

JOINT STOCK COMPANY "PATA SILDUS"

ANNUAL REPORT

for the 12 months period started on 1 January 2017 and ended 31 December 2017

Sildus, 2018

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The Annual Report is prepared as a unitary document and includes the Report of the Management, the Financial Statements and the Independent Auditor's Report.

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INFORMATION ON THE COMPANY

Name of the company	Joint Stock Company "PATA Saldus"
Legal status of the company	Joint Stock Company
Number, place and date of registration	Commercial register No 40003020121 August 26, 1991, Rīga
Address	Kuldīgas iela 86C, Saldus novads Saldus, LV-3801 Latvia
Type of operations	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 - sawmilling and planing of wood
Members of the Board	Andris Krastiņš - Chairman of the board Jānis Mierkalns - member of the board Ilze Bukulde - member of the board Gatis Zommers - member of the board
Members of the Council	Uldis Mierkalns - Chairman of the Council Jānis Bertrāns - Deputy Chairman of the Council Inga Mierkalna - member of the Council Atis Kalniņš - member of the Council (is released September 22, 2017) Ieva Sniedze - member of the Council
Subsidiary enterprise	
1. Name of the company	PAKULI SPORTS PREMISES (PAKUĻU SPORTA BĀZE) (100%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE	48503009010, November 21, 2002
Address	"Mežvidi", Novadnieku pag., Saldus novads, LV-3801
The main areas of activities of the company	Other sports activities
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2017
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2017

JOINT STOCK COMPANY "PATA SILDUS"
Comercial register Nr. 40003020121, Kuldīgas iela 86C, Saldus, Saldus nov., LV-3801
ANNUAL REPORT for the 12 months started on January 2017 and ended 31 December 2017

Associated enterprise	
1. Name of the company	SILDUS ENERGY (<i>SILDUS ENERĢIJA</i>) (20%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE	40103265702, December 22, 2009
Address	Cesu street (Cēsu iela) 14, Riga (Rīga), LV-1012
The main areas of activities of the company	Production of electricity, activities of holding companies
Owner of the company	PATA Saldus (PATA Saldus), JSC – 20%
Reporting year	January 1-December 31, 2017
Parent company	
1. Name of the company	PATA (PATA) (67%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE	40003448619, June 10, 1999
Address	Miera iela 2 (Miera iela 2), Incukalns (Inčukalns), LV-1004
The main areas of activities of the company	Wholesale of wood, silviculture and other forestry activities.
Owner of the company	Uldis Mierkalns (Uldis Mierkalns) – 100%
Reporting year	January 1 – December 31, 2017
Financial year	1 January, 2017 - 31 December, 2017
Name and address of the Auditor	Nexia Audit Advice LLC Certified Auditor's Licence No. 134 Number of registration No. 40003858822 Grecinieku iela 9-3 (Grēcinieku iela 9-3) Rīga (Rīga), LV-1004 Latvia Certified Auditor Marija Jansone LZRA Certificate No. 25

According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12/125673/1 of 22.09.2017 JSC Saldus PATA has recorded the following changes in the Council:

- Released member of the Council – Atis Kalnins (Atis Kalniņš)

REPORT OF THE MANAGEMENT

Type of operations

Principal activities of the Company are forestry and primary wood processing - lumber production. The company complies with FSC and all other environmental requirements. In order to comply with these requirements the Company takes appropriate monitoring and improvement actions on regular basis, however costs for these actions are relatively low with respect to overall production costs.

Performance of the Company during the financial year

JSC PATA Saldus profit from operating activities in 2017 was 2 798 757 EUR with a net turnover of 50 916 550 euros, which represents earnings per share issued of 6,76 EUR. The Company's financial statements have been prepared based on the information available to board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Company and consolidated group. It is in interest of the Company to take care of their employees' social protection and well-being, because only then the development of the Company can be sustainable. During the reporting year profit has increased by 2 024 973 EUR, net turnover has increased by 8 316 897 EUR. As at 31 December 2017, the Company's current assets exceeded current liabilities by 4 918 911 EUR, while total assets exceeded total liabilities by 10 501 128 EUR.

Financial risk management

Main financial instruments of the Company are loans, finance and operating leases, cash and cash equivalents. The purpose of these financial instruments is to provide the Company with necessary financial depth. The Group has also other financial instruments, such as trade receivables and payables, that are generated through operational activities. The main financial risks arising from use of financial instruments are interest, credit and liquidity risks. In order to reduce financial risks, the Company performs planning of budget and cash flows, with various scenarios applied. Management performs monitoring and control of commercial activities and actual flow of finances for group companies on regular basis. An additional guarantee for proper risk evaluation are credit institutions, that assess credit risk of the company on regular basis by setting a customised credit rating for the entity.

The policy of financial risk management of the Company is described in Note 42 of this financial statement

Subsequent events

In the time period between the last day of the financial year and the date of signing the financial statements there have been no significant events that would significantly effect financial results for the year or the financial position of the Company.

Future prospects

In 2018, the Company will continue to develop and expand environmentally friendly logging according to FSC and PEFC Forest Management and Wood Flow Certificate requirements.

In 2018, it is planned to expand its activities by installing additional timber drying plants with recuperation, where for heating renewable energy will be used. The Company will continue to work on raising employee satisfaction and loyalty, which will improve the efficiency of work, increase productivity, increase customer satisfaction, thus leading to an improvement in the overall financial performance of the Company.

Statement of Management Responsibility

Management is responsible for preparing financial statements based on the initial accounting records of each year of account, which truly reflects the company's financial position at the end of the year of account, as well as results of operations and cash flows for the period.

The Management confirms that, in preparing this report for the period ending on 31 December 2017, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Report on corporate governance for 2017 is electronically publicly available on Nasdaq Riga corporate website: <http://www.nasdaqbaltic.com/market/>.

Andris Krastiņš
Chairman of the board

Saldus, 27 April 2018

Jānis Mierkalns
board member
Ilze Bukulde
board member
Gatis Zommers
board member

INCOME STATEMENT

	Notes	2017 EUR	2016 EUR
Revenue	(2)	50 916 550	42 599 653
Costs of goods sold or services provided	(3)	(47 192 227)	(41 631 333)
Gross profit or losses		3 724 323	968 320
Distribution expenses	(4)	(10 373)	(12 642)
Administrative expenses	(5)	(455 067)	(564 888)
Other operating income	(6)	1 036 850	828 363
Other operating expenses	(7)	(1 011 399)	(479 208)
Interest and similar income incl. <i>a) from group companies</i> <i>a) from other parties</i>	(8)	3 319 3 250 69	3 127 3 042 85
Interest and similar expenses incl. <i>b) for other parties</i>	(9)	(328 739) (328 739)	(341 020) (341 020)
Profit or losses before corporate income tax		2 958 914	402 052
Corporate income tax for the financial year	(10)	(64 016)	0
Profit or losses after corporate income tax		2 894 898	402 052
Changes in deferred tax assets or liabilities	(10)	(96 141)	371 732
Profit or losses for the financial year		2 798 757	773 784
		6.76	1.87

Notes on pages 11 to 27 are an integral part of these financial statements.

 Andris Krastiņš
 Chairman of the board

 Inga Siliņa
 Chief Accountant

Saldus, 27 April 2018

 Jānis Mierkalns
 board member
 Ilze Bukulde
 board member
 Gatis Zommers
 board member

BALANCE SHEET

		31.12.2017. EUR	31.12.2016. EUR
	Notes		
<u>ASSETS</u>			
Non-current assets			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights	(11)	19 502	19 125
Total intangible assets:		19 502	19 125
Fixed assets:			
Immovable properties			
a) land plots, buildings and engineering structures	(12)	6 228 830	6 587 990
Fauna and flora:			
b) biological assets	(12)	862 816	765 836
Technological equipment and machinery	(12)	11 766 742	13 058 594
Other fixed assets	(12)	70 983	55 817
Fixed assets under development and construction in progress	(12)	1 722 773	3 000
Total fixed assets:		20 652 144	20 471 237
Non-current financial investments:			
Investments in group companies	(13)	1 009 149	1 009 149
Receivables from group companies	(19)	696 250	988 518
Participation in capital of associates	(13)	8 540	8 540
Deferred tax assets	(10)	384 565	480 706
Total non-current financial investments:		2 098 504	2 486 913
Total non-current assets:		22 770 150	22 977 275
Current assets			
Inventories:			
Raw materials and consumables	(14)	2 069 681	1 830 391
Work in progress	(15)	1 603 943	1 824 568
Finished goods and goods for sale	(16)	1 077 796	1 276 054
Fauna and flora			
b) biological assets		1 085 082	635 755
Non-current investments held for sale	(17)	0	274 997
Advances for inventories		51 004	63 991
Total inventories:		5 887 506	5 905 756
Account receivable:			
Trade receivables	(18)	177 087	153 325
Receivables from group companies	(19)	6 019 719	3 782 696
Receivables from associates	(20)	20 729	184 482
Other receivables	(21)	176 804	249 897
Deferred expenses	(22)	270 058	165 165
Total receivables:		6 664 397	4 535 565
Cash and bank:	(23)	114 483	311
Total current assets:		12 666 386	10 441 632
<u>Total assets</u>		<u>35 436 536</u>	<u>33 418 907</u>

Notes on pages 11 to 27 are an integral part of these financial statements.

BALANCE SHEET

		31.12.2017. EUR	31.12.2016. EUR
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(24)	579 916	579 916
Share premium	(24)	2 828	2 828
Non-current investments revaluation reserve	(12)	1 370 057	1 570 057
Reserves:			
f) other reserves	(25)	3 741 168	3 741 168
Retained earnings or uncovered losses brought forward from previous years	(26)	2 008 402	1 234 618
Current year profit or losses	(26)	2 798 757	773 784
Total equity:		10 501 128	7 902 371
Liabilities:			
Non-current liabilities:			
Loans from banks	(27)	12 526 539	12 488 093
Other borrowings	(28)	2 972 289	3 285 957
Deferred income	(34)	1 689 105	1 911 689
Total non-current liabilities:		17 187 933	17 685 739
Current liabilities:			
Loans from banks	(27)	1 421 411	1 545 858
Other borrowings	(28)	1 158 353	1 202 928
Advances from customers	(29)	980	475
Trade payables	(30)	3 902 548	3 820 327
Payables to group companies	(31)	155 467	153 726
Taxes and state social insurance payments	(32)	247 318	289 355
Other creditors	(33)	189 104	179 763
Deferred income	(34)	222 583	222 583
Accrued liabilities	(35)	449 711	415 782
Total current liabilities:		7 747 475	7 830 797
Total liabilities:		24 935 408	25 516 536
<u>Total equity, provisions and liabilities</u>		<u>35 436 536</u>	<u>33 418 907</u>

Notes on pages 11 to 27 are an integral part of these financial statements.

 Andris Krastiņš
 Chairman of the board

 Inga Siliņa
 Chief Accountant

Saldus, 27 April 2018

 Jānis Mierkalns
 board member
 Ilze Bukulde
 board member
 Gatis Zommers
 board member

STATEMENT OF CHANGES IN EQUITY

		2017 EUR	2016 EUR
	Notes		
Share capital			
Opening balance		579 916	541 990
Increase/decrease in share capital		0	37 926
Closing balance		<u>579 916</u>	<u>579 916</u>
Stock (share) premium account			
Opening balance		2 828	2 828
Closing balance		<u>2 828</u>	<u>2 828</u>
Non-current investment revaluation reserve			
Opening balance		1 570 057	1 600 057
Increase/decrease of non-current investment revaluation reserve	(12)	(200 000)	(30 000)
Closing balance		<u>1 370 057</u>	<u>1 570 057</u>
Reserves			
Opening balance		3 741 168	3 741 168
Closing balance		<u>3 741 168</u>	<u>3 741 168</u>
Retained earnings			
Opening balance		2 008 402	1 234 618
Increase/decrease in retained earnings for the financial year		2 798 757	773 784
Closing balance		<u>4 807 159</u>	<u>2 008 402</u>
Equity			
Opening balance		7 902 371	7 158 587
Closing balance		<u><u>10 501 128</u></u>	<u><u>7 902 371</u></u>

Notes on pages 11 to 27 are an integral part of these financial statements.

 Andris Krastiņš
 Chairman of the board

 Inga Siliņa
 Chief Accountant

Saldus, 27 April 2018

 Jānis Mierkalns
 board member
 Ilze Bukulde
 board member
 Gatis Zommers
 board member

CASH FLOW STATEMENT

		2017 EUR	2016 EUR
	Notes		
Cash flow from operating activities			
Profit or losses before corporate income tax		2 958 914	402 052
<u>Adjustments for:</u>			
depreciation and impairment of fixed assets	0	1 789 303	1 730 433
depreciation and impairment of intangible assets	0	14 666	14 364
provisions (except provisions for doubtful debts)		0	(213 657)
gain or losses from fluctuations of foreign currency rates		13 448	(17 156)
interest and similar revenue	0	(3 250)	(3 126)
impairment of non-current and current financial investments	0	(222 587)	0
interest and similar expenses	0	328 106	341 020
Profit or loss prior to changes in current assets and current liabilities		4 878 600	2 253 930
Increase or decrease of account receivable		(1 839 501)	(1 095 294)
Increase or decrease of inventory		(181 750)	(658 361)
Increase or decrease of account payables and other liabilities		(55 199)	1 445 852
Gross cash flow generated from operating activities		2 802 150	1 946 127
Interest payments		(328 189)	(339 360)
Corporate income tax payments		(64 016)	0
Net cash flow generated from operating activities		2 409 945	1 606 767
Cash flow from investing activities			
Acquisition of fixed and intangible assets		(3 042 801)	(579 091)
Proceeds from sale of fixed and intangible assets		1 065 926	41 500
Loans issued		(28 352)	(13 006)
Net cash flow generated from investing activities		(2 005 227)	(550 597)
Cash flow from financing activities			
Loans received		1 620 113	333 436
Subsidies, grants, gifts or donations received		0	51 415
Repayment of loans		(1 706 114)	(1 160 176)
Finance lease payments		(204 545)	(285 459)
Net cash flow generated from financing activities		(290 546)	(1 060 784)
Net cash flow in the financial year		114 172	(4 614)
Cash and cash equivalents at the beginning of the financial year	(23)	311	4 925
Cash and cash equivalents at the end of the financial year	(23)	114 483	311

Notes on pages 11 to 27 are an integral part of these financial statements.

Andris Krastiņš
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 27 April 2018

Jānis Mierkalns
board member
Ilze Bukulde
board member
Gatis Zommers
board member

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of accounting policies

General principles

Financial report has been prepared in accordance with Latvian law "On Accounting" and Law of annual financial statements and annual consolidated financial statements (the Law), as well as in accordance with Cabinet of Ministers rules No. 775 " rules of annual financial statements and consolidated annual financial statements law application." Derogating from the principles of the Law of annual financial statements and annual consolidated financial statements, the Company recognizes, values, presents biological assets in the financial statements in accordance with International Accounting Standard No. The financial statements have been prepared according to the historical cost accounting principle. The income statement is prepared in accordance with the function of expense method. The cash flow statement has been prepared under indirect cash flow method. The financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

Accounting policy ensures that the financial statement provides information, that: 1. is sufficient and complete enough to allow user of financial statement to draw sound conclusions about the Company. 2. is reliable in a way that: * revealed financial results and position of the Company is correct - not only legal form of the operations is revealed, but also their economical nature, are neutral in a way that the results are not subjectively biased and are precautionous; * Are complete in all essential aspects.

General accounting principles

Financial statement items are valued according to the following accounting principles:

- a) it is assumed that the Company will continue its activities;
- b) unless specified separately, the same valuation methods are used as in the previous year;
- c) valuation is made with sufficient precaution, meaning that:
 - profit is recognized only if earned before the end of financial year;
 - all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
 - all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.
- d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment or day when invoice/receipt was issued. Expenses are reconciled with the revenues of the financial year.
- e) Sections related to Asset and Equity, Provision and Liability items are evaluated and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offset.
- f) Transactions in the financial statement are represented according to their economic substance and matter rather than according to their legal form.

Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia.

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2017.	31.12.2016.
	EUR	EUR
1 USD	0.8338	0.9488
1 RUB	0.0144	0.0156

Income recognition and revenue

Revenue contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:

- Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
- Rendering of services - under the percentage of completion method;
- Income from fines and penalties - at the moment when payment is received;
- Interest income - on an accrual basis;
- Dividends - at the moment of acquiring legal rights to receive them.

Intangible investments and fixed assets

Intangible investments and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements intangible and fixed assets are recognized at purchase cost or revalued amount less depreciation.

The difference arising from revaluation is recognized in equity under "Non-current investment revaluation reserve", however value reduction is written-off from value increase that was recognised in reserve during prior years. Surplus is included in income statement.

In case of disposal or liquidation of fixed assets, the reserves are written-off to the Income statement in full amount.

Depreciation is calculated on a straight-line basis applying following rates of depreciation set by the management, which are based on the estimated useful life of fixed assets:

	Depreciation % per annum
Intangible assets	2-5
Buildings	10-20
Technological equipment	2-15
Other machinery and equipment, transport vehicles	2-10

The Company capitalizes its fixed assets valued over EUR 142 with useful life exceeding 1 year. 100% Depreciation is applied after commissioning for improvements and other low costs items with the value less than EUR 142.

If sufficient evidence is acquired that the future economic benefit associated with subsequent repair or reconstruction costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. By capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they have incurred.

Net gains or losses from disposal of fixed assets is calculated as the difference between the carrying amount of fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal has incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, value of fixed or intangible asset is decreased to its recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell this asset or value in use.

Biological assets

The Company has decided, that forest stands should be considered as biological assets. Biological assets are accounted and evaluated in accordance with IAS 41 "Agriculture" requirements. Forest stands initially are recognised in their cost value, however after primary developments remaining part is recognised in its fair value. Fair value is determined by expressing net present value of biological asset as at 2017 by applying 8% discount rate. Average price for purchased felling site m3 in 2017 was calculated by taking into consideration cost of felling site m3 and costs associated to purchase it. Difference between carrying value and value set after revaluation is recognised as income or expenses depending whether value of asset is increased or decreased after revaluation. Result is disclosed in profit or loss statement under cost of goods sold. Biological assets that can't be developed within a year are disclosed in balance sheet under Fixed asset in separate position, that is called Biological assets. Biological assets that are predicted to be developed within a year are disclosed under Inventories in separate position, that is called Biological assets.

Capitalization of borrowing and other costs

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during period with no active development of asset.

Research and development costs

Research costs are recognized in the income statement when incurred. Development costs that relate to development of asset intended for sale or own use, are capitalized and recognized as intangible assets and amortized on a straight-line basis starting from the beginning of commercial production of the respective product over the period when the return on this asset is expected.

Investments in subsidiaries, associates and other entities

Participation in capital of subsidiaries, associates and other entities, is recognized at their cost less impairment losses.

Inventories

Inventories are recognized at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses, that are directly related to production of particular item, are included in production cost of inventories. Selling expenses are not included in cost. Balance value of inventories is calculated by applying the FIFO method. If net realizable value of inventories is lower than its costs, then the difference is recognized as provisions for the decrease of value.

Long - term investments held for sale

An entity should classify a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition – subject only to terms that are usual and customary for sales of such assets. The company recognizes revenue for any subsequent increase in fair value less costs of asset sale, but not exceeding the accumulated impairment losses recognized in previous periods. Long-term investments are considered as assets held for sale, if they are prepared for immediate sale, the company's management has decided to sell these assets and have started active implementation of this decision. Fixed assets held for sale are valued at fair value, less costs of sale.

Account receivable

Trade receivables are recognized at invoiced amounts. After the initial recognition account receivables are measured at net amount less provisions for doubtful debts. Provisions for doubtful receivables are recognized when the management of the Company considers that it is probable that the total amount of receivables will not be collected in full.

Prepaid expenses and deferred income

Payments made before the balance sheet date, but relating to subsequent years, are shown under "Prepaid expenses". Payments received before the balance sheet date, but relating to the following year or subsequent years, are shown as deferred income.

Borrowings and loans

Loans and borrowings are initially recognized at their initial value, which is determined by adding to the fair value of the loan or borrowing amount the costs related to the receipt of the loan or deducting the costs related to the issue of the loan. Borrowings are recognized in the value of funds received, net of transaction costs incurred.

Subsequently, borrowings are stated at amortized costs using the actual interest method. Any difference between the original amount borrowed net of transaction costs and the redemption value is recognized gradually in the income statement during the loan use period or in accordance with accounting policy capitalized at the value of construction in progress.

Provisions, contingent liabilities and assets

Provisions are liabilities related to events from current or previous years and at the preparation of financial statements it is probable that an outflow of resources will be required to settle the obligations and their amounts can be reliably estimated. Provisions are valued at present value of expenditures expected to settle corresponding obligation.

Contingent liabilities are not recognized. These could be classified as liabilities only when a probability of resource outflow becomes sufficiently well-grounded. Similarly, contingent assets are not recognized until probability that the Company will gain economic benefits related to a transaction becomes virtually certain.

Accrued liabilities

Uzkrātās saistības tiek atzītas skaidri zināmās saistību summas pret piegādātājiem un darbuzņēmējiem par pārskata gadā saņemtajām precēm vai pakalpojumiem, par kurām piegādes, pirkuma vai uzņēmuma līguma nosacījumu vai citu iemeslu dēļ bilances datumā vēl nav saņemts maksāšanai paredzēts attiecīgs attaisnojuma dokuments (rēķins). Accrued liabilities recognize clearly known amounts of liabilities to suppliers and contractors for goods or

Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying average salary day rate of employees for last six months of financial year with amount of accrued but unused annual leave days at the end of reporting year.

Grants and government assistance

Grants received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in income statement on straight-line basis over the useful life of acquired assets. Other grants and financial support to cover the expenses are recognized as an income in the period when the respective funding has been received and all material conditions in respect to the grants received has been fulfilled (when the grants are received).

Lease-to-buy (financial lease) - the Company is the lessee

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, they are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or present value of minimum lease payments. Lease interest payments are included in income statement when incurred.

Lease without redemption rights (operating lease) - the Company is the lessee

In cases when assets are leased under conditions without redemption rights, lease payments and prepayment for lease are included in income statement when they arise. Lease classification whether it is financial or operating lease, is determined by substance and essence of the lease, rather than just legal form of lease. Lease is classified as a financial lease also if lease term covers majority of leased asset's useful life. This applies even if the ownership rights are not transferred to lessee at the end of the lease term or in case if the asset is so specific, that without a substantial modification it could not be used by other parties.

a) Corporate income tax for the financial year

Corporate income tax for the financial year is included in financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax

In the context of the change in corporate tax regulations, the procedure for calculating corporate income tax has completely changed and the basis for calculating deferred tax assets has disappeared. In order to ensure compliance with the requirement of a true and fair view of the law, the impact of corporate income tax reform in the financial report is reflected by the company as follows:

- preparing an annual report for the reporting year in which it became known that in the next reporting year the new corporate income tax regulation as a result of the corporate income tax reform would continue to apply insofar as this would not be in conflict with the Company's annual report preparation rules and taking into account the new corporate income tax regulations the provisions for covering uncovered losses of previous years is gradually written off from the balance of deferred tax asset balances calculated on the basis of the provisions of the previous corporate income tax provisions for covering tax losses. The amounts of deferred tax assets excluded from the balance sheet are shown in the income statement line "Revenue or charges from changes in deferred tax assets or liabilities".

Share premium

If the new issued shares are sold at a value higher than their nominal value, the Company will receive a positive mark-up. If they are sold at a lower value, the Company shows the negative value in the same item with a minus sign.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

Group companies

Subsidiaries of the group or the parent company of the group, or other subsidiaries of the group, or subsidiaries of the subsidiaries of the group are regarded as the group companies.

Associates

An associated company is an entity within a significant influence of other company, which is provided by holding no less than 20% and no more than 50% of the voting rights.

Related parties

Related parties are considered Group companies, Board and Council members, their close family members and entities, in which the previously mentioned persons or companies have significant influence or control.

Subsequent events

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

(2) Revenue	2017 EUR	2016 EUR
a) By operating activities		
Income from forestry (NACE2 02.20)	5 488 411	3 889 143
Income from timber processing (NACE2 16.10)	44 050 678	37 076 476
Income from freight forwarding (NACE2 49.41)	1 329 020	1 239 140
Income from equipment, premises and territory management (NACE2 81.10)	48 441	394 894
	50 916 550	42 599 653
b) By location		
Income from sales of goods/services in Latvia	50 911 942	42 586 848
Income from sales of goods/services to Lithuania	4 608	3 860
Income from sales of goods/services to Estonia	0	8 945
	50 916 550	42 599 653
 (3) Costs of goods sold or services provided		
	2017 EUR	2016 EUR
Purchase of costs of goods sold	1 150 484	1 294 432
Raw materials and consumables	2 603 222	1 688 077
Purchase of felling rights	32 002 584	28 517 849
Correction for unfinished production inventory	18 554	(56 707)
Subcontractors' services, outsourced works and services	1 369 493	1 236 826
Woodworking equipment maintenance costs	667 147	737 448
Woodworking and forest equipment maintenance costs	721 376	695 202
Fuel costs	938 936	757 765
Revaluation of biological assets	(573 547)	(138 675)
Utility expenses	1 716 376	1 508 330
Salary expenses	2 863 787	2 766 169
State mandatory social insurance contributions	739 981	646 135
Accrual for unused vacations	336 173	48 851
Depreciation of intangible and fixed assets	1 841 532	1 693 463
Real estate tax	19 915	19 108
Lease payment for wood processing, forestry machinery and equipment	390 712	185 332
Other services received	385 502	31 728
	47 192 227	41 631 333

(4) Distribution expenses	2017	2016
	EUR	EUR
Advertising, market research and marketing costs	285	360
Freight forwarding expenses	10 088	12 282
	10 373	12 642
(5) Administrative expenses	2017	2016
	EUR	EUR
Salary expenses	127 164	206 922
State mandatory social insurance contributions	32 131	48 813
Accrual for unused vacations	9 625	4 012
Office expenses	37 206	85 281
Bank services	85 990	56 126
Depreciation of intangible and fixed assets	58 134	57 606
Real estate tax	2 157	2 188
Financial statement audit expenses	8 800	7 300
Administration department vehicle expenses	20 975	29 280
Other administrative expenses	65 398	67 060
Legal services	7 487	300
	455 067	564 888
(6) Other operating income	2017	2016
	EUR	EUR
Income from disposal of intangible and fixed assets	1 062 176	115 770
Net carrying value of intangible and fixed assets at the moment of disposal	(1 060 232)	(81 149)
Net gain from disposal of fixed and intangible assets	1 944	34 621
Income from the sale of long-term investments held for sales	0	30 000
Rental income	90 911	113 887
Depreciation of deferred income (see also Note 34)	222 583	222 583
Co-financing from Rural Support Service and EU structural funds	21 572	28 490
Net gain from fluctuations of currency exchange rates	0	53 818
Other income	699 840	344 964
	1 036 850	828 363
(7) Other operating expenses	2017	2016
	EUR	EUR
Provisions for doubtful and bad receivables	318 670	11 206
Rent on real estate	7 178	13 802
	83 502	0
Net losses from currency exchange rate fluctuations	13 448	0
Security service costs	21 863	72 156
Utilities and maintenance costs	175 678	168 543
Insurance payments	36 713	33 647
Employee training expenses	20 466	23 343
Health Insurance	43 867	35 942
Penalties paid	15 488	39 119
Other expenses	274 526	81 450
	1 011 399	479 208

(8) Interest and similar income

a) from group companies

	2017 EUR	2016 EUR
Other interest income	3 250	3 042
	<u>3 250</u>	<u>3 042</u>

b) from other parties

Other interest income	69	85
	<u>69</u>	<u>85</u>

(9) Interest and similar expenses

b) from other parties

Interest charge	328 189	341 020
Other expenses	550	0
	<u>328 739</u>	<u>341 020</u>
Total interest and similar expenses	<u>328 739</u>	<u>341 020</u>

(10) Corporate income tax

a) Components of corporate income tax

	2017 EUR	2016 EUR
Corporate income tax according to the tax return	64 016	0
Changes in deferred income tax	0	371 732
	<u>64 016</u>	<u>371 732</u>

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2017 EUR	2016 EUR
Profit or loss before corporate income tax	2 958 914	402 052
Theoretically calculated tax at 15% tax rate	<u>443 837</u>	<u>60 308</u>
Tax effects on:		
Non-deductible expenses for tax purposes	0	35 208
Non-taxable income	0	(52 850)
The impact of changes in other temporary differences	0	(414 398)
Non-economic activities	10 323	
Increase of the taxable income	2 262 287	
Decrease of the taxable income	(3 509 760)	
Losses that reduces the taxable income in accordance with Section 14 of the Law	(1 291 869)	
Adjusted taxable income	429 895	
Tax from adjusted taxable income	64 484	
Tax deduction for donations	(468)	
Minimum tax on economic activity		
Total corporate income tax expenses	<u>64 016</u>	<u>(371 732)</u>

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	480 706	108 974
Deferred tax charged to the income statement	(96 141)	371 732
Deferred tax liabilities (asset) at the end of the financial year	384 565	480 706

On the basis of amendments to Cabinet Regulation No. 22 of December 22, 2015. 775 "Regulations on the Application of the Law of annual financial statements and annual consolidated financial statements", paragraph 35.1, the Company writes off EUR 96 141 from the Deferred Tax Assets and reduces the retained earnings for that amount for the reporting year.

(11) Intangible assets

	Concessions, patents, licenses, trade marks and similar rights	Total		Concessions, patents, licenses, trade marks and similar rights	Total
	EUR	EUR		EUR	
Initial cost			Initial cost		
31.12.2015	121 585	121 585	31.12.2016	57 137	57 137
Purchase	9 730	9 730	Purchase	15 043	15 043
Disposals	(74 178)	(74 178)	Disposals	(2 525)	(2 525)
31.12.2016	57 137	57 137	31.12.2017	69 655	69 655
Depreciation			Depreciation		
31.12.2015	(97 825)	(97 825)	31.12.2016	(38 012)	(38 012)
Calculated	(14 365)	(14 365)	Calculated	(14 666)	(14 666)
Disposals	74 178	74 178	Disposals	2 525	2 525
31.12.2016	(38 012)	(38 012)	31.12.2017	(50 153)	(50 153)
Net carrying amount 31.12.2015	23 760	23 760	Net carrying amount 31.12.2016	19 125	19 125
Net carrying amount 31.12.2016	19 125	19 125	Net carrying amount 31.12.2017	19 502	19 502

	Land plots, buildings and engineering structures	Biological Assets	Technological equipment and machinery	Other fixed assets	Fixed assets under development and construction in progress	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Initial cost							
31.12.2015	7 979 626	738 327	18 640 211	243 363	4 282 165	29 227	31 912 919
Purchase/ increased value	1 332 177	27 509	3 895 513	29 768	63 891	0	5 348 858
Disposals	(3 682)	0	(287 053)	(14 488)	(4 343 056)	0	(4 648 279)
Reclassification between other asset items	0	0	0	0	0	(29 227)	(29 227)
31.12.2016	9 308 121	765 836	22 248 671	258 643	3 000	0	32 584 271
Depreciation							
31.12.2015	(2 349 285)	0	(8 127 005)	(184 025)	0	0	(10 660 315)
Calculated	(374 529)	0	(1 328 943)	(33 233)	0	0	(1 736 705)
Disposals	3 683	0	265 871	14 432	0	0	283 986
31.12.2016	(2 720 131)	0	(9 190 077)	(202 826)	0	0	(12 113 034)
Net carrying amount 31.12.2015	5 630 341	738 327	10 513 206	59 338	4 282 165	29 227	21 252 604
Net carrying amount 31.12.2016	6 587 990	765 836	13 058 594	55 817	3 000	0	20 471 237

	Land plots, buildings and engineering structures	Biological Assets	Technological equipment and machinery	Other fixed assets	Fixed assets under development and construction in progress	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Initial cost							
31.12.2016.	9 308 122	765 836	22 248 670	258 643	3 000	0	32 584 271
Purchase/ increased value	47 038	96 980	149 042	53 735	1 719 773	0	2 066 568
Disposals	0		(112 153)	(10 954)	0	0	(123 107)
Reclassification between other asset items	0		0	0	0	0	0
31.12.2017.	9 355 160	862 816	22 285 559	301 424	1 722 773	0	34 527 732
Depreciation							
31.12.2016.	(2 720 131)		(9 190 076)	(202 826)	0	0	(12 113 033)
Calculated	(406 199)		(1 440 894)	(37 907)	0	0	(1 885 000)
Disposals	0		112 153	10 293	0	0	122 446
31.12.2017.	(3 126 330)		(10 518 817)	(230 440)	0	0	(13 875 587)
Net carrying amount 31.12.2016	6 587 990	765 836	13 058 594	55 817	3 000	0	20 471 237
Net carrying amount 31.12.2017	6 228 830	862 816	11 766 742	70 983	1 722 773	0	20 652 144

a) Capitalized interest

The fixed asset item "Land plots, buildings and engineering structures" includes interest capitalized in 2017 in the amount of EUR 0 (in 2016 - EUR 18 478).

b) Cadastral value of fixed assets

Cadastral value of lands and buildings owned by the Company as at December 31, 2017 is EUR 1 422 140.

The changes of fixed asset revaluation reserve in the financial year by fixed assets items are as follows:

	Revaluation reserves 31.12.2016	Changes in the financial year			Revaluation reserves 31.12.2017
	EUR	Revaluation of fixed assets	Depreciation and write- off of revaluation reserves	Deferred tax changes	EUR
Real estate		EUR	EUR	EUR	
a) land plots, buildings and engineering structures	1 370 057	0	0	0	1 370 057
Long-term investments held for sale	200 000	0	(200 000)	0	0
Other fixed assets and inventory	0	0	0	0	0
TOTAL	1 570 057	0	(200 000)	0	1 370 057

In case if the revaluation had not been made, the value of the land plot would be as follows:

	31.12.2017. EUR	31.12.2016. EUR
Cost	1 706 995	1 706 995
Accumulated depreciation	0	0
Net carrying amount	1 706 995	1 706 995

Pursuant to Section 6 Part 5 of the Corporate Income Tax Law, when defining the taxable corporate income, the results of revaluation of balance sheet items and off-balance sheet items shall not be taken into account, except revaluation of assets due to change of foreign currency rates.

(13) Participation in the capital

a) movement of participation

	Participation in the equity of group companies	Non-current Participation in the equity of associates	Other securities and investments	Current Own stock and shares	Total
	EUR	EUR	EUR	EUR	EUR
Initial cost					
31.12.2016.	1 009 149	8 540	0	0	1 017 689
31.12.2017.	1 009 149	8 540	0	0	1 017 689
Net carrying amount 31.12.2016	1 009 149	8 540	0	0	1 017 689
Net carrying amount 31.12.2017	1 009 149	8 540	0	0	1 017 689

b) participation in the equity of subsidiaries

Name	Address	Participating interest		Equity		Profit	
		31.12.2016. %	31.12.2017. %	31.12.2016. EUR	31.12.2017. EUR	2016 EUR	2017 EUR
SIA PAKUĻU SPORTA BĀZE	"Mežvidi", Novadnieku pag., Saldus novads, LV-3801	100	100	-200 346	-205 654	-317	-5 308
ООО Деревообрабатывающий комбинат	180005, Россия, г. Псков, Зональное шоссе, д. 44-А	100	100	-716 471	-823 394	115 372	-124 705

c) participation in the equity of associates

Name	Address	Participating interest		Equity		Profit	
		31.12.2016. %	31.12.2017. %	31.12.2016. EUR	31.12.2017. EUR	2016 EUR	2017 EUR
SIA SILDUS ENERGIJA	Cēsu iela 14, Rīga, LV-1012	20	20	319 431	1 310	-508 214	-240 354

(14) Raw materials and consumables

	31.12.2017. EUR	31.12.2016. EUR
Materials, spare parts, Inventories:	163 325	121 836
Raw materials (logs in forest and sawmill)	1 906 356	1 708 555
	2 069 681	1 830 391

(15) Work in progress	31.12.2017.	31.12.2016.
	EUR	EUR
Forestry work in progress	161 958	81 585
Sawn timber in production	1 441 985	1 742 983
	<u>1 603 943</u>	<u>1 824 568</u>
(16) Finished goods and goods for sale	31.12.2017.	31.12.2016.
	EUR	EUR
Finished goods saw timber	1 077 796	1 276 054
	<u>1 077 796</u>	<u>1 276 054</u>
(17) Non-current assets held for sale (IFRS only)	31.12.2017.	31.12.2016.
	EUR	EUR
Sawmill machinery and tools	0	274 997
	<u>0</u>	<u>274 997</u>
(18) Trade receivables	31.12.2017.	31.12.2016.
	EUR	EUR
Book value of trade receivables	228 222	199 452
(Provisions for bad and doubtful debts)	(51 135)	(46 127)
	<u>177 087</u>	<u>153 325</u>
Provisions for bad and doubtful debts have been made in 100 % of their book value.		
(19) Receivables from group companies	31.12.2017.	31.12.2016.
	EUR	EUR
Non-current		
Loans to SIA Pakuļu sporta bāze	0	306 917
Loans to ООО Деревообрабатывающий комбинат № 3	696 250	681 601
	<u>696 250</u>	<u>988 518</u>
Current		
Receivables from the group companies for the goods delivered and services provided	6 572 897	4 022 697
Accrual for doubtful debts	(553 178)	(240 001)
	<u>6 019 719</u>	<u>3 782 696</u>

In the reporting year JSC PATA Saldus has lent money to SIA Pakuļu Sporta bāze in amount of EUR 313 177. ООО Деревообрабатывающий комбинат № 3 - 1 447 000 RUB (22 092.13 EUR). Loan term for long -term loans is set until year 2020.

(20) Receivables from associates	31.12.2017. EUR	31.12.2016. EUR
Debts to associated companies for the goods delivered and services provided	20 729	184 482
	<u>20 729</u>	<u>184 482</u>
(21) Other receivables	31.12.2017. EUR	31.12.2016. EUR
VAT overpaid	172 566	164 767
Paid guarantee fees	4 237	57 037
Advances paid for services	0	27 620
Payments to personnel	0	423
Other receivables	1	50
	<u>176 804</u>	<u>249 897</u>
(22) Deferred expenses	31.12.2017. EUR	31.12.2016. EUR
Insurance payments	14 448	12 004
Prepayment for office rent	354	417
Subscription fees	7 245	5 615
1st lease installment	116 958	42 654
Other expenses	131 053	104 475
	<u>270 058</u>	<u>165 165</u>
(23) Cash and bank	31.12.2017. EUR	31.12.2016. EUR
Cash at bank in checking accounts	114 483	311
	<u>114 483</u>	<u>311</u>

(24) Share capital

The company is a joint stock company. The share capital of the Company is EUR 579 916. Par value per share is EUR 1.40 (one euro 40 euro cents). 387 136 shares are public bearer shares and are dematerialized, however 27 090 of shares are staff registered staff shares.

The parent of the Company is SIA PATA with the legal address Miera iela 2, Inčukalns, Inčukalna pagasts, Inčukalna novads LV-2141. Consolidated annual report of the Group is prepared by SIA PATA. A copy of the consolidated annual report is available at the Register of Enterprises of the Republic of Latvia.

(25) Reserves

According to the Latvian statutory requirements the Company created reserves in the previous periods. This legal requirement is no more effective in the financial year. These reserves are expected to be reclassified to retained earnings.

(26) Distribution of the Company's profit

The Company's Board proposes to divert the retained earnings for development of the Company.

(27) Loans from banks	31.12.2017.	31.12.2016.
	EUR	EUR
Non-current		
Nordea Bank AB Latv. Fil. (2013-104-OD)	7 692 163	7 826 256
Nordea Bank AB Latv. Fil. (2010-139-OD)	261 406	806 646
Nordea bank AB Latv. Fil. (2011-150-OD)	701 778	686 702
Luminor Bank AS (2012-85-A)	259 513	346 017
Luminor Bank AS (2012-84-A)	877 190	1 169 587
Luminor Bank AS (2006/202/A)	121 896	180 406
Luminor Bank AS (2014-169-A)	992 479	1 472 479
Luminor Bank AS (2017-42-A-CFLA)	1 620 114	
	12 526 539	12 488 093
Current		
Nordea Bank AB Latv. Fil. (2010-139-OD)	504 000	504 000
Luminor Bank AS (2012-85-A)	86 504	86 504
Luminor Bank AS (2012-84-A)	292 397	292 397
Luminor Bank AS (2006/202/A)	58 510	58 510
Luminor Bank AS (2006-147-A)	0	124 447
Luminor Bank AS (2014-169-A)	480 000	480 000
	1 421 411	1 545 858

As a collateral in case of claims that may arise from the signed loan agreement, the Company has pledged all its assets as an aggregate of things at the moment of pledge, as well as future components of this aggregate: all financial instruments and assets which are currently owned by the Company or will be owned in future, its fixed assets and intangible assets, claims, investments and stocks, as well as all real estate owned by the Company. Loan repayment periods up to 31.12.2021.

(28) Other borrowings	31.12.2017.	31.12.2016.
	EUR	EUR
Non-current		
Other loans (from private individuals)	1 098 333	1 246 667
JSC Attīstības finanšu institūcija Altum	1 588 739	1 588 739
Liabilities according to the finance lease agreements	285 217	450 551
	2 972 289	3 285 957
Current		
Liabilities according to the factoring agreements	993 029	998 393
Liabilities according to the finance lease agreements	165 324	204 535
	1 158 353	1 202 928

Loan from AS Attīstības finanšu institūcijas Altum is dedicated to the purchase, supply and installation of sawing and finished product sorting equipment and for the construction of a sawmill. Real estate serves as collateral. The loan repayment date is until August 26, 2024.

The amount of repayment of the AS Attīstības finanšu institūcijas Altum after 5 years is EUR - 529 539

Finance lease liabilities

As disclosed in Note 28, the Company has acquired fixed assets under finance lease. Total finance lease liabilities as at December 31, 2017 is EUR 450 541.

The future minimum finance lease payments are:	31.12.2017. EUR	31.12.2016. EUR
Payable within 1 year	174 492	218 425
Payable from 2 to 5 years	293 164	467 625
Finance lease gross liabilities	<u>467 656</u>	<u>686 050</u>
Future finance costs	(17 115)	(30 964)
Present value of finance lease liabilities	<u><u>450 541</u></u>	<u><u>655 086</u></u>

(29) Advances from customers

Current

Advances of sawn timber	31.12.2017. EUR	31.12.2016. EUR
	980	475
	<u><u>980</u></u>	<u><u>475</u></u>

(30) Trade payables

Current

Payables for supplies of goods and services supplied	31.12.2017. EUR	31.12.2016. EUR
	3 902 548	3 820 327
	<u><u>3 902 548</u></u>	<u><u>3 820 327</u></u>

(31) Payables to group companies

Current

Payables for supplies of goods and services supplied	31.12.2017. EUR	31.12.2016. EUR
	155 467	153 726
	<u><u>155 467</u></u>	<u><u>153 726</u></u>

(32) Taxes and social insurance payments

Current

Personal income tax	31.12.2017. EUR	31.12.2016. EUR
	92 840	118 036
State mandatory social insurance contributions	90 098	171 177
Natural resources tax	289	142
	64 016	0
Business risk state duty	75	0
	<u><u>247 318</u></u>	<u><u>289 355</u></u>

(33) Other creditors

Current

Salaries	31.12.2017.	31.12.2016.
	184 474	175 917
Other liabilities	4 630	3 846
	<u><u>189 104</u></u>	<u><u>179 763</u></u>

(34) Deferred income	31.12.2017. EUR	31.12.2016. EUR
Non-current		
EU co-financing for the acquisition of assets - non-current portion	1 689 105	1 911 689
	1 689 105	1 911 689
Current		
EU co-financing for the acquisition of assets - current portion	222 583	222 583
	222 583	222 583

Deferred income includes: 1. V/A Latvian Investment and Development Agency program funding according to project No. APV/2.1.2.4.0/13/03/030 with an agreement No.L-APV-14-0114, that was received in 2015 in amount of EUR 462 735 and is intended for acquisition and development of fixed assets; 2. V/A Latvian Investment and Development Agency program funding according to project No.APV/2.1.2.4.0/09/01/034 with an agreement No.L-APV-10-0015, that was received in time period between 2010 and 2013 in amount of EUR 3 339 616, and was intended for acquisition and development of fixed assets. Deferred income from LIDA funding are recognized as income in the income statement of purchased assets during the useful life of 10-15 years, respectively.

For 5 years since receipt of funding the Company has an obligation to comply with co-funding agreement terms about use of the acquired asset in project place and intended project aims, by avoiding asset alienation and use of third parties, by insuring the asset and by complying with other obligations.

(35) Accrued liabilities	31.12.2017. EUR	31.12.2016. EUR
Accrued trade payables	133 294	140 769
Accrued unused annual leave expenses	316 417	275 013
	449 711	415 782

(36) Fees paid to auditors	2017 EUR	2016 EUR
For the audit of financial statements	8 800	7 300
	8 800	7 300

(37) Average number of employees	2017	2016
Members of the Board	1	1
Members of the Council	1	3
Other employees	1	6
Average number of employees during the financial year	222	194
	225	204

(38) Remuneration to personnel	2017 EUR	2016 EUR
Remuneration for work	3 336 749	3 025 954
State mandatory social insurance contributions	771 137	645 298
Business risk state duty	975	837
	4 108 861	3 672 089

(39) Remuneration to the management	2017 EUR	2016 EUR
Remuneration for Chairman of the Board	30 344	52 855
State mandatory social insurance contributions for Chairman of the Board	7 158	12 469
	37 502	65 324

A member of the Board and a member of the Council perform their duties without compensation.

(40) Transactions with related parties

The main shareholder of the Company, who owns 67 % of shares of the Company, is Pata SIA (Latvia), reg.No.40003448619. The ultimate parent company is Pata SIA (Latvia)

In 2017, the Company had a transactions with the following group companies that are directly or indirectly subsidiaries of Pata SIA. The Company had also transactions with companies owned by its subsidiaries and with related entity Saldus Enerģija SIA (Latvia), that is not part of the Group. During the financial year the Company has not entered into transactions with the Management Board and Council members, with the exception of salaries paid for the job.

a) claims and liabilities

	31.12.2017.		31.12.2016.	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Group companies				
Parent company	5 630 868	155 467	3 388 544	153 726
Subsidiaries	1 085 102	0	1 382 670	0
Sister companies	0	1 262	93 453	1 641
	<u>6 715 970</u>	<u>156 729</u>	<u>4 864 667</u>	<u>155 367</u>
Other related parties				
Associated companies	20 729		184 482	0
Directors and officers		588 333		588 333
	<u>20 729</u>	<u>588 333</u>	<u>184 482</u>	<u>588 333</u>
	<u>6 736 699</u>	<u>745 062</u>	<u>5 049 149</u>	<u>743 700</u>

b) transactions

	Sales to related parties		Purchases from related parties	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Group companies				
Goods for sale	47 964 099	39 856 909	9 976 188	7 974 016
	<u>47 964 099</u>	<u>39 856 909</u>	<u>9 976 188</u>	<u>7 974 016</u>
Other related parties				
Goods for sale	1 210 191	1 111 790	593 702	530 321
	<u>1 210 191</u>	<u>1 111 790</u>	<u>593 702</u>	<u>530 321</u>
	<u>49 174 290</u>	<u>40 968 699</u>	<u>10 569 890</u>	<u>8 504 337</u>

(41) Financial commitments

- a) Capital commitments**
b) Operating lease commitments

The Company uses forestry industrial equipment, as well as cars for administration needs that have been received under operating lease agreements. Lease expenses recognized in financial statement are EUR 303 859.

The Company has the following non-cancellable lease liabilities:

	31.12.2017. EUR	31.12.2016. EUR
Payable within 1 year	348 701	151 480
Payable from 2 to 5 years	1 044 081	637 536
	<u>1 392 782</u>	<u>789 016</u>

(42) Financial risk management

Financial risks related to the financial instruments of the Company are mainly the interest rate risk, the liquidity risk and the credit risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company does not use derivative financial instruments to hedge certain risk exposures.

Market risk - Interest rate risks

The Company is subject to the interest rate risk, mainly with respect to its variable interest rate borrowings. The management of the Company considers a possibility to apply risk hedging instruments in order to minimize the effect of variable interest rates / to switch over to a fixed interest rates.

Credit risk

The Company is subject to the credit risk with respect to the trade receivables, issued short-term loans, cash and cash equivalents. The Company manages its credit risk by constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also is constantly monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of cash and cash equivalents (and also by using the bank credit line facilities). See also Note 43 in respect of the use of going concern assumption.

(43) Use of going concern assumption

The Company has finished the financial year, which was closed on 31 December 2017, with profit of EUR 2 894 898. As of this date, the Company's current assets exceeded current liabilities by EUR 4 918 911, and total assets exceeded total liabilities by EUR 10 501 128.

Financial results of 2017 are in accordance with going concern assumption, as well as a going concern is dependent of financial results in next periods.

(44) Subsequent events

Since the last date of the financial year until the date of signing of financial statements, there haven't been any subsequent events, which would have a significant effect on the financial position of the Company as at 31 December 2017.

Andris Krastiņš
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 27 April 2018

Jānis Mierkalns
board member
Ilze Bukulde
board member
Gatis Zommers
board member

The annual report has been approved by the general meeting of stockholders _____ 2018

INDEPENDENT AUDITOR'S REPORT

**To the stockholders of
Joint Stock Company "PATA Saldus"**

Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "PATA Saldus", reg.No. 40003020121 ("the Company") set out on pages 6 to 27 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended, and
- the statement of cash flows for the year then ended,
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effect of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of AS "PATA Saldus" as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Qualified Opinion

The Auditor's Report on the Company's Financial Statements for the year ended 31 December 2016 contained a modification regarding the recognition of deferred tax liabilities from the long-term investment revaluation reserve. In 2017, this circumstance was solved (see pages 14 and 18 of the notes to the financial statements), however, the management decided not to re-classify the relevant figures for the year ended 31 December 2016. Our opinion on the financial statements for the reporting year has been modified in light of the effect of this circumstance on comparative financial information.

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

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

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

Key Audit Matters

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

In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Existence and valuation of inventories

Key audit matter	Our response
<p><i>The Company's balance sheet as at 31 December 2017 includes inventories with carrying amount of EUR 5 836.5 thousand, which represents 16.5% of total assets of the Company.</i></p> <p><i>We refer to Notes 14 to 16, pages 20 to 21 to the financial statements of the Company.</i></p> <p>Taking into account the specifics of the forestry, primary processing of timber - the lumber industry and the volume of inventories in the Company's consolidated financial statements, it is essential to determine the net realizable value of the inventories, therefore we consider this issue to be significant in the context of the audit.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • we evaluated the results of internal control activities in inventory count and other control measures; • we considered the results of the inventory count; • we participated in warehouse inventories count, observing the inventory count procedures and progress; • we tested the purchase value of inventories on a sampling basis; • we performed analytical and detailed procedures and reviewed calculations of the net realizable value of inventories.

Other Matter

Financial statements of AS "PATA Saldus" for the year ended 31 December 2016 were audited by another auditor; modified opinion was issued on 30 April 2017.

Reporting on Other Information

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

- information about the Company, as set out on pages 3-4 of the accompanying Annual Report,
- the Management Report, which contains the Statement on Management Responsibility as set out on page 5 of the accompanying Annual Report,
- the Statement on Corporate Governance, prepared as a separate part of the annual report, indicating in the Management Report the website address on the Internet, where the Statement on Corporate Governance is available to the public in electronic form.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information* section of our report.

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

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

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

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

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

In our opinion, the Statement on Corporate Governance includes the information required in section 56.¹, first paragraph, clause 3, 3, 6, 8 and 9, as well as section 56.², second paragraph, clause 5 of the Financial Instruments Market Law.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and the European Union when providing audit services to public interest entities

We were appointed by those charged with governance on 4 December 2017 to audit the financial statements of AS "PATA Saldus" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in paragraph 37.⁶ of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No. 537/2014. We also remained independent of the audited entity in conducting the audit.

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

SIA "Nexia Audit Advice"

The Firm of Sworn Auditors, Licence No. 134



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



Andrejs Ponomarjovs
Chairman of the Board,
Director General

Riga, Latvia
April 27, 2018