</b>
<b>Shareholder's equity</b>			
Share capital	19	1 500 000	2 845
Reserves	19	40 813	100 660
Retained earnings/(Accumulated losses)		(12 049)	(348 866)
Profit for the reporting period		84 750	336 817
<b>Total shareholder's equity</b>		<b>1 613 514</b>	<b>91 456</b>
<b>Long-term liabilities</b>			
Deffered tax liabilities	14	11 412	-
<b>Total long-term liabilities</b>		<b>11 412</b>	<b>-</b>
<b>Short-term liabilities</b>			
Loans from realted parties	20	-	1 067 889
Trade accounts payable	21	176 526	180 332
Other liabilities		17 161	36 586
<b>Short-term liabilities</b>		<b>193 687</b>	<b>1 284 807</b>
<b>Total liabilities</b>		<b>205 099</b>	<b>1 284 807</b>

The accompanying notes on pages 10 to 36 form an integral part of these financial statements.



Andris Kovaļčuks  
Chairman of the Board



Arnolds Romeiko  
Board Member

5 December 2016

## Financial Report

### Statement of Cash Flows

#### For the year ended 31 December 2015

	Notes	2015 EUR	2014 (unaudited) EUR
<b>Cash flow from operating activities</b>			
Profit of the reporting year before tax		98 453	334 526
Adjustments for:			
Interest income		(1 045)	
(Gain)/loss on revaluation of investment property		(3 000)	105 028
Interest expenses		22 264	18 548
<b>Profit before changes in working capital</b>		<b>116 672</b>	<b>458 102</b>
Loans issued		-	(41 813)
Loan repaid		7 955	-
Interest received		1 045	-
Decrease of inventories		511 252	1 453 903
(Increase) in trade receivables		(310 865)	(5 599)
(Decrease) in trade payables		(23 231)	(96 899)
<b>Cash flow from operating activities</b>		<b>302 828</b>	<b>1 767 694</b>
<b>Cash flow from financing activities</b>			
Income from equity investments		1 497 155	-
Payout of share capital reduction		-	(2 988 031)
Loans received		-	2 600 000
Repayment of shareholder loans		(1 150 000)	(1 450 000)
<b>Net cash flows from/(used in) financing activities</b>		<b>347 155</b>	<b>(1 838 031)</b>
Increase/(decrease) in net cash during the reporting period		649 983	(70 337)
Cash at the beginning of the reporting period		66 890	137 227
<b>Cash at the end of the reporting year</b>	18	<b>716 873</b>	<b>66 890</b>

The accompanying notes on pages 10 to 36 form an integral part of these financial statements.



Andris Kovaļčuks  
Chairman of the Board



Arnolds Romeiko  
Board Member

5 December 2016



## Financial Report

### Statement of Changes to the Shareholders' Equity

#### For the year ended 31 December 2015

	Notes	Share capital EUR	Reserves EUR	Retained earnings/ (accumulated losses) EUR	Total equity and reserves EUR
<b>1 January 2014 (unaudited)</b>		<b>2 846</b>	<b>-</b>	<b>(348 866)</b>	<b>(346 020)</b>
<b>Total comprehensive income</b>					
Total comprehensive income for the reporting period (unaudited)		-	-	336 817	<b>336 817</b>
<b>Transactions with owners</b>					
Increase of reserves (unaudited)	19	(1)	100 660	-	<b>100 659</b>
<b>Balance at 31 December 2014 (unaudited)</b>		<b>2 845</b>	<b>100 660</b>	<b>(12 049)</b>	<b>91 456</b>
<b>1 January 2015</b>		<b>2 845</b>	<b>100 660</b>	<b>(12 049)</b>	<b>91 456</b>
<b>Total comprehensive income</b>					
Total comprehensive income for the reporting period		-	-	84 750	<b>84 750</b>
<b>Transactions with owners</b>					
Decrease of reserves	19	-	(59 847)	-	(59 847)
Share issue	19	1 497 155	-	-	1 497 155
<b>31 December 2015</b>		<b>1 500 000</b>	<b>40 813</b>	<b>72 701</b>	<b>1 613 514</b>

The accompanying notes on pages 10 to 36 form an integral part of these financial statements.



Andris Kovaļčuks  
Chairman of the Board



Arnolds Romeiko  
Board Member

5 December 2016

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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#### **(1) Reporting entity**

Pillar Investment Group, AS (hereinafter – the Company, previously Pillar Investment Group, SIA (until 3 August 2016), previously Elizabetes Park House, SIA (until 4 November 2015) was registered in the Enterprise Register of the Republic of Latvia on 6 June 2006. The legal address of the Company is Elizabetes Street 23, Riga, Latvia. The parent company of the Company is Limited Partnership Pillar Holding Company holding 88% since 13 April 2016 (91.5993% until 13 April 2016). Since 13 April 2016, the shareholders of the Company are PREMIUM FINANCE GROUP, SIA holding 8% shares and Cassandra Holding Company, SIA holding 4% shares (until 13 April 2016 Lielie Rītabuļi, SIA 8.4007%).

The Company is engaged in sales and rent of own real estate.

#### **(2) Accounting policies**

These financial statements were prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) on a going concern basis. The financial statements are prepared on the historical cost basis except for investment properties and interest-free loan which are measured at fair value.

These are the first financial statements of the Company prepared in accordance with IFRS. An explanation of how the transition to IFRSs has affected the Company's reported financial position, financial performance and cash flows is set out in Note 26.

These financial statements were approved by the Board for release on 5 December 2016. The shareholders' approval is pending. Shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

The reporting period is the 12 months from 1 January 2015 to 31 December 2015.

#### **(3) Functional and presentation currency**

Due to the change of the official currency of Latvia, from 1 January 2014 the functional and presentation currency of the Company is euro which replaced the national currency of Latvia, the lat. Comparative financial information of previous periods presented in lats, were translated into euros using the official exchange rate of LVL 0.702804 to EUR 1. As the Latvian lat used to be pegged to the euro at the same exchange rate the change of the functional and presentation currency did not impact the financial position of the Company, its financial performance or cash flows.

#### **(4) Estimates and judgments**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are recognised in the period when those estimates are reviewed and in the future periods.

Key sources of estimation uncertainty are the following:

##### **a) Valuation of investment property**

Land and buildings held to earn rental income are classified as investment property and are measured at fair value, with any changes in fair value recognised as profit or loss in the statement of comprehensive income. When an item of land and buildings is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in the profit and loss statement if it is a gain. Investment property is revalued by an external certified appraiser (refer to Note 15 - Investment property and inventory).

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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#### **b) Deferred tax asset**

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax amounts are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company has recognised a deferred tax asset in 2014 (refer to Note 14 - Corporate income tax) based on the assumption that future taxable profit will be available to cover tax losses.

#### **(5) Basis of measurement**

The financial statements are prepared on the historical cost basis except for investment property and a loan which are measured at fair value.

The profit and loss statement was prepared according to the turnover costing method. The statement cash flows was prepared according to the indirect method.

#### **(6) Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

##### **a) Foreign currencies**

All amounts in these financial statements are expressed in the Latvian national currency – euro (EUR). Transactions in foreign currencies were not made during the reporting period.

##### **b) Financial instruments**

Financial instrument is an agreement that simultaneously results in a financial asset of one party and a financial liability of the other party.

The key financial instruments held by the Company are financial assets – other receivables, other loans and cash and cash equivalents, and financial liabilities – loans from related parties, accounts payable to suppliers and other creditors arising directly from its business activities.

The Company is not a party to transactions with derivatives.

##### **c) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, rather than for sale, use in the production or supply of goods or services or for administrative purposes in the ordinary course of business. Investment property is initially recognized at cost and subsequently remeasured to fair value at each reporting date with changes in its fair value recognised in the profit or loss statement.

Investment property is land and buildings, other than owner-occupied property, held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business.

Cost includes expenses that are directly attributable to the acquisition of investment property. The cost of self-constructed investment property includes the cost of materials and direct labour and any other costs directly attributable to bringing the investment property to its working condition for the intended use, and capitalized borrowing costs.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property (are determined as the difference between the net disposal proceeds and the carrying amount) are recognised in profit or loss in the year of the retirement or disposal.

Transfers to investment property are made only when there is a change in use evidenced by end of owner-occupation, commencement of an operating lease to another party or commencement of development with a view to create investment property. Transfers from investment property are made only when there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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#### **d) Inventories**

Real estate property is transferred to inventories if it is planned to sell this property in the course of ordinary business.

Inventories (real estate properties held for sale) are measured at the lower of cost and net realizable value. Net realizable value of inventory is estimated by the management upon identifying that the recoverable amount of inventory is lower than cost. Where the recoverable amount of inventories (real estate properties held for sale) is lower than cost inventories are written down to a value reflecting maintenance related costs expected to be incurred to the date of sale and the cost to make the sale.

The recoverable amount of inventories is estimated using the income approach (Income Capitalisation Approach) under which management is required to make assumptions regarding the expected amounts of income and expenses and the rate of capitalisation.

Transfers between the above categories are made on a change in use.

#### **e) Leases**

##### *i) Leased assets*

Leases under which the Company assumes substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

##### *ii) Lease payments received*

Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term.

#### **f) Revenues**

##### *i) Income from disposal of real estate*

Income from the disposal of real estate is recognized when the Company has transferred all the significant risks and rewards incidental to ownership of the asset and the amount of revenue may be reasonably estimated.

##### *ii) Rental income*

Income from operating leases of real estate under which all the significant risks and rewards incidental to ownership are not transferred to the lessee is recognised in the profit and loss statement on a straight line basis during the lease term.

#### **g) Finance income**

Finance income represents interest income on properties sold under finance lease.

Interest income is recognized in the profit and loss statement using the effective interest rate method.

#### **h) Corporate income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

##### *i) Current tax*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

##### *ii) Deferred tax*

Deferred tax is recognized in respect of temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. These differences have primarily occurred due to tax loss available to be carried forward according to the tax declaration and fair value revaluation of investment property.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset on unused tax losses and other temporary differences is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

## Financial Report

### Notes to the Financial Statements

### For the year ended 31 December 2015

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Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **i) Long and short-term classification**

Amounts whose terms of receipt, payment or write off are due more than one year after the Financial statement date are classified as long term. Amounts to be received, paid or written off within 12 months of the Financial statement date are classified as short-term.

#### **j) Loans**

Subsequent to initial measurement, interest-free loans from related parties are measured at their amortized cost using market interest rate. Future cash flows throughout the expected lifetime or, when appropriate, a shorter period discounted to the net carrying amount of the financial liability. The difference between the nominal value and the initial fair value of the loan was recognised in reserves under equity. As part of subsequent measurement, the Company recognises interest expenses and decreases the reserve under equity by an appropriate amount.

### **(7) New standards and interpretations**

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

*(i) 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 meets the definition of 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.

It is expected that the amendments, when initially applied, will not have a material impact on the Company's financial statements because the Company has no interests in joint operations.

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

These amendments include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

It is expected that the amendments, when initially applied, will not have a material impact on the Company's financial statements.

*(iii) 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 a material impact on the Company's financial statements as the Company does not have items of property, plant and equipment and intangible assets depreciated or amortised using revenue-based methods.

*(iii) 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.

It is expected that the amendments, when initially applied, will not have a material impact on the Company's financial statements as the Company has no bearer plants.

## Financial Report

### Notes to the Financial Statements

### For the year ended 31 December 2015

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*(v) 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 financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

*(vi) 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 intends to carry its investments in subsidiaries made during 2016 at cost.

*(vii) IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted)*

This standard introduces a framework under which the Company is required to recognize revenue based on a 5-step model. The model changes the approach to revenue recognition.

Management is currently assessing the potential impact of this standard on the Company's financial statements.

*(viii) IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted)*

This amendment specifies that an entity with investments in a subsidiary that also has subsidiaries is required to measure this investment at fair value. A group subsidiary of a parent company may be exempt from the requirement to prepare consolidated financial statements.

It is expected that the amendments, when initially applied, will not have a material impact on the Company's financial statements.

*(ix) Annual improvements to IFRS*

The improvements introduce 18 amendments to 18 standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to reporting periods beginning or after 1 February 2015 or beginning or after 1 January 2016, and earlier application of these standards is permitted.

These standards and interpretations are not expected to have a material impact on the Company's financial statements.

The Company plans to adopt these standards and interpretations as they become effective.

## **(8) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of liabilities represents the risk of default.

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities.

In determining the fair value of assets or liabilities to the extent possible the Company uses observable market data. The fair value is classified into various levels of fair value hierarchy based on the inputs used in valuation methods:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Transfers between the levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the transfer occurred.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods:

- Discounted cash flow method;
- Market approach.

Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **a) Investment property**

The Company's portfolio of investment property is valued on an annual basis by an external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. Fair value is measured both using the income approach and the market approach.

The gross value of investment property is derived by applying market yields to the estimated value of lease. Where the actual lease payment is significantly different from the estimated payment adjustments are made to reflect the actual lease payment.

The market approach is based on market values, being the estimated amount for which property could be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

#### **b) Financial assets**

The fair value of loans is estimated as the present value of future cash flows discounted at the market rate of interest at the valuation date.

The approximate fair value of performing short-term financial assets at floating interest rates is assumed to equal their value at initial recognition and their subsequent carrying amount as the effect of discounting is considered to be insignificant.

Fair value is measured at initial recognition and for the purpose of financial statements – at each reporting date.

#### **c) Financial liabilities**

Non-derivative financial liabilities are measured at fair value at initial recognition and for reporting purposes – at each reporting date. For disclosure purposes, the fair value of financial liabilities with maturities exceeding 6 months is calculated based on the present value of future cash flows from payment of principal and interest discounted at the market rate of interest as at the reporting date.

The approximate fair value of short-term financial assets at floating interest rates is assumed to equal their value at initial recognition and their subsequent carrying amount as the effect of discounting is considered to be insignificant.

## **(9) Financial risk management**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of financial risks and capital. Further quantitative disclosures are included throughout these financial statements.

#### **Risk management framework**

The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. To achieve risk management objectives, risk management is part of the Company's operational

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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and management structure. Risk management is a process for identification, assessment and management of business risks that may prevent or threaten the achievement of business goals.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through training and management standards and procedures, the Company seeks to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company does not use derivatives to hedge financial risk and consequently does not use hedge accounting.

#### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

For the purposes of credit risk management, the Company has procedures in place which stipulate that goods are sold and services are provided to customers with appropriate credit history. The Company's management has established a procedure that sales of goods or services against payments on delivery or completion are made based on client evaluation procedures and certain limits are set on the amount of such goods or services. The most important factor is the customer's ability to make payments for goods and services in due time. The receivables disclosed in the statement of financial position are not secured except for finance lease receivables that are secured by mortgages.

Cash and cash equivalents are not exposed to a significant credit risk as counterparties are banks with high credit ratings.

The Company does not have significant credit exposures in relation to a single counterparty or a group of counterparties.

Regardless of the fact that the recoverability of finance lease and other receivables may be impacted by economic factors management believes that the Company is not exposed to a significant risk of loss.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk in line with the principle of prudence, ensuring that appropriate credit resources are available to cover liabilities in due time.

#### **Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business, which is evidenced by shareholder contributions. The Company seeks to maintain an optimum capital structure to reduce capital costs and keep third party funding to a minimum. The capital management goal set by the Company is to achieve a long term capital appreciation with an annual return rate of 10%, by investing in real estate. The actual performance of the Company in 2015 matched that planned.



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### For the year ended 31 December 2015

#### (10) Net sales

Net sales represents revenue generated during the reporting period from the Company's basic activities – sales of real estate properties and lease of premises, net of value added tax and discounts.

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
Income from disposal of real estate	582 784	1 952 444
Rental income	76 830	69 808
<b>Total</b>	<b>659 614</b>	<b>2 022 252</b>

#### (11) Operating expenses

The item represents costs incurred for generating net sales – such as costs to sell real estate properties disclosed at cost and costs related to purchase of related services.

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
Expenses on sale of properties	511 252	1 453 903
Maintenance of buildings	5 849	23 937
Real estate tax	5 566	11 514
Other operating expenses	5 000	-
Insurance of the building	296	501
<b>Total</b>	<b>527 963</b>	<b>1 489 855</b>

#### (12) Administrative expenses

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
Professional services *	9 465	3 359
Audit of the annual report	2 500	2 026
Legal services	333	158
Bank charges	199	100
<b>Total</b>	<b>12 497</b>	<b>5 643</b>

\*) In the reporting year, the Company did not employ staff. The Company has signed agreements on professional services to be provided by related parties.

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### For the year ended 31 December 2015

#### (13) Interest expenses

	2015 EUR	2014 (unaudited) EUR
Interest expenses *	22 264	18 548
<b>Total</b>	<b>22 264</b>	<b>18 548</b>

\*) Loans from related parties (Note 20).

#### (14) Corporate income tax

##### (i) Corporate income tax in the profit and loss statement:

	2015 EUR	2014 (unaudited) EUR
Current tax	-	-
Deferred tax	(13 703)	2 291
<b>Corporate income tax recognised in the profit and loss statement</b>	<b>(13 703)</b>	<b>2 291</b>

##### (ii) Reconciliation of effective income tax rate

Income tax expenses disclosed for the years ended 31 December 2015 and 2014 (unaudited) are different from those calculated by applying the statutory tax rate to the Company's profit before tax as reflected in the table below:

	2015 EUR	2014 (unaudited) EUR
<i>Profit before taxation</i>	98 453	334 526
Theoretical tax at the 15% rate	14 768	50 179
Effect of non-deductible expenses	(28 471)	7 364
Unrecognised provision for deferred tax asset	-	(55 252)
<b>Corporate income tax recognised in the profit and loss statement</b>	<b>(13 703)</b>	<b>2 291</b>

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

#### (iii) Changes in deferred tax asset

	Net balance as	Recognized in profit or loss	Net balance as	31 December 2015	
	at 1 January 2015 (unaudited)		at 31 December 2015	Deferred tax asset	Deferred tax liabilities
	EUR		EUR	EUR	EUR
Effect of changes in investment property	(14 533)	(10 173)	(24 706)	-	(24 706)
Effect of temporary differences in other positions	(2 467)	2 467	-	-	-
Tax losses brought forward	19 291	(5 997)	13 294	13 294	-
<b>Deferred tax assets (liabilities) before offsetting</b>				<b>13 294</b>	<b>(24 706)</b>
Tax offsetting				(13 294)	13 294
<b>Net deferred tax liabilities</b>				<b>-</b>	<b>(11 412)</b>

	Net balance as	Recognized in profit or loss	Net balance as	Balance at 31 December 2014 (unaudited)	
	at 1 January 2014 (unaudited)		at 31 December 2014	Deferred tax asset	Deferred tax liabilities
	EUR		EUR	EUR	EUR
Effect of changes in investment property	(19 486)	4 953	(14 533)	-	(14 533)
Effect of temporary differences in other positions	(2 772)	305	(2 467)	-	(2 467)
Tax losses brought forward	77 510	(58 219)	19 291	19 291	-
Unrecognised deferred tax asset	(55 252)	55 252	-	-	-
<b>Deferred tax assets (liabilities) before offsetting</b>				<b>19 291</b>	<b>(17 000)</b>
Tax offsetting				(17 000)	17 000
<b>Net deferred tax asset</b>				<b>2 291</b>	<b>-</b>

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### Notes to the Financial Statements

### For the year ended 31 December 2015

#### (15) Investment property and inventories

	Investment property EUR	Real estate for sale EUR	Total EUR
<b>Balance at 31 December 2013 (unaudited)</b>	<b>597 122</b>	<b>2 218 061</b>	<b>2 815 183</b>
Transfers (unaudited)	252 906	(252 906)	-
Disposals (unaudited)	-	(1 453 903)	(1 453 903)
Revaluation result recognised in profit and loss as loss of revaluation of investment property (unaudited)	(105 028)	-	(105 028)
<b>Balance at 31 December 2014 (unaudited)</b>	<b>745 000</b>	<b>511 252</b>	<b>1 256 252</b>
<b>Balance at 31 December 2014 (unaudited)</b>	<b>745 000</b>	<b>511 252</b>	<b>1 256 252</b>
Disposal	-	(511 252)	(511 252)
Revaluation result recognised in profit and loss as gain of revaluation of investment property	3 000	-	3 000
<b>31 December 2015</b>	<b>748 000</b>	<b>-</b>	<b>748 000</b>

Investment property includes two commercial properties with the same use, leased out to third parties. Both of the above agreements stipulate a non-cancellable period of 3 months. Rental income from investment property recognised in the profit and loss statement is EUR 76 830 (2014: EUR 69 808) and related operating expenses are EUR 3 487 (2014: EUR 3 487).

The fair value of investment property is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The fair value of investment property is EUR 748 000 (appraisals were carried out on 13 and 18 January 2016) and it is categorised as Level 3 in the fair value hierarchy. On 4 December 2014 the appraisal was EUR 745 000.

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

The table describes the valuation method used to arrive at the fair value of property, and the significant unobservable inputs:

Type	Valuation method	Significant unobservable inputs	Difference between significant unobservable inputs and fair value measurement
Investment property of EUR 529 000 (2014: EUR 526 000 (unaudited)) located in Riga, Elizabetes Street 21A No. 103	2015: Discounted cash flow method: The model is based on the discounted cash flow resulted from provision of services	Monthly related income – 30 EUR/m2 (based on the effective lease agreement) Annual growth in income - 0% (based on the effective lease agreement) Capitalization rate - 7.5 % Cash flow period - 5 years	The estimated fair value would increase (decrease) if: - The revenue growth rate was higher (lower); - The discount rate was lower (higher); - The cash flow forecast period was longer (shorter); - The estimated sales price at the end of the forecast period was higher (lower).
	2014: Discounted cash flow method: The model is based on the discounted cash flow resulted from provision of services	Monthly related income – 30 EUR/m2 (based on the effective lease agreement) Annual growth in income - 0% (based on the effective lease agreement) Capitalization rate - 8.0 % Cash flow period - 5 years	The estimated fair value would increase (decrease) if: - The revenue growth rate was higher (lower); - The discount rate was lower (higher); - The cash flow forecast period was longer (shorter); - The estimated sales price at the end of the forecast period was higher (lower).
	2015 and 2014: Market approach: Current value is calculated by reference to transactions with similar real estate properties	Comparable properties: Adjusted average contingent sales price per 1 m2 of the total area, rounded, EUR 2 780.	The estimated fair value would increase (decrease) if: - Sales prices for similar properties on the market increased (decreased); - Technical condition of the property improved (deteriorated).
		The same weighting is applied to both approaches, the Discounted Cash Flow Approach and the Market Approach.	

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

Type	Valuation method	Significant unobservable inputs	Difference between significant unobservable inputs and fair value measurement
Investment property of EUR 219 000 (2014: EUR 219 000 (unaudited)) located in Riga, Elizabetes Street 21A No. 101	2015: Discounted cash flow method: The model is based on the discounted cash flow resulted from provision of services	Monthly related income – 23.2 EUR/m <sup>2</sup> (based on the effective lease agreement) Annual growth in income - 0% (based on the effective lease agreement) Capitalization rate - 7.5 % Cash flow period - 5 years	The estimated fair value would increase (decrease) if: - The revenue growth rate was higher (lower); - The discount rate was lower (higher); - The cash flow forecast period was longer (shorter); - The estimated sales price at the end of the forecast period was higher (lower).
	2014: Discounted cash flow method: The model is based on the discounted cash flow resulted from provision of services	Monthly related income – 23.2 EUR/m <sup>2</sup> (based on the effective lease agreement) Annual growth in income - 0% (based on the effective lease agreement) Capitalization rate - 8.0 % Cash flow period - 5 years	The estimated fair value would increase (decrease) if: - The revenue growth rate was higher (lower); - The discount rate was lower (higher); - The cash flow forecast period was longer (shorter); - The estimated sales price at the end of the forecast period was higher (lower).
	2015 and 2014: Market approach: Current value is calculated by reference to transactions with similar real estate properties	Comparable properties: Adjusted average contingent sales price per 1 m <sup>2</sup> of the total area, rounded, EUR 2 809.	The estimated fair value would increase (decrease) if: - Sales prices for similar properties on the market increased (decreased); - Technical condition of the property improved (deteriorated).
		The same weighting is applied to both approaches, the Discounted Cash Flow Approach and the Market Approach.	

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

#### (16) Loans

	31 December 2015 EUR	31 December 2014 (unaudited) EUR
<b>Long term</b>	-	-
Finance lease	25 704	33 858
<b>Short term</b>		
Finance lease	8 154	7 955
<b>Total other loans</b>	<b>33 858</b>	<b>41 813</b>

On 22 December 2014 the Company signed lease agreement No. E12A-L-8/2014, which in its nature is a finance lease agreement. The agreement stipulates that the buyer purchases vacant premises No. 105 and the undivided shares of shared property located in Riga, Elizabetes iela 21a, both on lease terms. The total purchase price of these premises is EUR 54 400. The total purchase price consists of the first instalment of EUR 9 400 and five equal payments of EUR 9 000 each to be paid by the buyer yearly on 30 November starting with 30 November 2015. The last payment is scheduled to be made on 30 November 2019. The Company retains title to these premises until the buyer has paid the purchase price in full, executed all contractual liabilities and registered the property with Riga Land Register Department. Interest on this transaction is recognised by the Company at a 2.5% rate.

Payments receivable under finance lease by period:

	Receivable lease payments 31 December 2015 EUR	Present value of receivable lease payments 31 December 2015 EUR	Receivable interest income 31 December 2015 EUR	Receivable lease payments 31 December 2014 (unaudited) EUR	Present value of receivable lease payments 31 December 2014 (unaudited) EUR	Receivable interest income 31 December 2014 (unaudited) EUR
Below 1 year	9 000	8 154	846	9 000	7 955	1 045
2 to 5 years	27 000	25 704	1 296	36 000	33 858	2 142
<b>Total</b>	<b>36 000</b>	<b>33 858</b>	<b>2 142</b>	<b>45 000</b>	<b>41 813</b>	<b>3 187</b>

As at 31 December 2015 and 2014 the Company did not have overdue payments for the loan.

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### Notes to the Financial Statements

### For the year ended 31 December 2015

#### (17) Other receivables

	31 December 2015	31 December 2014
	EUR	(unaudited) EUR
Prepaid expenses	120	256
Trade receivables from related parties	504	-
Security money for a real estate property *	309 500	-
Advance payments for services	7 333	-
Overpaid value added tax	2 425	8 761
<b>Total</b>	<b>319 882</b>	<b>9 017</b>

\* On 18 December 2015 a security money agreement was signed between Pillar Investment Group, AS (then SIA) and NIF Projekts 1, SIA for EUR 309 500 based on which Pillar Investment Group, AS (then SIA) obtained the right to purchase the administrative building at Tehnikas Street 3, Riga International Airport, Marupe district. The rights arising from the security money agreement were transferred by Pillar Investment Group, SIA to its subsidiary – NHC 1, SIA, previously Pillar Investment 1, SIA (until 16 November 2016), which became a subsidiary of Pillar Investment Group AS on 27 January 2016. On 15 March 2016 NHC 1, SIA, previously Pillar Investment 1, SIA (until 16 November 2016) signed a purchase agreement with NIF Projekts 1, SIA for a total of EUR 7 147 600 (incl. VAT of EUR 957 600).

As at 31 December 2015 and 2014 the Company has no overdue other receivables.

#### (18) Cash and cash equivalents

As at 31 December 2014 and 2015, no restrictions apply to cash and cash equivalents.

	31 December 2015	31 December 2014
	EUR	(unaudited) EUR
Cash at bank		
- current account balances *	716 873	66 890
	<b>716 873</b>	<b>66 890</b>

\* Cash is held on accounts with ABLV Bank, AS, a related party.

#### (19) Shareholders' equity

##### *Share capital*

As at 31 December 2014 the registered share capital amounted to EUR 2 845 and consisted of 2 845 shares with nominal value of EUR 1.

On 4 November 2015 the share capital was increased by EUR 1 497 155 representing 1 497 155 shares with nominal value of EUR 1.

As at 31 December 2015 share capital amounts to EUR 1 500 000 and consists of 1 500 000 shares with nominal value of EUR 1. All shares are fully paid.



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### Notes to the Financial Statements

### For the year ended 31 December 2015

As at 31 December 2014 and 2015, the Company had the following shareholders:

Shareholders	31 December 2015		Balance at 31 December 2014 (unaudited)	
	%	EUR	%	EUR
Pillar Holding Company, KS	91.5993	1 373 989	91.5993	2 606
LIELIE RĪTABUĻI, SIA	8.4007	126 011	8.4007	239
<b>Paid-in capital (EUR)</b>		<b>1 500 000</b>		<b>2 845</b>

#### **Retained earnings**

According to the decision of 20 April 2016 by the Shareholders Meeting, profit for 2015 was retained undistributed and transferred to retained earnings brought forward from previous years.

#### **Reserves**

In 2014, share capital reserve was increased by EUR 1 as a result of recalculation of share capital from LVL to EUR. This reserve can be distributed to shareholders.

In 2014, share capital reserve was increased by EUR 100 659 resulting from fair value recognition of a loan from a related party. For details refer to Note 20.

In 2014, in total share capital reserve was increased by EUR 100 660 from deals mentioned above in this paragraph.

In 2015, interest for the loan was paid in the amount of EUR 59 847, therefore, the reserve was decreased by EUR 59 847 till EUR 40 813. For details refer to Note 20.

## **(20) Loans from related parties**

This note provides information on the contractual terms of loans carried at amortised cost. Detailed information about interest rate risk, currency risk and liquidity risk is provided in Note 22 (Fair value of financial instruments and risk management).

	31 December 2015	31 December 2014 (unaudited)
	EUR	EUR
<b>Loans, short term</b>		
Unsecured bank loans	-	1 067 889
<b>Total loans</b>	-	<b>1 067 889</b>

Loans from related parties include a loan from the parent company Pillar Holding Company, KS, amounting to EUR 1 150 000 and obtained on 17 April 2014. The loan had original maturity of 31 December 2017, and the annual interest rate of 0 %. No collateral is provided on the loan. Using the borrowing rate of 2.5%, management has estimated the initial fair value of the loan to be EUR 1 049 341. The difference between the nominal value and the initial fair value of the loan was recognised in reserves under equity. As part of subsequent measurement, interest expenses were recognised at a 2.5% rate and the reserve under equity was decreased by an appropriate amount. The loan was repaid by the Company before maturity on 2 November 2015 in the amount of EUR 1 150 000 when the amortised cost of it was EUR 1 090 153. The difference between the amortised carrying amount and the amount paid was disclosed as a decrease in the reserve under equity.

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

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#### (21) Trade accounts payable

	31 December 2015	31 December 2014
	EUR	(unaudited) EUR
Guarantee period security *	176 526	180 332
<b>Total accounts payable to suppliers and contractors</b>	<b>176 526</b>	<b>180 332</b>

\* The Company withholds a guarantee period security amount until the builder has fulfilled his guarantee liabilities. Liabilities of EUR 176 526 represent the withholding for the building guarantee period, for which the initial invoice was issued on 11 June 2015. The amount has been outstanding for more than 6 months on account that a dispute had arisen regarding repairs under guarantee and defects, and a final resolution has not been made.

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

#### (22) Fair value of financial instruments and financial risks

##### (a) Fair value

The table represents the carrying amounts and fair values of financial assets and financial liabilities with the relevant level of fair value hierarchy. These financial assets and financial liabilities are not measured at fair value for accounting purposes.

##### As at 31 December 2015

	Carrying amount	Fair value Level 3
	EUR	EUR
<b>Assets</b>		
Other loans (long term)	25 704	25 595
Trade receivables from related parties	504	504
Other loans (short term)	8 154	8 084
Cash and cash equivalents	716 873	716 873
<b>Total</b>	<b>751 235</b>	<b>751 056</b>
<b>Liabilities</b>		
Trade accounts payable	176 526	176 526
Other liabilities	17 161	17 161
<b>Total</b>	<b>193 687</b>	<b>193 687</b>

##### Balance at 31 December 2014 (unaudited)

	Carrying amount	Fair value Level 3
	EUR	EUR
<b>Assets</b>		
Other loans (long term)	33 858	33 858
Other loans (short term)	7 955	7 955
Cash and cash equivalents	66 890	66 890
<b>Total</b>	<b>108 703</b>	<b>108 703</b>
<b>Liabilities</b>		
Loans from related parties	1 067 889	1 067 889
Trade accounts payable	180 332	180 332
Other liabilities	36 586	36 586
<b>Total</b>	<b>1 284 807</b>	<b>1 284 807</b>

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

The table describes the valuation method used to arrive at the Level 3 fair value, and the significant unobservable inputs:

Type	Valuation method	Significant unobservable inputs
Other loans (long term), Other loans (short term)	Discounted cash flow method	<p>2015: The loan was issued on 22 December 2014. According to the agreement, the last payment is to be made on 30 November 2019. Consequently the discounting period is 5 years.</p> <p>Interest on this transaction is recognised by the Company at a 2.5% rate. Had the Company issued this loan in 2015, it would have applied a 2.7% rate. (interest rate on loans issued to local companies in EUR as at 31.12.2015 according to publicly available data of the Bank of Latvia). Consequently, the fair value of EUR 33 679 as at 31.12.2015 was determined using a discount rate of 2.7%.</p> <p>2014: As the loan was issued by the Company on 22 December 2014, which is a date close to 31 December 2014, it is considered that the carrying amount does not differ significantly from the fair value.</p>
Trade receivables from related parties	-	As at 31 December 2015 and 2014 the Company does not have overdue other receivables, therefore it is considered that the carrying amount does not differ significantly from the fair value.
Cash and cash equivalents	-	As at 31 December 2015 and 2014 the Company has no restrictions on cash and cash equivalents, therefore it is considered that the carrying amount does not differ significantly from the fair value.
Loans from related parties	-	The loan matures on 31 December 2017 and the discount period is 3 years. The discount rate is 2.5%.
Trade accounts payable Other liabilities	-	As at 31 December 2015 and 2014 the Company does not have long-term payables, therefore it is considered that the carrying amount does not differ significantly from the fair value.

No changes in the fair value hierarchy took place in 2015 and 2014.

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### For the year ended 31 December 2015

#### (b) Credit risk

The maximum credit risk connected with financial assets is reflected in their carrying amounts. Financial assets exposed to credit risk by geographic region at reporting dates are as follows:

	31 December 2015	31 December 2014
	EUR	(unaudited) EUR
Trade receivables from related parties	504	-
Security money paid for a real estate property	309 500	-
Loans	33 858	41 813
<b>Total</b>	<b>343 862</b>	<b>41 813</b>

As at 31 December 2015 and 31 December 2014, payments for the above financial assets are not overdue and no impairment allowances are recognised. As at 31 December 2015 and 31 December 2014 the Company has not issued financial guarantees.

#### (c) Liquidity risk

The remaining maturities according to financial liability agreements at the reporting date are as follows:

##### 31 December 2015

	Carrying amount	Contractual cash flows	3 months or less	Non-fixed term
Non-derivative financial liabilities	EUR	EUR		EUR
Trade accounts payable *	176 526	176 526	-	176 526
Other liabilities **	17 161	17 161	2 961	14 200
<b>Total</b>	<b>193 687</b>	<b>193 687</b>	<b>2 961</b>	<b>190 726</b>

\* Guarantee period security. For details refer to Note 21.

\*\* EUR 14 200 - security deposits received from tenants.

##### Balance at 31 December 2014 (unaudited)

	Carrying amount	Contractual cash flows	3 months or less	1-5 years	Non-fixed term
Non-derivative financial liabilities	EUR	EUR	EUR	EUR	EUR
Loans from related parties	1 067 889	1 067 889	-	1 067 889	-
Trade accounts payable *	180 332	180 332	-	-	180 332
Other liabilities **	36 586	36 586	22 386	-	14 200
<b>Total</b>	<b>1 284 807</b>	<b>1 284 807</b>	<b>22 386</b>	<b>1 067 889</b>	<b>194 532</b>

According to the amendments to loan agreement No. PHCL/2014/4 made on 19 December 2014, the loan matures on 31 December 2017. Upon the decision made by the Company's management the loan was repaid on 2 November 2015.

\* Guarantee period security. For details refer to Note 21.

\*\* EUR 14 200 - security deposits received from tenants.

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### Notes to the Financial Statements

#### For the year ended 31 December 2015

#### (d) Currency risk

As the Company operates only in EUR, it is not exposed to currency risk.

#### (e) Interest rate risk

At the reporting date and the reporting date of the comparable period the Company does not have significant interest-bearing financial instruments at floating interest rates.

### (23) Operational segments

The operational activities of the Company may be analysed by separating revenues generated from sales of real estate and revenues generated from lease of premises. Revenues are analysed and separated in the two above segments.

All expenses are analysed by the Company's management on an aggregate level without singling out expenses of each separate segment and assets and liabilities allocated to each segment.

Revenue by type	2015 EUR	2014 (unaudited) EUR
Sale or real estate	582 784	1 952 444
Rent of premises	76 830	69 808
<b>Total</b>	<b>659 614</b>	<b>2 022 252</b>

Revenue by geographic region	2015 EUR	2014 (unaudited) EUR
Latvia	659 614	2 022 252
<b>Total</b>	<b>659 614</b>	<b>2 022 252</b>

Revenue by key customer	2015 EUR	2014 (unaudited) EUR
Individuals with transaction volumes exceeding 10% of revenue	582 784	1 706 124
Other	76 830	316 128
<b>Total</b>	<b>659 614</b>	<b>2 022 252</b>

In 2015, the Company entered into a single transaction (sale of a real estate property to an individual) which exceeded 10% of revenue for 2015. In 2016, the Company entered into three transactions (sale of a real estate property to an individual) which exceeded 10% of revenue for 2016.

### (24) Transactions with related parties

According to the definition of a related party laid down in IAS 24 *Related Party Disclosures* related parties are legal and natural persons associated with the Company in the following manners.

- (i) A person or a close member of that person's family is related to a reporting entity if that person:
- (i.i) has control or joint control over the reporting entity;
  - (i.ii) has significant influence over the reporting entity; or
  - (i.iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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- (ii) An entity is related to a reporting entity if any of the following conditions applies:
- (ii.i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii.ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (ii.iii) Both entities are joint ventures of the same third party;
  - (ii.iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (ii.v) The entity is controlled, or jointly controlled by a person identified in (a);
  - (ii.vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent company);
  - (ii.vii) The entity or any member of the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

#### a) Control relationships

The parent company is Pillar Holding Company, KS, which issued a loan of EUR 1 150 000 on 17 April 2014. Details on the above loan are provided in Note 20 (Loans from related parties).

#### b) Transactions with members of the Board and management

In the reporting period, members of the Board did not receive remuneration for their work on the Board and no transactions were carried out with members of the Board and management.

#### c) Other related party transactions

The statement of profit and loss and other comprehensive income and the statement of financial position as at 31 December 2015 and 31 December 2014 discloses the following transactions and balances with related parties. Transactions between the Company and its related parties are carried out on an arm's length basis and are properly reflected in the Company's transfer pricing methodology.

The most significant transactions and amounts are the following:

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
<b>Income from disposal of real estate to related parties</b>		
Other related individuals (Olegs Fils)	582 784	-
<b>Total</b>	<b>582 784</b>	<b>-</b>
	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
<b>Services purchased from related parties</b>		
Other related companies	13 396	45 909
<b>Total</b>	<b>13 396</b>	<b>45 909</b>
	<b>31 December 2015</b>	<b>31 december 2014</b>
	<b>EUR</b>	<b>(unaudited)</b>
		<b>EUR</b>
<b>Trade receivables from related parties and other receivables</b>		
Other related companies	504	-
<b>Total</b>	<b>504</b>	<b>-</b>

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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#### **(25) Subsequent events**

On 21 January 2016 the Company signed a purchase agreement with Pillar Holding Company, KS on the purchase of 10% shares of Pillar 10, SIA. According to the agreement, a first instalment of the purchase price of EUR 200 000 was to be made and the agreement of 20 April 2016 specified a final payment of EUR 29 686. The total purchase price is EUR 229 686. The total price was paid before 22 April 2016. Pillar 10 SIA was acquired as an aggregation of assets.

The name of the newly acquired subsidiary was changed to Pillar Investment 1, SIA and a share capital contribution of EUR 1 046 676 was made.

On 16 November 2016 the name of the subsidiary Pillar Investment 1, SIA has been changed to NHC 1, SIA.

On 25 January 2016 the Company founded Pillar Investment 2, SIA. On 17 November 2016 the name of the company has been changed to NHC 2, SIA.

On 8 February 2016, the Company's share capital was increased to EUR 3 000 000 represented by 3 000 000 shares with nominal value of EUR 1.

On 13 April 2016, the Company's share capital was increased to EUR 5 000 000 represented by 5 000 000 shares with nominal value of EUR 1 and changes were made to the shareholder structure.

On 15 April 2016, the Company received a loan of EUR 2 800 000 from Pillar Holding Company, KS. The loan matures on 31 December 2016, and the annual interest rate is 4%. The loan was granted in the form of credit line, and it is completely repaid as at 31 October 2016.

On 15 April 2016 the Company issued a loan of EUR 5 700 000 to NHC 1, SIA for the purchase of an administration building at Tehnikas Street 3, Riga International Airport, Marupe district. The loan matures on 31 December 2016, and the annual interest rate is 4.5%.

On 18 April 2016 the Company received a loan of EUR 493 000 from ABLV Bank, AS to finance future investment projects. The loan matures on 17 February 2036, and the annual interest rate is 2.0%.

On 2 May 2016 NHC 1, SIA completed the acquisition of the administration building at Tehnikas Street 3, Riga International Airport, Marupe district and commenced leasing it out.

On 20 May 2016 the Company founded Pillar Investment 3, SIA. On 17 November 2016 the name of the company has been changed to NHC 3, SIA.

On 1 September 2016 NHC 3, SIA invested EUR 6 205 000 in acquisition of real estate, property rights is enshrined in the Land Register on 22 November 2016.

On 5 December 2016, the Company's share capital was increased to EUR 15 000 000 represented by 15 000 000 shares with nominal value of EUR 1.

#### **(26) Explanation of transition to IFRS**

As explained in Note 2, these are the first financial statements of the Company to be prepared in accordance with IFRS.

The accounting policies set out in Note 6 were applied in the preparation of the 2015 financial statements, comparables as at 31 December 2014 and for the year then ended, and the preparation of the opening statement of financial position according to IFRS as at 31 December 2013 (the date of transition to IFRS).

The Company has restated amounts previously reported in the financial statements prepared according to the Annual Reports Law of the Republic of Latvia. The effect of transition from the Annual Reports Law (previous GAAP) to IFRS on the Company's financial position, performance and cash flows is explained in the tables below and the notes thereto.



## Financial Report

### Notes to the Financial Statements

### For the year ended 31 December 2015

	Note	Effect of transition to			Effect of transition to		
		Previous GAAP (unaudited) EUR	IFRS as at 31.12.2014 (unaudited) EUR	IFRS (unaudited) EUR	Previous GAAP (unaudited) EUR	IFRS as at 31.12.2013 (unaudited) EUR	IFRS (unaudited) EUR
<b>Assets</b>							
Investment property	a	709 584	35 416	745 000	493 172	103 950	597 122
Deferred tax asset	b	10 070	(7 779)	2 291	-	-	-
Other long-term receivables	c	45 000	(45 000)	-	-	-	-
Loans	d	-	33 858	33 858	-	-	-
<b>Total long-term investments</b>		<b>764 654</b>	<b>16 495</b>	<b>781 149</b>	<b>493 172</b>	<b>103 950</b>	<b>597 122</b>
Stock		511 252	-	511 252	2 218 061	-	2 218 061
Other receivables	e	8 761	256	9 017	3 001	417	3 418
Prepaid expenses	f	256	(256)	-	417	(417)	-
Loans	g	-	7 955	7 955	-	-	-
Cash and cash equivalents		66 890	-	66 890	137 227	-	137 227
<b>Total current assets</b>		<b>587 159</b>	<b>7 955</b>	<b>595 114</b>	<b>2 358 706</b>	<b>-</b>	<b>2 358 706</b>
<b>Total assets</b>		<b>1 351 813</b>	<b>24 450</b>	<b>1 376 263</b>	<b>2 851 878</b>	<b>103 950</b>	<b>2 955 828</b>
<b>Liabilities</b>							
Share capital		2 845	-	2 845	2 846	-	2 846
Reserves	u	1	100 659	100 660	-	-	-
Accumulated losses	h	(471 296)	122 430	(348 866)	(312 534)	18 480	(294 054)
Profit for the reporting period	i	433 712	(96 895)	336 817	(158 762)	103 950	(54 812)
<b>Total equity</b>		<b>(34 738)</b>	<b>126 194</b>	<b>91 456</b>	<b>(468 450)</b>	<b>122 430</b>	<b>(346 020)</b>
<b>Short-term liabilities</b>							
Trade accounts payable		180 332	-	180 332	180 332	-	180 332
Due to related parties	j	1 150 000	(1 150 000)	-	2 737 036	-	2 737 036
Other liabilities	k	14 200	22 386	36 586	260 995	22 954	283 949
Loans from related parties	l	-	1 067 889	1 067 889	-	-	-
Taxes		-	-	-	3 914	-	3 914
Customer advances		-	-	-	96 617	-	96 617
Deferred income	m	19 633	(19 633)	-	18 480	(18 480)	-
Accrued liabilities	n	22 386	(22 386)	-	22 954	(22 954)	-
<b>Total-short term liabilities</b>		<b>1 386 551</b>	<b>(101 744)</b>	<b>1 284 807</b>	<b>3 320 328</b>	<b>(18 480)</b>	<b>3 301 848</b>
<b>Total liabilities and equity</b>		<b>1 351 813</b>	<b>24 450</b>	<b>1 376 263</b>	<b>2 851 878</b>	<b>103 950</b>	<b>2 955 828</b>

## Financial Report

### Notes to the Financial Statements

#### For the year ended 31 December 2015

	Note	Previous GAAP (unaudited) EUR	Effect of transition to IFRS 2014 (unaudited) EUR	IFRS (unaudited) EUR
Net sales		2 022 252	-	2 022 252
Operating expenses	o	(1 514 835)	24 980	(1 489 855)
<b>Gross profit</b>		<b>507 417</b>	<b>24 980</b>	<b>532 397</b>
Other operating income	p	5 467	(2 034)	3 433
Income / (loss) on investment property revaluation	r	-	(105 028)	(105 028)
Selling expenses		(72 085)	-	(72 085)
Administrative expenses		(5 643)	-	(5 643)
Interest expenses	u	-	(18 548)	(18 548)
<b>Profit before tax</b>		<b>435 156</b>	<b>(100 630)</b>	<b>334 526</b>
Deferred tax	s	10 070	(7 779)	2 291
Real estate tax	t	(11 514)	11 514	-
<b>Profit for the reporting period</b>		<b>433 712</b>	<b>(96 895)</b>	<b>336 817</b>
<b>Total comprehensive income for the reporting period</b>		<b>433 712</b>	<b>(96 895)</b>	<b>336 817</b>

## Financial Report

### Notes to the Financial Statements

### For the year ended 31 December 2015

Naudas plūsma no pamatdarbības	Note	Previous GAAP (unaudited) EUR	Effect of transition to IFRS 2014 (unaudited) EUR	IFRS (unaudited) EUR
Profit of the reporting year before tax		435 156	(100 630)	334 526
Adjustments for:				
Revaluation expenses of investment property		-	105 028	105 028
Depreciation of investment property		36 494	(36 494)	-
Interest expenses	v	-	18 548	18 548
<b>Profit before changes in working capital</b>		<b>471 650</b>	<b>(13 548)</b>	<b>458 102</b>
(Decrease) in accrued liabilities	v	(568)	568	-
Loans issued	v	-	(41 813)	(41 813)
Decrease of inventories	z	-	1 453 903	1 453 903
(Increase) in trade receivables	v	(50 599)	45 000	(5 599)
(Decrease) in trade payables	v	(95 178)	(1 721)	96 899
<b>Cash flow from/(used in) operating activities</b>		<b>325 305</b>	<b>1 442 389</b>	<b>1 767 694</b>
Real estate tax	v	(11 514)	11 514	-
<b>Net cash flows from operating activities</b>		<b>313 791</b>	1 453 903	<b>1 767 694</b>
<b>Cash flows from investing activities</b>				
Decrease of inventories	z	1 453 903	(1 453 903)	-
<b>Net cash flows generated from investing activities</b>		<b>1 453 903</b>	(1 453 903)	-
<b>Cash flows from financing activities</b>				
Payout of share capital reduction		(2 988 031)	-	(2 988 031)
Loans received		2 600 000	-	2 600 000
Repayment of loans		(1 450 000)	-	(1 450 000)
<b>Net cash flows from financing activities</b>		<b>(1 838 031)</b>	-	<b>(1 838 031)</b>
(Decrease) in net cash during the reporting period		(70 337)	-	(70 337)
Cash at the beginning of the reporting period		137 227	-	137 227
<b>Cash at the end of the reporting year</b>		<b>66 890</b>	-	<b>66 890</b>

(a) According to the previous GAAP, investment property was measured at cost. In the IFRS financial statements, investment property is carried at fair value. The fair value as at 31.12.2015 was measured using the discounted cash flow approach based on the following data: monthly rental income of 30 EUR/m<sup>2</sup> (based on the effective lease agreement), expenses - 10% of rental income, capitalisation rate - 8.0%. For more details on the fair value measurement as at 31.12.2014 please refer to Note 15.

(b), (s) Effect changes described in points (o), (p) and (r).

(c), (d), (g) In the IFRS financial statements, other long-term receivables were reclassified to loans, divided into short and long term portions and carried at discounted value with interest income recognised according to the effective interest rate method and by eliminating interest income of future periods which were previously recognized under liabilities. For details on this transaction please refer to Note 16.

(e), (f) Based on the principle of materiality, in the IFRS financial statements prepaid expenses were included in other receivables.

(h), (i) This item was impacted also by the changes described in points (o), (p), (r), (s), (t).

## **Financial Report**

### **Notes to the Financial Statements**

### **For the year ended 31 December 2015**

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(j), (l) In the IFRS financial statements, the item Due to related parties was renamed to Loans from related parties and recognised at fair value. Details are provided in Note 20.

(k), (n) Based on the principle of materiality, in the IFRS financial statements accrued liabilities were included in other liabilities.

(m), (p) In 2009 the Company built a transformer that also supports the operations of the ultimate parent company. The cost of building was compensated by the ultimate parent company. The transaction was recognised by the Company as part of deferred income and gradually charged to other operating income (2013: 2 034, 2014: 2 034). According to IFRS, the transaction should have been recognised as other operating income on the date it took place. Accordingly, the required adjustments were made to deferred income as at 31 December 2014 by EUR 16 445 (2013: EUR 18 480) and operating income for 2014 was decreased by EUR 2 034, the amount of revenue recognised in 2014 in relation to this transaction. Deferred income was adjusted by EUR 3 188, an amount that was disclosed as future interest income for the concerned transaction in points (c), (d), (g).

(o) According to the previous GAAP, investment property was measured at cost. In the IFRS financial statements, investment property is carried at fair value. This led to an adjustment of operating expenses by depreciation of investment property in the amount of EUR 36 494. Effect from the changes described in point (t).

(t) In the IFRS financial statements, real estate tax of EUR 11 514 was transferred from real estate tax to operating expenses.

(r) According to the previous GAAP, investment property was measured at cost. In the IFRS financial statements, investment property is carried at fair value. This led to recognising the revaluation result of EUR 105 028 under other operating expenses.

(u) In the IFRS financial statements, the loan is recognised at fair value. The difference between the nominal value and the initial fair value of the loan was recognised in reserves under equity. As part of subsequent measurement, interest expenses were recognised at a 2.5% rate. Details are provided in Note 20.

(v) Effect of changes referred to in the above points.

(z) In the IFRS financial statements, the decrease in inventories (real estate property held for sale) is classified as cash flows from operating activities.



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## **Independent Auditors' Report**

### **To the shareholders of Pillar Investment Group, AS**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pillar Investment Group, AS (previously, Pillar Investment Group SIA and Elizabetes Park House, SIA, "the Company"), which comprise the statement of financial position as at 31 December 2015, the 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 5 to 36.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these 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 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 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Other matters*

The respective corresponding figures are based on the Company's financial statements as at and for the year ended 31 December 2014, which were not audited.

KPMG Baltics SIA

License No 55

A handwritten signature in blue ink, appearing to be 'A. Movsisjana'.

Armine Movsisjana  
Chairman of the Board  
Riga, Latvia  
5 December 2016

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