

# **JOINT STOCK COMPANY „PATA SALDUS”**

(UNIFIED REGISTRATION NUMBER 40003020121)

**FINANCIAL REPORT FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2017 (UNAUDITED)**

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

**Saldus, 2017**

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## Information about the Company

Name of the Company	<b>PATA Saldus (PATA Saldus)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020121 August 26, 1991, Riga
Address	Kuldigas iela 86C, Saldus, Saldus novads, LV 3801
The main areas of activities of the Company NACE code	Forestry, commercial timber preparation and related services; production of board lumber, etc. 022; 494; 521
Members of the Board: name, surname, position	Andris Krastins ( <i>Andris Krastiņš</i> )- Chancellor of the Board Janis Mierkalns ( <i>Jānis Mierkalns</i> )– member of the Board Ilze Bukulde ( <i>Ilze Bukulde</i> ) - member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) - member of the Board
Members of the Council: name, surname, position	Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – Chairman of the Council Janis Bertrāns ( <i>Jānis Bertrāns</i> ) - Deputy Chairman of the Board Inga Mierkalna ( <i>Inga Mierkalna</i> )- member of the Council Atis Kalnins ( <i>Atis Kalniņš</i> )- member of the Council Ieva Sniedze ( <i>Ieva Sniedze</i> )- member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pakuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus novads, LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – June 30, 2017
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (100%)
Legal status of the company	Limited Liability Company ( <i>ООО - Общество с ограниченной ответственностью</i> )
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 – June 30, 2017

Associated enterprise

1. Name of the company	Saldus enerģija ( <i>Saldus enerģija</i> ) (20%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	40103265702 December 22, 2009
Address	Mukusalas iela( <i>Mūkusalas iela</i> ) 41B-8, Rīga ( <i>Rīga</i> ), LV-1004
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 - June 30, 2017

Parent company

Name of the company	PATA ( <i>PATA</i> ) (65%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	40003448619, June 10, 1999
Address	Miera iela 2( <i>Miera iela 2</i> ), Incukalns ( <i>Inčukalns</i> ), LV-1004
The main areas of activities of the company	Wholesale of wood, silviculture and other forestry activities.
Owner of the company	Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – 100%
Reporting year	January 1 – June 30, 2017

Name and address of the Auditor	The Board of the Company continues to work to looking for the Auditor that nominated at the Shareholder's meeting
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## Management announcement

### *To Report of economic activity for the 6 month period of 2017*

#### **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 for the 6 month 2017 was 1 083 429 EUR with a net turnover of 24 621 415 euros, which represents earnings per share issued of 2.62 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.

#### **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 Company 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.

#### **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 2017 the Company will continue to develop and expand environmentally friendly forestry business in accordance with the FSC forest management and wood flows certificate requirements.

Wood processing company has initiated a certification process of the Energy Management System (LVS EN ISO 50001: 2012), also until March 2018 it is planned to expand business by installing additional timber drying plants with recuperation, where for hearing renewable energy will be used.

The company will continue to work on employee satisfaction and loyalty-development, which will allow to rise work efficiency, increase productivity, promote customer satisfaction, thus leading to the Company's overall financial performance improvements.

August 31, 2017  
Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## 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 30 June 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.

August 31, 2017

Board:

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Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## Profit or loss calculation

	2017.06.30 EUR	2016.06.30 EUR
Net turnover	24 621 415	21 333 228
Production costs of the sold production	-23 509 752	-20 872 118
<b>Gross profit</b>	<b>1 111 663</b>	<b>461 110</b>
Selling costs	-139	-360
General administration costs	-231 489	-267 194
Other income from company's economic activity	650 297	304 486
Other expenditures from company's economic activity	-281 010	-230 166
Other interset income and the like income	69	0
a) from other persons	69	0
Other interest payments and the like payments	-165 962	-179 826
a) to other persons	-165 962	-179 826
<b>Profit or loss before extraordinary items and taxes</b>	<b>1 083 429</b>	<b>88 050</b>
<b>Profit or loss after extraordinary items and taxes</b>	<b>1 083 429</b>	<b>88 050</b>
<b>Profit or (loss)</b>	<b>1 083 429</b>	<b>88 050</b>
 <b>Profit/loss on share (EUR)</b>	 <b>2,62</b>	 <b>0,23</b>

August 31, 2017

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## Balance sheet

### ASSETS

	2017.06.30 EUR	2016.12.31 EUR
<b>1. LONG-TERM INVESTMENTS</b>		
<b>I Intangible investments</b>		
Concessions, patents, licences, trademarks and the like items	17 741	19 125
<b>I TOTAL</b>	<b>17 741</b>	<b>19 125</b>
<b>II Fixed assets</b>		
1. Real estate		
land, premises and buildings	6 409 599	6 587 990
2. Animals and plants		
biological assets	765 836	765 836
3. Equipment and machinery	12 409 771	13 058 594
4. Other fixed assets and requisites	67 790	55 817
5. Fixed assets formation and unfinished constructions	28 178	3 000
<b>II TOTAL</b>	<b>19 681 174</b>	<b>20 471 237</b>
<b>III Long-term financial investments</b>		
1. Participation in the capital of related companies	1 009 149	1 009 149
2. Loans to the related companies	1 000 955	988 518
3. Investment in associated companies	8 540	8 540
4. Tax assets	480 706	480 706
<b>III TOTAL</b>	<b>2 499 350</b>	<b>2 486 913</b>
<b>TOTAL OF 1 SECTION</b>	<b>22 198 265</b>	<b>22 977 275</b>
<b>2. CURRENT ASSETS</b>		
<b>1. Stocks</b>		
1. Raw materials, direct materials, auxiliary materials	1 748 582	1 830 391
2. Unfinished production and orders	1 362 839	1 824 568
3. Finished production and goods for sale	1 170 530	1 276 054
4. Animals and plants		
biological assets	635 755	635 755
5. Fixed assets held for sale	274 997	274 997
6. Advance payments for goods	50 821	63 991
<b>I TOTAL</b>	<b>5 243 524</b>	<b>5 905 756</b>
<b>II Debtors</b>		
1. Debts of buyers and customers	327 707	153 325
2. Debts of subsidiaries	3 924 172	3 782 696
3. Debts of associated companies	124 745	184 482
4. Other debtors	596 414	249 897
5. Expenditures of the next periods	224 285	165 165
<b>II TOTAL</b>	<b>5 197 323</b>	<b>4 535 565</b>
<b>III Money</b>	196 729	311
<b>TOTAL OF 2 SECTION</b>	<b>10 637 576</b>	<b>10 441 632</b>

### BALANCE SHEET

**32 835 841**      **33 418 907**

August 31, 2017

Board:

Andris Krastiņš  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

Ilze Bukulde  
member of the Board



## Balance sheet (continuation)

### LIABILITIES

	2017.06.30 EUR	2016.12.31 EUR
<b>1. SHAREHOLDERS EQUITY</b>		
1. Share capital	579 916	579 916
2. Increase of price of the issue of shares	2 828	2 828
3. Reserves from revaluation of long-term investments	1 570 057	1 570 057
4. Reserves		
other reserves	3 741 168	3 741 168
5. Retaining earnings		
a) retained earnings from the previous year	2 008 402	1 234 618
b) retained earnings from the year of account	1 083 429	773 784
<b>TOTAL OF 1 SECTION</b>	<b>8 985 800</b>	<b>7 902 371</b>
<b>2. CREDITORS</b>		
<b>I Long-term CREDITORS</b>		
1. Loans from credit institutions	11 430 068	12 488 093
2. Other loans	3 192 808	3 285 957
3. Incomes from next periods	1 800 397	1 911 689
<b>I TOTAL</b>	<b>16 423 273</b>	<b>17 685 739</b>
<b>II Short-term creditors</b>		
1. Loans from credit institutions	1 488 421	1 545 858
2. Other loans	644 093	1 202 928
3. Advances from customers	475	475
4. Debts to suppliers and contractors	4 185 357	3 820 327
5. Debts to subsidiaries	0	153 726
6. Taxes payable	272 740	289 355
7. Other creditors	187 602	179 763
8. Incomes from the next periods	222 583	222 583
9. Accrued liabilities	425 497	415 782
<b>II TOTAL</b>	<b>7 426 768</b>	<b>7 830 797</b>
<b>TOTAL OF 3 SECTION</b>	<b>23 850 041</b>	<b>25 516 536</b>
<b>BALANCE SHEET</b>	<b>32 835 841</b>	<b>33 418 907</b>

August 31, 2017

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## Cash flow statement

	6 Month of 2017	6 Month of 2016
<b>I.Cash flow from basic activity</b>	<b>EUR</b>	<b>EUR</b>
<b>1. Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>1 083 429</b>	<b>88 050</b>
Corrections:		
Value adjustments of fixed assets	942 718	802 641
Deprecation of intangible assets	10 058	6 792
Reserves from revaluation of long-term investments	0	-30 000
Profit (-) or loss (+) from fluctuations of exchange rate	5 534	-20 507
Income from finansation recognition	-111 292	-111 292
Interest expenditure	165 412	152 576
<b>2. Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>2 095 859</b>	<b>888 260</b>
Corrections:		
increase (+) or decrease (-) of debtors debt	-661 758	-2 491 956
increase (+) or decrease (-) of the reserves of accruals	662 232	-99 053
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-404 630	1 970 023
<b>3. Gross cash flow from basic activity</b>	<b>1 691 703</b>	<b>267 274</b>
4. Expenditures to pay interest payments	-168 306	-152 576
<b>5. Net cash flow from basic activity</b>	<b>1 523 397</b>	<b>114 698</b>
<b>II. Cash flow from investments</b>		
1. Income from selling fixed assets and intangible investments	1 065 926	94 549
2. Acquisition of fixed assets and intangible investments	-87 714	-139 094
3. Advance payments for construction in progress assets and intangible assets	-1 070 099	-305 700
4. Loans issued	-17 971	-650
<b>Net cash flow from investments</b>	<b>-109 858</b>	<b>-350 895</b>
<b>III. Cash flow from financing activities</b>		
1. Recieved loans	0	316 729
2. Recieved subsidies and grants	0	51 415
3. Expenditures for paying back loans	-516 142	0
4. Expenditures for the leased asset ransom	-101 660	-68 397
5. Changes of creditlines	-599 319	-59 566
<b>6. Cash flow from financing activities</b>	<b>-1 217 121</b>	<b>240 181</b>
<b>IV. Fluctuations of exchange rate</b>	<b>0</b>	<b>0</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>196 418</b>	<b>3 984</b>
<b>VI. Money and its equivalents balance at the beginning of the period of account</b>	<b>311</b>	<b>4 925</b>
<b>VII. Money and its equivalents balance at the end of the period of account</b>	<b>196 729</b>	<b>8 909</b>

Cash flow statement is prepared according to indirect method in accordance with rules of The Cabinet of Ministers no. 481.  
August 31, 2017

Board:

Andris Krastiņš  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

Ilze Bukulde  
member of the Board

## Statement on the changes in own capital

	Share capital	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2015</b>	<b>541 990</b>	<b>2 828</b>	<b>1 600 057</b>	<b>3 741 168</b>	<b>2 772 876</b>	<b>-1 500 332</b>	<b>7 158 587</b>
Distribution of profit of the year 2015	0	0	0	0	-1 500 332	1 500 332	0
Reserves from revaluation of long-term investments	0	0	-30 000	0	0	0	-30 000
Profit of the year of account	0	0	0	0	0	88 050	88 050
<b>June 30, 2016</b>	<b>541 990</b>	<b>2 828</b>	<b>1 570 057</b>	<b>3 741 168</b>	<b>1 272 544</b>	<b>88 050</b>	<b>7 216 637</b>
<b>December 31, 2016</b>	<b>579 916</b>	<b>2 828</b>	<b>1 570 057</b>	<b>3 741 168</b>	<b>1 234 618</b>	<b>773 784</b>	<b>7 902 371</b>
Distribution of profit of the year 2016	0	0	0	0	773 784	-773 784	0
Profit of the year of account	0	0	0	0	0	1 083 429	1 083 429
<b>June 30, 2017</b>	<b>579 916</b>	<b>2 828</b>	<b>1 570 057</b>	<b>3 741 168</b>	<b>2 008 402</b>	<b>1 083 429</b>	<b>8 985 800</b>

August 31, 2017

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## 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 775 " rules of annual financial statements and consolidated annual financial statements law application."

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.

#### Changes in accounting policies and correction of fundamental errors

Due to adoption of the Law on the Annual financial Reports and Consolidated Annual financial Reports (the Law) in 2016, the Company has changed the accounting standards as mentioned below.

##### a) Evaluation and classification of investment property, biological assets and non-current assets held for sale

The Company uses its statutory right to deviate from legal requirements about Biological assets held for sale disclosure, recognition and evaluation according to IFRS standards.

##### b) Evaluation of intangible assets

Due to enactment of the Law, goodwill and other intangible assets with an indefinite useful life shall be depreciated during their projected useful life, but not exceeding 10 years. The Company recognized previously mentioned assets at acquisition cost less impairment losses. The change of policy shall be applied retrospectively.

Considering that the Company has no goodwill and other intangible assets with an indefinite useful life, these changes of the Law does not affect the Company's financial statements.

##### c) Accounting of grants received

Due to enactment of the Law, grants received to cover the costs incurred in the financial year shall be recognized as income when grants are received and all conditions for acquiring of the grants are fulfilled. The Company has previously recognized revenues from the grants received when the Company acquired the right to receive such grants and all conditions for acquiring of the grant were fulfilled. The change of policy shall be applied retrospectively.

**d) Changes in classification of items and disclosure of information in the balance sheet, income statement, cash flow statement and statement of changes in equity**

Due to enactment of the Law, the structural form of income statement and cash flow statement has been changed. Moreover, to improve a clear and fair presentation, the Company performed reclassification of certain types of revenue and costs. Reclassification does not affect the financial results.

**Affect of changes in accounting policies to income statement items of previous year**

<b>Income statement items</b>	<b>Items for 6 months of 2016 shown in financial report for the 6 months period ended 30 June 2017 EUR</b>	<b>The amount of reclassification EUR</b>	<b>Items for 6 months of 2016 before reclassification EUR</b>
Revenue	21 333 228	-111 292	21 444 520
Costs of goods sold or services provided	-20 872 118	-11951	-20 860 167
Other taxes	0	11951	-11951
Other operating expenses	-230 166	-250	-229 916
Other operating income	304486	131800	172686
Interest and similar income	0	-20258	20258
<b>Reclassification</b>		<b>0</b>	

**Affect of changes in accounting policies to cash flow statement items of previous year**

<b>Cash flow statement items</b>	<b>Cash flow statement items for 6 months of 2016 shown in financial report for the 6 months period ended 30 June 2017 EUR</b>	<b>The amount of reclassification EUR</b>	<b>Cash flow statement items for 6 months of 2016 before reclassification EUR</b>
Profit before extraordinary items and taxes	88 050	-11 951	100 001
Paid property tax	0	11951	11 951
Other interest income and similar income	0	-8623	-8623
Increase or decrease of debtors debt	-2 491 956	8623	-2 483 333
<b>Reclassification</b>		<b>0</b>	

**e) Disclosure of information in the notes to financial statement**

Due to enactment of the Law, the scope of information disclosed in the notes to financial statement has been changed by defining different criteria depending on the size of a company. Based on the financial data for the two recent years, the Company is classified as a large entity. Financial statements reflect all information as defined by the Law, as well as additional information to provide the fair and clear presentation. Except the above mentioned, accounting policies and valuation methods used by the Company are consistent to be the same as in the previous reporting year.

### 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.

	2017.06.30 EUR	2016.12.31 EUR
1 USD	0.8763	0.9488
1 RUB	0.0148	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 41. SGS "Lauksaimniecība" 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 2016 by applying 8% discount rate. Average price for purchased felling site m3 in 2016 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 of 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 asset 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.

### Borrowings

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 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.

**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.



## 2. Segments of the Company activities

The Company shows information through particular segments.

	Logging		Timber processing		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Revenue	2 420 933	1 914 996	21 685 252	18 382 902	515 230	1 035 330	24 621 415	21 333 228
Production costs of the sold production	-2 226 995	-1 720 521	-20 391 073	-17 794 681	-922 813	-1 356 916	-23 540 881	-20 872 118
Selling costs	0	0	0	-360	-139	0	-139	-360
General administration costs	-4 265	-4 069	-28 118	-16 882	-167 977	-246 243	-200 360	-267 194
Other income/expenditures from company's economic activity	8 381	33 163	-62 283	-115 180	423 189	156 337	369 287	74 230
<b>Profit or loss from economic activity</b>	<b>198 054</b>	<b>223 569</b>	<b>1 203 778</b>	<b>455 798</b>	<b>-152 510</b>	<b>-411 492</b>	<b>1 249 322</b>	<b>267 876</b>
Other interset income/payments and similar income	-6 457	-9 344	-47 534	-37 918	-111 902	-132 564	-165 893	-179 826
Other taxes	0	0	0	0	0	-232 275	0	0
Services provided from segments activities	-106 586	-90 110	-408 557	-493 726	515 143	270 103	0	0
<b>Profit or (loss)</b>	<b>85 011</b>	<b>124 115</b>	<b>747 687</b>	<b>-75 846</b>	<b>250 731</b>	<b>-506 228</b>	<b>1 083 429</b>	<b>88 050</b>
Segment assets	3 228 627	3 120 292	28 920 088	29 953 076	687 126	1 686 965	32 835 841	34 760 333
Segment liabilities	3 106 309	2 865 348	28 442 352	29 635 183	1 287 180	2 259 802	32 835 841	34 760 333

The above table shows the Company's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Company believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

### *Logging*

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

### *Timber processing*

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

### *Other*

Income in this segment mainly arises from the provision of transport services and collected fees for the company's real estate and other management-related revenues.

### 3. Net turnover through geographical segments

Since the economic activity of the Company is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

	2017 EUR	2016 EUR
<b>Income from sales, int. Al.</b>	<b>23 204 983</b>	<b>19 612 349</b>
Latvia	23 204 983	19 612 349
<b>Income from rendering of services, int. Al.</b>	<b>1 416 432</b>	<b>1 720 879</b>
Latvia	1 416 432	1 720 879
	<b>24 621 415</b>	<b>21 333 228</b>