

JOINT STOCK COMPANY „PATA SALDUS”

(UNIFIED REGISTRATION NUMBER 40003020121)

FINANCIAL REPORT FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

Saldus, 2021

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General Information

Name of the Company	Joint Stock Company “PATA Saldus”		
Legal status of the Company	Joint Stock Company		
Number, place and date of registration	40003020121, August 26, 1991, Riga		
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV-3801		
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	Gatis Zommers – Chairman of the Board Jānis Mierkalns – Member of the Board Ilze Bukulde - 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 Inga Jākobsone - Member of the Council		
Shareholders who owns 5% and more of total shares with voting rights	Saldus MRU SIA	44.38%	343 666 shares
	Kubit SIA	27.82%	215 394 shares
	PATA SIA	22.93%	177 516 shares
Subsidiary enterprises			
1. Name of the Company	SIA “PAKUĻU SPORTA BĀZE” (100%)		
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 rajons LV 3801		
The main areas of activities of the Company	Other sports activities		
Owner of the Company	JSC “PATA Saldus” – 100%		
Reporting period	January 1 – June 30, 2021		
2. Name of the Company	ООО “Деревообрабатывающий комбинат № 3” (100%)		
Legal status of the Company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)		
Registration number, date and 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	JSC “PATA Saldus” – 100%		
Reporting period	January 1 – June 30, 2021		

Parent Company

Name of the Company	SIA "PATA" (67%)
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, Incukalns, Inčukalna nov., LV-2141
The main areas of activities of the Company	Wholesale of wood, silviculture and other forestry activities
Owner of the Company	Uldis Mierkalns – 100%
Reporting period	January 1 – June 30, 2021

Name and address of the Auditor

SIA "Nexia Audit Advice"
Certified Auditor's Licence No. 134
Number of registration No. 40003858822
Grēcinieku iela 9-3, Rīga,
LV-1004, Latvia

Certified Auditor Svetlana Šemele-Baikova
LZRA Certificate No. 212

Management Report

Type of operations

Principal activities of the Company are forestry and primary wood processing - lumber production for construction, furniture and for the production of packaging. Starting from 2020 the range of finished products has been supplemented by production of all different types of planed and calibrated lumber. Within the framework of economic activity, the necessary forestry work shall be carried out to ensure reforestation, maintenance and enhancement of the forest by means of environmentally friendly, non-degrading forest management, working in accordance with the requirements and recommendations of forest management and wood supply chain certificates. In the process of wood processing JSC PATA Saldus shall operate in accordance with the requirements of the certificate of the energy management system (LVS EN ISO 50'001:2012). In order to meet these requirements, the Company shall regularly take the appropriate monitoring and improvement measures, but the proportion of these costs in the cost of production is not relevant.

Performance of the Company during the financial year

JSC PATA Saldus profit from operating activities for the 6 months period of 2021 was EUR 5 220 795 with a net turnover of EUR 44 228 641, which represents profit per share issued of 6,30 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. The report contains true information.

Financial results of the Company's commercial activity and financial standing of the Company

The analysis of the Company's annual financial statements shows, that consolidated statement of financial position total is EUR 44 843 106. Non-current assets comprise 44% of the statement of financial position total, of which 91% (EUR 17 840 736) comprise of property, plant and equipment. Equity comprises 54% (EUR 24 161 616) of the statement of financial position total. Non-current liabilities comprise 30% (EUR 13 554 895) of the statement of financial position total, while current liabilities comprise 16% (EUR 7 126 595).

The analysis of the Company's income statement shows, that the revenue of the Company for the 6 months period of 2021 is EUR 44 228 641, the cost of sales is EUR 38 965 355, so that the gross profit amounts to EUR 5 263 286 and net profit amounts to EUR 5 220 795.

Financial performance indicators show that the Company is able to settle its obligations, as well as the fact that the Company has sufficient material provision for the further development of business.

Investment programme

In 2020 the company implemented strategically important developments and continued already started research projects. In result of these activities there were developed new planed products and for exploitation assigned a new lumber planning line. In the spring of 2021, a wood chip briquetting press was purchased and installed, increasing the assortment of manufactured products. The Company will continue already started research projects on enhancing the process of drying lumber and search of new outlets. That lets Company create new products and enlarge the added value of the products produced.

Environment protection

The core economic activity of the Company is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with SIA Zaļā josta on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to AS BAO, on which there has been concluded a special agreement on collection of hazardous waste. In this way the Company meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, int.al. unplanned taxes and decreased ecological risks in all objects.

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 affect financial results for the year or the financial position of the Company.

Future prospects

In 2021, the Company will continue to develop and expand nature friendly logging through environmentally friendly, non-degrading forest management, working in accordance with the requirements and recommendations of forest management and wood supply chain certificates.

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.

Saldus, August 31, 2021

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 2021, 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, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Income Statement

	6 months of 2021 EUR	6 months of 2020 EUR
Revenue	44 228 641	25 598 286
Costs of goods sold or services provided	(38 965 355)	(23 664 147)
Gross profit or losses	5 263 286	1 934 139
Distribution expenses	(18 954)	(173)
Administrative expenses	(196 274)	(140 845)
Other operating income	522 948	498 684
Other operating expenses	(113 054)	(420 926)
Interest and similar income, incl.	639	753
a) from other parties	639	753
Interest and similar expenses, incl.	(237 796)	(238 941)
a) for other parties	(237 796)	(238 941)
Profit or loss before corporate income tax	5 220 795	1 632 691
Profit or loss after corporate income tax	5 220 795	1 632 691
Profit or loss for the period	5 220 795	1 632 691
Profit/loss on share (EUR)	6,30	1,97

August 31, 2021

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board
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Balance Sheet

ASSETS

	2021.06.30 EUR	2020.12.31 EUR
NON-CURRENT ASSETS		
Intangible assets		
Concessions, patents, licences, trademarks and similar rights	41 886	42 750
Total intangible assets	41 886	42 750
Fixed assets		
Immovable properties		
a) land plots, buildings and engineering structures	5 392 927	5 523 012
Fauna and flora		
b) biological assets	707 589	707 589
Technological equipment and machinery	11 251 035	11 856 273
Other fixed assets	126 927	57 809
Fixed assets under development and construction in progress	362 258	232 960
Total fixed assets	17 840 736	18 377 643
Non-current financial investments		
Investments in group companies	956 739	956 739
Receivables from group companies	691 718	686 230
Other securities and investments	8 540	8 540
Total non-current financial investments	1 656 997	1 651 509
TOTAL NON-CURRENT ASSETS	19 539 619	20 071 902
CURRENT ASSETS		
Inventories		
Raw materials and consumables	2 568 690	1 216 814
Work in progress	4 077 244	1 709 119
Finished goods and goods for sale	3 090 169	991 933
Fauna and flora		
a) biological assets	1 056 124	1 510 937
Advances for inventories	927 995	170 942
Total inventories	11 720 222	5 599 745
Account receivable		
Trade receivables	725 347	594 893
Receivables from group companies	12 086 684	14 399 131
Other receivables	330 765	286 030
Deferred expenses	407 975	240 244
Total receivables	13 550 771	15 520 298
Cash and cash equivalents	32 494	4 101
TOTAL CURRENT ASSETS	25 303 488	21 124 144
TOTAL ASSETS	44 843 106	41 196 046

August 31, 2021

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board
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Balance Sheet (continued)

EQUITY AND LIABILITIES

	2021.06.30 EUR	2020.12.31 EUR
EQUITY		
Share capital	579 916	579 916
Share premium	2 828	2 828
Revaluation reserve of non-current investments	1 477 868	1 477 868
Reserves:		
f) other reserves	3 741 168	3 741 168
Retained earnings:		
a) retained earnings from the previous year	13 139 041	7 738 621
b) current year profit or losses	5 220 795	5 400 420
TOTAL EQUITY	24 161 616	18 940 821
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	10 624 481	10 046 427
Other loans	1 318 183	1 549 571
Deferred income	1 612 231	1 754 321
Total non-current liabilities	13 554 895	13 350 319
Current liabilities		
Loans from credit institutions	770 681	1 967 791
Other loans	366 451	420 044
Prepayments received from customers	95 209	57 000
Trade payables	4 647 372	3 838 096
Payables to group companies	-	1 206 312
Taxes and state social insurance payments	201 045	422 240
Other creditors	293 074	258 361
Deferred income	284 180	284 180
Accrued liabilities	468 580	450 882
Total current liabilities	7 126 595	8 904 906
TOTAL LIABILITIES	20 681 490	22 255 225
TOTAL EQUITY AND LIABILITIES	44 843 106	41 196 046

August 31, 2021

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board
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Cash Flow Statement

	6 Month of 2021	6 Month of 2020
	EUR	EUR
Cash flow from operating activities		
Profit (+) or loss (-) before corporate income tax	5 220 795	1 632 691
Adjustments for:		
Depreciation and impairment of fixed assets and intangible assets	1 020 326	1 014 023
Profit (-) or loss (+) from fluctuations of foreign currency rates	(5 488)	16 248
Impairment of non-current and current financial investments	(142 090)	(142 091)
Interest and similar expenses	236 113	238 715
Profit or loss prior to changes in current assets and current liabilities	6 329 656	2 759 586
Adjustments for:		
Increase (+) or decrease (-) of account receivable	1 969 527	(973 480)
Increase (+) or decrease (-) of inventory	(6 120 477)	799 525
Increase (+) or decrease (-) of account payables and other liabilities	(661 598)	(1 376 092)
Gross cash flow from operating activities	1 517 108	1 209 539
Interest payments	(238 257)	(240 327)
Net cash flow generated from operating activities	1 278 851	969 212
Cash flow from investing activities		
Income from selling fixed assets and intangible assets	144 095	55 575
Acquisition of fixed assets and intangible assets	(352 567)	(82 817)
Prepayments for fixed assets under development and construction in progress	(137 950)	(16 493)
Net cash flow generated from investing activities	(346 422)	(43 735)
Cash flow from financing activities		
Repayment of loans	(807 338)	(956 926)
Changes in credit lines	(30 597)	138 601
Finance lease payments	(66 101)	(108 375)
Net cash flow generated from financing activities	(904 036)	(926 700)
Net cash flow in the financial year	28 393	(1 223)
Cash and cash equivalents at the beginning of the financial period	4 101	1 262
Cash and cash equivalents at the end of the financial period	32 494	39

Cash flow statement is prepared using the indirect method in accordance with Rules of The Cabinet of Ministers No. 775

August 31, 2021

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board
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Statement of Changes in Equity

	Share capital	Share premium	Revaluation reserves of non-current investments	Other reserves	Retained earnings from the previous year	Current year profit or losses	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2019	579 916	2 828	1 370 057	3 741 168	9 603 880	(1 865 259)	13 432 590
Distribution of profit of the year 2019	-	-	-	-	(1 865 259)	1 865 259	-
Current year profit or losses	-	-	-	-	-	1 632 691	1 632 691
June 30, 2020	579 916	2 828	1 370 057	3 741 168	7 738 621	1 632 691	15 065 281
December 31, 2020	579 916	2 828	1 477 868	3 741 168	7 738 621	5 400 420	18 940 821
Distribution of profit of the year 2020	-	-	-	-	5 400 420	(5 400 420)	-
Current year profit or losses	-	-	-	-	-	5 220 795	5 220 795
June 30, 2021	579 916	2 828	1 477 868	3 741 168	13 139 041	5 220 795	24 161 616

August 31, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Notes to the Financial Statements

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. 41 "Agriculture".

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.

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.
- g) Items in the balance sheet and profit and loss account shall be valued at acquisition cost or production cost.

Foreign currency conversion in euro

The 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.

	30.06.2021	31.12.2020
	EUR	EUR
1 RUB	0.0115	0.0109
1 SEK	0.0989	0.0997
1 USD	0.8415	0.8149

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 classified 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 2020 by applying 8% discount rate. Average price for purchased felling site m3 in 2020 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.

Accounts 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

Accrued liabilities recognize clearly known amounts of liabilities to suppliers and contractors for goods or services received during the reporting year for which for other reasons the corresponding source document (invoice) for payment has not yet been received at the balance sheet date.

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.

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

Subsequent 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. Subsequent events that are not adjusting events are disclosed in the notes when material.