

**JOINT-STOCK COMPANY „PATA SALDUS” AND ITS SUBSIDIARY COMPANIES**

(REGISTRATION NUMBER 40003020121)

**UNAUDITED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2017**

**DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS  
ADOPTED BY THE EUROPEAN UNION**

**Saldus, 2017**

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## Information about the Group

Name of the Group	<b>PATA Saldus(PATA Saldus)</b>
Legal status of the Group	Joint Stock Company
Registration number, place, and date	40003020121 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV 3801
The main areas of activities of the Group	Forestry, commercial timber preparation and related services; production of board lumber, etc.
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 Group	<i>Pakuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the Group	Limited Liability Company
Number and date of registration in the commercial register	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the Group	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – June 30, 2017
2. Name of the Group	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (100%)
Legal status of the Group	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 Group	Woodworking, production of board lumber
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – June 30, 2017

Joint-stock company „PATA Saldus” and its subsidiary companies  
Address: Kuldīgas iela 86c, Saldus LV-3801,  
Saldus District, Republic of Latvia  
Single registration number: 40003020121

Financial information for the period  
ended 30 of June 2017  
(Unaudited)

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Associated enterprise

Name of the Group	Saldus enerģija ( <i>Saldus enerģija</i> ) (20%)
Legal status of the Group	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 Group	Production of electricity, activities of holding companies.
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 20%
Reporting year	January 1 – June 30, 2017

Parent Group

Name of the Group	PATA (PATA) (65.%)
Legal status of the Group	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 Group	Wholesale of wood, silviculture and other forestry activities
Owner of the Group	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 Consolidated report of economic activity for the 6 month period of 2017*

#### Type of operations

Principal activities of the Group are forestry and primary wood processing - lumber production. The Group complies with FSC and all other environmental requirements. In order to comply with these requirements the Group takes appropriate monitoring and improvement actions on regular basis.

#### Performance of the Group during the financial year

JSC PATA Saldus profit from operating activities for the 6 month period of 2017 was EUR 997 939 with a net turnover of EUR 24 623 844 which represents earnings per share issued of 2.41 EUR. The Group'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 Group and consolidated group. It is in interest of the Group to take care of their employees' social protection and well-being, because only then the development of the Group can be sustainable.

#### Financial risk management

Main financial instruments of the Group are loans, finance and operating leases, cash and cash equivalents. The purpose of these financial instruments is to provide the Group 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 Group 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 Group 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 Group.

#### Future prospects

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

Wood processing Group 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 heating renewable energy will be used.

The Group 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 Group'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

## 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 Group'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 Group's resources conservation as well as fraud prevention and prevention of other irregularities.

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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## Consolidated income statement

	2017.06.30 EUR	2016.06.30 EUR
Net turnover	24 623 844	21 341 400
Production costs of the sold production	-23 510 112	-20 872 690
<b>Gross profit</b>	<b>1 113 732</b>	<b>468 710</b>
Selling costs	-11 196	-10 507
General administration costs	-248 449	-277 450
Other income from Group's economic activity	699 262	390 433
Other expenditures from Groups economic activity	-383 610	-250 160
<b>Profit or loss from economic activity</b>	<b>1 169 739</b>	<b>321 026</b>
Other interest income and the like income	69	0
Other interest payments and the like payments	-171 869	-185 292
<b>Profit or loss before extraordinary items and taxes</b>	<b>997 939</b>	<b>135 734</b>
<b>Profit or (loss)</b>	<b>997 939</b>	<b>135 734</b>
 <b>Profit/loss on share</b>	 <b>2.41</b>	 <b>0.35</b>
EUR per share		

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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## Consolidated balance sheet

### ASSETS

	2017.06.30 EUR	2016.12.31 EUR
<b>LONG-TERM INVESTMENTS</b>		
<b>Intangible investments</b>		
Concessions, patents, licences, trademarks and the like items	17 741	19 125
<b>TOTAL</b>	<b>17 741</b>	<b>19 125</b>
<b>Fixed assets</b>		
Land, premises and buildings	6 822 612	7 026 277
Equipment and machinery	12 468 020	13 130 454
Other fixed assets	67 790	55 817
Unfinished constructions	323 695	307 767
<b>TOTAL</b>	<b>19 682 117</b>	<b>20 520 315</b>
<b>Biological assets</b>	<b>765 836</b>	<b>765 836</b>
<b>Long-term financial investments</b>		
Investment in associated companies	8 540	8 540
Deferred tax assets	480 706	480 706
<b>TOTAL</b>	<b>489 246</b>	<b>489 246</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>20 954 940</b>	<b>21 794 522</b>
<b>CURRENT ASSETS</b>		
<b>Stocks</b>		
Raw materials, direct materials, auxiliary materials	1 862 116	1 949 655
Biological assets	635 755	635 755
Unfinished production	1 362 839	1 824 568
Finished production and goods for sale	1 216 428	1 324 268
Advance payments for goods	50 821	63 991
<b>TOTAL</b>	<b>5 127 959</b>	<b>5 798 237</b>
<b>Noncurrent assets held for sale</b>		
Fixed assets held for sale	274 997	274 997
<b>Debtors</b>		
Debts of buyers and customers	330 469	154 906
Debts of subsidiaries	3 535 603	3 388 545
Debts of associated companies	124 745	184 482
Other debtors	600 075	253 906
Expenditures of the next periods	224 285	165 165
<b>TOTAL</b>	<b>4 815 177</b>	<b>4 147 004</b>
<b>Money and its equivalents</b>	197 939	459
<b>TOTAL CURRENT ASSETS</b>	<b>10 416 072</b>	<b>10 220 697</b>
<b>TOTAL ASSETS</b>	<b>31 371 012</b>	<b>32 015 219</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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## Consolidate balance sheet (continuation)

### LIABILITIES

	2017.06.30	2016.12.31
	EUR	EUR
<b>Shareholders'equity</b>		
Share capital	579 916	579 916
Increase of price of the issue of shares	2 828	2 828
Fluctation of exchange rate	-288 326	-262 768
Reserves from revaluation of long-term investments	1 570 057	1 570 057
Other reserves	3 741 168	3 741 168
Retained earnings from the previos year	511 258	-401 450
Retained earnings from the year of account	997 939	851 625
<b>Total shareholders'equity</b>	<b>7 114 840</b>	<b>6 081 376</b>
<b>CREDITORS</b>		
<b>Long-term liabilities</b>		
Long-term loans from credit institutions	11 430 068	12 488 093
Other loans	3 226 122	3 319 379
Long-term part of incomes from next periods	1 800 397	1 911 689
<b>TOTAL</b>	<b>16 456 587</b>	<b>17 719 161</b>
<b>Short-term liabilities</b>		
Short-term loans from credit institutions	1 488 421	1 545 858
Other loans	644 093	1 202 928
Advances from customers	475	0
Debts to suppliers and contractors	4 555 011	4 200 881
Debts to subsidiaries	0	153 726
Accured liabilities	425 497	415 783
Taxes payable	275 671	292 478
Other creditors	187 834	180 445
Incomes from the next periods short-term part	222 583	222 583
<b>TOTAL</b>	<b>7 799 585</b>	<b>8 214 682</b>
<b>Total liabilities</b>	<b>24 256 172</b>	<b>25 933 843</b>
<b>Total shareholders'equity and liabilities</b>	<b>31 371 012</b>	<b>32 015 219</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

## Consolidated cash flow statement

	6 Month of 2017	6 Month of 2016
	EUR	EUR
<b>I. Cash flow from basic activity</b>		
<b>1. Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>997 939</b>	<b>135 734</b>
Corrections:		
Value adjustments of fixed assets	960 112	819 011
Deprecation of intangible assets	10 058	6 792
Revaluation of long-term investments	0	-30 000
Accruals (except accruals for doubtful debts )	0	21 898
Profit (-) or loss (+) from fluctuations of exchange rate	132 821	-167 841
Long-term and short-term financial investment value adjustments	-111 292	-111 292
Interest expenditure	171 319	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>2 160 957</b>	<b>826 878</b>
Corrections:		
increase (+) or decrease (-) of debtors debt	-678 173	-2 492 026
increase (+) or decrease (-) of the reserves of accruals	662 232	-99 626
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-464 315	2 047 677
<b>3. Gross cash flow from basic activity</b>	<b>1 680 701</b>	<b>282 903</b>
4. Expenditures to pay interest payments	-174 213	-152 576
<b>5. Net cash flow from basic activity</b>	<b>1 506 488</b>	<b>130 327</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. Expenditures for advance payments for fixed assets and unfinished constructions	-1 070 099	-305 700
<b>4. Net cash flow from investments</b>	<b>-91 887</b>	<b>-350 245</b>
<b>III. Cash flow from financing activities</b>		
1. Received loans	0	316 729
2. Received subsidies and grants	0	51 415
3. Expenditures for paying back loans	-516 142	-16 820
4. Expenditures for the leased asset ransom	-101 660	-68 397
5. Changes of creditlines	-599 319	-59 566
<b>5. Cash flow from financing activities</b>	<b>-1 217 121</b>	<b>223 361</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>197 480</b>	<b>3 443</b>
<b>VI. Money and its equivalents balance at the beginning of the period of account</b>	<b>459</b>	<b>5 522</b>
<b>VII. Money and its equivalents balance at the end of the period of account</b>	<b>197 939</b>	<b>8 965</b>

Cash flow statement is prepared according to indirect method in accordance with SGS Nr.7.

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 on the changes in own capital

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2015</b>	<b>541 990</b>	<b>1 600 057</b>	<b>-353 525</b>	<b>2 828</b>	<b>3 741 168</b>	<b>1 549 507</b>	<b>-1 737 130</b>	<b>5 344 895</b>
Fluctuation of exchange rate	0	0	24 711	0	0	-81 060	0	-56 349
Distribution of profit of the year 2015	0	0	0	0	0	-1 737 130	1 737 130	0
Reserves from revaluation of long-term investments	0	-30 000	0	0	0	0	0	-30 000
Profit of the year of account	0	0	0	0	0	0	135 734	135 734
<b>June 30, 2016</b>	<b>541 990</b>	<b>1 570 057</b>	<b>-328 815</b>	<b>2 828</b>	<b>3 741 168</b>	<b>-268 683</b>	<b>135 734</b>	<b>5 394 279</b>
<b>December 31, 2016</b>	<b>579 916</b>	<b>1 570 057</b>	<b>-262 768</b>	<b>2 828</b>	<b>3 741 168</b>	<b>-401 450</b>	<b>851 625</b>	<b>6 081 376</b>
Fluctuation of exchange rate	0	0	-25 557	0	0	61 083	0	35 525
Distribution of profit of the year 2016	0	0	0	0	0	851 625	-851 625	0
Profit of the year of account	0	0	0	0	0	0	997 939	997 939
<b>June 30, 2017</b>	<b>579 916</b>	<b>1 570 057</b>	<b>-288 326</b>	<b>2 828</b>	<b>3 741 168</b>	<b>511 258</b>	<b>997 939</b>	<b>7 114 840</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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## **Annex to the financial statement**

### **1. Corporative information**

JSC "PATA Saldus" Group (hereinafter - the Group) mainly engaged in logging and wood processing. Joint stock company „PATA Saldus” (hereinafter - the Parent Company) was registered with the Republic of Latvia Enterprise Register on 26 August 1991 and with the Republic of Latvia Commercial Register on 8 May 2004. On 2 October 2015, the Joint Stock Company "Saldus mežrupniecība" has changed its name to Joint Stock Company "PATA Saldus", according to the decisions of Annual General Meeting of shareholders on 20 July 2015. Parent company's shares are listed on the Riga Stock Exchange.

The Group's consolidated financial statements were authorized for issue in accordance with the decision of the Board and Council. The Group's shareholders have the right to amend the financial statements after its issue

### **2. Important accounting principles**

In preparation of the holding company's financial statement, there were used the following accounting principles:

#### ***Principles of preparing the financial statement***

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those.

The Group carried out a revaluation of its land at the end of 2015 and concluded that their market value exceeded their carrying value at the date of revaluation and at the beginning and end of previous reporting period.

In financial statements as a monetary unit is used Euro (EUR)- the monetary unit of the Republic of Latvia.

#### ***Consolidation***

The consolidated financial statement includes the financial statements of the joint-stock company PATA Saldus and its subsidiary companies Pakuļi Sports Centre Ltd., ооо ДЕРЕВООБРАБАТЫВАЮЩИЙ КОМБИНАТ № 3 and ооо Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company PATA Saldus and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company PATA Saldus and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net assets obtained by the Holding is accounted as an intangible value.

#### ***Consolidation of foreign subsidiary companies***

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Holding.

## ***Changes in accounting policy and disclosures***

### ***Standards and Interpretations effective in the current period***

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

**Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

□ **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Bearer Plants- adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

**Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

**Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies or financial statements.

### ***Standards and Interpretations issued and adopted in the EU but not yet effective***

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued and adopted in the EU were in issue but not yet effective:

**IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

**IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Group has decided not to apply the above standards, amendments and interpretations before their effective date. The Group is in the process of assessment impact of the above standards, amendments and interpretations on the Group's financial statements and is not able to present the final evaluation at this stage.

### ***Standards and Interpretations issued but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU:

**IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

**IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),

**Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

**Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),

**Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in**

**Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

**Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

**Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

**Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

**Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

**Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

□ **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The Group has not yet assessed the impact of the above standards, amendments and interpretations on the Group's financial statements.

### ***Transactions in foreign currencies***

The Holding's accountancy is kept in Euros (EUR) except for the ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Euros in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	2017.06.30	2016.12.31
	EUR	EUR
1 RUB	0.0148	0.0156
1 USD	0.8763	0.9488

### ***Intangible investments***

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are included as expenditures in the profit/loss statement.

### **Capital assets**

Capital assets are accounted in their initial value except for their depreciation and the decrease of their value. For land the depreciation is not calculated

Depreciation is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	10-20 years
Equipment and machinery	2-15 years
Forest equipment	3-5 years
Timber processing lines	3-15 years
Other capital assets	2-10 years
Computing and data gathering devices, software	2-5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount. Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

In accordance with the accounting policies - land of forests are valued using the revaluation method. A plot shall be performed on a regular basis depending on changes in value. If the asset (the land of forests), the revalued value is not significantly different from its balance sheets value, they are revalued every five years by ordering evaluation to the certified forests assessor. In case of radical changes in the real estate market valuation may be ordered more frequently. Last evaluation is made on 29.04.2014.

Records are prepared in accordance with SGS Nr.16 requirement.

### **Noncurrent assets held for sales**

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 Group 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 Group'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.

### **Biological assets**

The Group considers that forest stands should be classified as biological assets, that are valued according to State Forest Service data. 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.

### ***Decrease of the value of assets***

At the end of each year the Holding audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Holding has to carry out the annual audit of the decrease of the value of assets, the Holding establishes the recoverable amount for each asset. The recoverable amount is the biggest amount of selling value from which is subtracted expenditures related to the selling value and use-values. In order to determine the decrease of value, assets are grouped in the lowest possible level for which it is possible to separately determine cash flows (cash flow generating assets). If the balance value of assets is bigger than its recoverable amount, the decrease of the value of asset is acknowledged and the assets are written off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

### ***Loan costs***

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle IAS 23.

### ***Lease***

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

### ***Inventories***

#### ***Unfinished products***

Inventories are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

### ***Raw materials are accounted in their purchase costs***

Finished and unfinished products are accounted in their direct costs (raw materials and labour) by adding indirect expenditures needed for their production (salaries, electricity, wear and tear and other related costs which would be used in usual production volumes).

Finished products are accounted in their lowest cost or net selling value. Net selling value is the calculated selling price in normal business activity by subtracting expenditures which will be needed to finish and sell the products.

The Group regularly estimates if the value of reserves has not decreased due to aging or damage. Corresponding loss is included in the profit or loss calculation as production costs of sold products. When damaged products are physically destroyed, the value of reserves and the value of appropriate reserves are written off.

### ***Debts of buyers and customers***

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

### ***Money and its equivalents***

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

### ***Share capital***

The Group is a joint stock company. The share capital is EUR 579 916. All shares have nominal value of EUR 1,40 (one euro 40 euro cents). 387 136 shares are public bearer shares and are dematerialized, but 27 090 shares are staff, registered shares.



### **Credits and loans**

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

### **Accruals**

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

### **Accruals and deferred liabilities**

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

### **Income recognition**

*Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:*

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

#### *Sale of goods*

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

#### *Interest*

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

#### *Dividends*

Incomes are recognized when shareholders have rights to receive them.

#### *Income from lease*

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

### **Possible liabilities and assets**

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

### **Allowances**

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments that are included in expenses of the period when accrued.

### ***Associated persons***

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

### ***Critical accounting assumptions and judgments***

In order to prepare financial statement in accordance with IFRS it is necessary to make essential accounting assumptions. Also, preparation of the statements requires management to make assumptions and judgments that are in line with accounting policies of the group.

Preparation of financial statements in compliance with IFRS requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the financial statements at the date of the reporting period of recognized income and expenses. Actual results may differ from these estimates. Areas that can be affected the most by assumptions are revaluation of fixed assets, determination of revaluation frequency, management assumptions and estimates in determining periods of useful life, as described in corresponding annexes.

### ***Capital management***

Main objective of the Group from capital risk management perspective is to ensure that the Group complies with going concern assumption, by providing positive returns to shareholders, benefits to other stakeholders as well as to maintain optimal capital structure, thereby reducing the cost of capital. In order to determine the optimal capital structure, the Group's management may decide on payment of dividends, return on equity indices or issue of equity.

### **Reclassification of items**

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 Group 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>
Income	21 341 400	-111 292	21 452 692
Production costs of the sold production	-20 872 690	-12 523	-20 860 167
Other taxes	0	12 523	-12 523
Other costs	-250 160	-250	-249 910
Other income	304 486	217 747	172 686
Other interest income	0	-106 205	106 205
<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 or loss before extraordinary items and taxes	135 734	-12 523	148 257
Real estate tax paid	0	12 523	12 523
<b>Reclassification</b>		<b>0</b>	

### 3. Segments of the Holding activities

The Holding 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	21 687 681	18 391 074	515 230	1 035 330	24 623 844	21 341 400
Production costs of the sold production	-2 226 995	-1 720 521	-20 391 073	-17 794 682	-892 044	-1 357 487	-23 510 112	-20 872 690
Selling costs	0	0	-11 057	-10 507	-139	0	-11 196	-10 507
General administration costs	-4 265	-4 069	-39 095	-27 126	-205 089	-246 255	-248 449	-277 450
Other income/expenditures from company's economic activity	8 381	33 163	-116 421	-135 163	423 692	136 068	315 652	34 068
<b>Profit or loss from economic activity</b>	<b>198 054</b>	<b>223 569</b>	<b>1 130 035</b>	<b>423 596</b>	<b>-158 350</b>	<b>-432 344</b>	<b>1 169 739</b>	<b>214 821</b>
Other interest income/payments and similar income	-6 457	-9 344	-53 441	42 563	-111 902	-112 306	-171 800	-79 087
Services provided from segments activities	-106 586	-90 110	-408 557	-493 726	515 143	583 836	0	0
<b>Profit or (loss)</b>	<b>85 011</b>	<b>124 115</b>	<b>668 037</b>	<b>-27 567</b>	<b>244 891</b>	<b>39 186</b>	<b>997 939</b>	<b>135 734</b>
Segment assets	3 084 292	2 990 498	27 630 312	28 719 885	656 408	1 616 793	31 371 012	33 327 176
Segment liabilities	2 971 619	2 739 717	27 209 083	28 335 829	1 190 310	2 161 630	31 371 012	33 237 176

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

The management of the Holding 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.

### 4. Net turnover through geographical segments

Since the economic activity of the Holding 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	2016
	EUR	EUR
Income from sales, Latvia	24 621 415	21 333 228
Income from sales, Russia	2 429	8 172
	<b>24 623 844</b>	<b>21 341 400</b>