

JOINT-STOCK COMPANY „PATA SALDUS” AND ITS SUBSIDIARIES

(REGISTRATION NUMBER 40003020121)

**UNAUDITED CONSOLIDATED FINANCIAL INFORMATION
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2021**

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS
ADOPTED BY THE EUROPEAN UNION

Saldus, 2021

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General Information

Name of the Group	Joint-stock company “PATA Saldus”		
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. NACE 2.red. 1610 – Sawmilling and planning 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
Subsidiaries			
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 novads, LV-3801		
Core business activities of the company	Other sports activities		
Interest of the Parent 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, place	1066027046337, October 9, 2006		
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А		
Core business activities of the company	Woodworking, production of board lumber		
Interest of the Parent company	JSC “PATA Saldus” – 100%		
Reporting period	January 1 – June 30, 2021		

Joint-stock company „PATA Saldus” and its subsidiaries
Address: Kuldīgas street 86c, Saldus, Saldus District,
LV-3801, Republic of Latvia
Registration number: 40003020121

Financial information for the period
for the period ended 30 of June 2021
(Unaudited)

Ultimate Parent company that controls JSC
“PATA Saldus”

Name of the ultimate Parent company	SIA “PATA” (67%)
Legal status of the ultimate Parent company	Limited Liability Company
Number and date of registration in the commercial register	40003448619, June 10, 1999
Address	Miera iela 2, Inčukalns, Inčukalna nov., LV-2141
Core business activities of the ultimate Parent company	Wholesale of wood, silviculture and other forestry activities
Interest of the ultimate Parent company	SIA “PATA” – direct holding – 23%, indirect holding – 44%
Owner of the ultimate Parent company	Uldis Mierkalns – 100%
Reporting period	January 1 – June 30, 2021

Name and address of the Auditor	Svetlana Šemele-Baikova Certified Auditor of the Republic of Latvia Certificate No. 212	SIA “Nexia Audit Advice” Registration No. 40003858822 Grēcinieku iela 9-3, Rīga, LV-1050, Latvia Licence No. 134
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Management Report

Type of operations

Principal activities of the Group 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 Group 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 Group during the financial year

The Group's profit from operating activities for the 6 months period of 2021 was EUR 5 258 932 with a net turnover of EUR 44 232 745, which represents profit per weighted average share issued of 6.35 EUR.

The Group's financial statements have been prepared based on the information available to the 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. The report contains true information.

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

The analysis of the Group's consolidated financial statements shows, that consolidated statement of financial position total is EUR 44 546 797. Non-current assets comprise 43% of the statement of financial position total, of which 96% (EUR 18 400 089) comprise of property, plant and equipment. Equity comprises 51% (EUR 22 649 132) of the statement of financial position total. Non-current liabilities comprise 31% (EUR 13 723 360) of the statement of financial position total, while current liabilities comprise 18% (EUR 8 174 305).

The analysis of the Group's consolidated statement of comprehensive income shows, that the revenue of the Group for the 6 month period of 2021 is EUR 44 232 745, the cost of sales is EUR 38 918 775, so that the gross profit amount is EUR 5 313 970 and net profit amount is EUR 5 258 932.

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

Investment programme

In 2020 the Group 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 Group will continue already started research projects on enhancing the process of drying lumber and search of new outlets. That lets Group create new products and enlarge the added value of the products produced.

Environment protection

The core economic activity of the Group is production of timber. Polyethylene plastic is used as a wrapping material. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related not only to environmental pollution, but also 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 technical 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 Group 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, incl. planned natural resource tax payments, addressing unforeseen environmental problems and reducing ecological risks at all sites.

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

Future prospects

In 2021, the Group 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 Group 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 Group.

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 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 Report contains truthful information on Group's development and results of its operations.

Financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

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 Group'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

Consolidated Statement of Comprehensive income

	2021.06.30 EUR	2020.06.30 EUR
Revenue	44 232 745	25 607 416
Cost of sales	(38 918 775)	(23 199 615)
Gross profit	5 313 970	2 407 801
Distribution costs	(18 954)	(173)
Administrative expenses	(199 904)	(149 309)
Other operating income	557 003	617 032
Other operating expense	(138 303)	(624 376)
Operating profit or loss	5 513 812	2 250 975
Finance income	639	753
Finance costs	(255 519)	(242 414)
Profit or loss before tax	5 258 932	2 009 314
Profit or loss for the period	5 258 932	2 009 314
 Profit/loss on share	 6,35	 2,43
EUR per share		

August 31, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Consolidated Statement of Financial Position

ASSETS

	2021.06.30 EUR	2020.12.31 EUR
NON-CURRENT ASSETS		
Intangible assets		
Concessions, patents, licences and similar costs	41 886	42 750
TOTAL	41 886	42 750
Property, plant and equipment		
Land, buildings and perennial plantations	5 622 803	5 743 807
Technological equipment and machinery	11 170 240	11 736 405
Other fixed assets	97 591	22 670
Rights of used assets	1 042 843	1 539 622
Construction in progress	466 612	341 052
TOTAL	18 400 089	19 383 556
Biological assets	707 589	707 589
Long-term financial investments		
Other securities and investments	8 540	8 540
Deferred income tax asset	-	10 734
TOTAL	8 540	19 274
TOTAL NON-CURRENT ASSETS	19 158 104	20 153 169
CURRENT ASSETS		
Inventories		
Raw materials, basic materials and consumables	2 568 690	1 216 814
Biological assets	1 056 124	1 510 937
Unfinished production	4 077 244	1 709 119
Finished production and goods for sale	3 100 912	1 002 125
Advance payments for goods	927 995	170 942
TOTAL	11 730 965	5 609 937
Receivables		
Trade receivables	726 224	593 784
Receivables from related companies	12 086 684	14 382 659
Other receivables	344 326	287 453
Prepaid expenses	407 975	240 244
TOTAL	13 565 209	15 504 140
Cash and cash equivalents	92 519	64 090
TOTAL CURRENT ASSETS	25 388 693	21 178 167
TOTAL ASSETS	44 546 797	41 331 336

August 31, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Consolidated Statement of Financial Position (continued)

EQUITY AND LIABILITIES

	2021.06.30	2020.12.31
Equity	EUR	EUR
Share capital	579 916	579 916
Share premium	2 828	2 828
Foreign currency exchange fluctuations	3 316	(7 430)
Revaluation reserve of non-current assets	1 477 868	1 477 868
Other reserves	3 741 168	3 741 168
Retained earnings of the previous years	11 585 104	6 534 507
Retained earnings of the reporting year	5 258 932	5 050 597
TOTAL EQUITY	22 649 132	17 379 454
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	10 624 481	10 046 427
Other loans	1 486 648	2 089 088
Deferred revenue	1 612 231	1 754 321
TOTAL	13 723 360	13 889 836
Current liabilities		
Loans from credit institutions	770 681	1 967 791
Other loans	1 127 906	1 267 001
Prepayments received from customers	95 209	57 000
Trade payables	4 929 756	4 144 415
Payable to related companies	-	1 206 312
Taxes and statutory social insurance contributions	204 789	425 870
Other payables	293 204	258 595
Deferred revenue	284 180	284 180
Accrued liabilities	468 580	450 882
TOTAL	8 174 305	10 062 046
TOTAL LIABILITIES	21 897 665	23 951 882
TOTAL EQUITY AND LIABILITIES	44 546 797	41 331 336

August 31, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Consolidated Statement of Cash Flow

	6 Month of 2021	6 Month of 2020
	EUR	EUR
Cash flow from operating activities		
Profit (+) or loss (-) before tax	5 258 932	949 450
Adjustments for:		
Depreciation of property plant and equipment and intangible assets	1 006 367	1 023 901
Profit (-) or loss (+) from fluctuations of exchange rate	417 013	443 798
Non-current and current financial investment value adjustments	(142 090)	(142 091)
Interest and similar costs	252 826	264 641
Operating cash flow before working capital changes	6 793 048	3 599 563
Adjustments for:		
Increase / decrease in trade and other receivables	1 972 828	(998 088)
Increase / decrease in inventories	(6 120 477)	799 525
Increase / decrease in trade and other payables	(648 188)	(1 377 070)
Cash generated from operations	1 997 211	2 023 930
Interest paid	(238 257)	(240 327)
Net cash flow generated from operating activities	1 758 954	1 783 603
Cash flow from investing activities		
Income from sales of fixed assets, intangible assets, biological assets	144 095	55 575
Purchase of property, plant and equipment and intangible assets	(352 567)	(82 817)
Prepayments for fixed assets under development and construction in progress	(127 950)	(861)
Net cash flow generated from investing activities	(336 422)	(28 103)
Cash flow from financing activities		
Repayment of loans	(807 338)	(956 926)
Changes in credit lines	(30 597)	138 601
Lease principal amount payments	(539 455)	(901 837)
Lease interest payments	(16 713)	(25 926)
Net cash flow generated from financing activities	(1 394 103)	(1 746 088)
Net cash flow in the financial period	28 429	9 412
Cash and cash equivalents at the beginning of the financial period	64 090	3 719
Cash and cash equivalents at the end of the financial period	92 519	13 131

Cash flow statement is prepared using the indirect method in accordance with IAS 7.

August 31, 2021

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Consolidated Statement of Changes in Equity

	Share capital	Revaluation reserve of non-current assets	Foreign currency exchange fluctuations	Share premium	Other reserves	Retained earnings of the previous years	Retained earnings of the reporting year	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2019	579 916	1 370 057	86 939	2 828	3 741 168	8 196 860	(1 995 298)	11 982 470
Fluctuation of exchange rate	-	-	(55 090)	-	-	180 756	-	125 666
Distribution of profit of the year 2019	-	-	-	-	-	(1 995 298)	1 995 298	-
Profit for the period	-	-	-	-	-	-	2 009 314	2 009 314
Balance as at 30 June 2020	579 916	1 370 057	31 849	2 828	3 741 168	6 382 318	2 009 314	14 117 450
Balance as at 31 December 2020	579 916	1 477 868	(7 430)	2 828	3 741 168	6 534 507	5 050 597	17 379 454
Fluctuation of exchange rate	-	-	10 746	-	-	-	-	10 746
Distribution of profit of the year 2020	-	-	-	-	-	5 050 597	(5 050 597)	-
Profit for the period	-	-	-	-	-	-	5 258 932	5 258 932
Balance as at 30 June 2021	579 916	1 477 868	3 316	2 828	3 741 168	11 585 104	5 258 932	22 649 132

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 Consolidated Financial Statements

1. General information about the Group

JSC "PATA Saldus" Group (hereinafter - the Group) is mainly engaged in logging and wood processing.

Joint stock company "PATA Saldus" (hereinafter - the Parent company) was registered with the Register of Enterprises of the Republic of Latvia on 26 August 1991 and with the Commercial Register of the Republic of Latvia 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 Nasdaq Riga Stock Exchange.

The Group's consolidated financial statements were authorized for issue in accordance with the decision of the Board and Council on 30 April 2021.

The Group's shareholders have the right to amend the financial statements after its issue.

2. Basis of preparation and other significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles have been used in previous years, unless otherwise stated.

Accounting and valuation principles

Statement of compliance

The consolidated 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 consolidated financial statements have been prepared on the historical cost basis. The financial statements are presented in euro (EUR), the monetary unit of the Republic of Latvia.

Significant assumptions and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Areas that are more likely to be affected by the assumptions are the revaluation of fixed assets, determining the regularity of revaluation, management assumptions and estimates for determining the useful lives of fixed assets as described in the relevant annexes.

The Group carried out a revaluation of its owned lands and forest lands in December 2020 and concluded that their market value exceeds their book value at the time of revaluation.

Consolidation

The consolidated financial statements include the financial statements of the joint-stock company "PATA Saldus" and its subsidiaries SIA "PAKUĻU SPORTA BĀZE" and OOO "Деревообрабатывающий комбинат № 3" ended 30 June 2021.

Subsidiaries are fully consolidated from the date of acquisition, namely the date on which the Group acquired control of subsidiaries, and the consolidation is continued until the Group ceases to control the subsidiaries.

The financial statements of the subsidiaries were prepared for the same reporting year as the financial statements of the Parent company and using the same accounting policies.

The financial statements of the Parent company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities, as well as income and expense. Unrealised gains and losses on transactions between Group's entities, inter-company balances, owned shares, dividends and inter-company transactions are eliminated on consolidation. The Group applies the acquisition method to account for business combinations. Excess of the consideration transferred over the fair value of the identifiable net assets acquired is accounted as goodwill.

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Group's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the European Central Bank 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 Group.

Changes in accounting policy and disclosures

New and revised IFRSs and interpretations adopted by the Group

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

1) *Amendments:*

- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (issued on 26 September 2019) (effective for annual periods beginning on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (issued on 28 May 2020) (effective for annual periods beginning on or after 1 June 2020).

The amendments provide lessees with with practical relief for accounting for changes in lease payments when such changes relate to Covid-19. Lessees are given the opportunity to account for such changes as variable lease payments and not to account for a modification of the lease. The exemption can only be applied if all three specific conditions are met.

New and revised IFRSs and interpretations issued and adopted by the EU, but not yet effective

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

1) *Amendments:*

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020) (effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (issued on 25 June 2020) (effective for annual periods beginning on or after 1 January 2021).

New and revised IFRSs and interpretations issued, but not yet adopted by the EU

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

1) *New standards and interpretations:*

- IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020) (effective for annual periods beginning on or after 1 January 2023).

2) *Amendments:*

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020 (issued on 14 May 2020) (effective for annual periods beginning on or after 1 January 2022).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively) (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) (effective for annual periods beginning on or after 1 January 2023).

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) (effective for annual periods beginning on or after 1 January 2023).
- Proposed amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021) (effective for annual periods beginning on or after 1 April 2021).

The Group has not yet assessed the impact of the above standards, amendments and interpretations on the Group's financial statements. Accounting principles have not changed compared to the previous reporting period.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Group are measured using the functional currency, which is currency of the primary economic environment in which the Group companies operate - the Group's functional currency is euro, except for ООО «Деревообрабатывающий комбинат № 3», which functional currency is Russian roubles (RUB).

The consolidated financial statements are presented in euros, the monetary unit of the Republic of Latvia.

Transactions and balances

All transactions denominated in foreign currencies are translated into euro at the foreign exchange reference rates set by the European Central Bank against the euro, which is in force at the beginning of the day of business transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange reference rate in force on the last date of the reporting year. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions or on reporting of assets and liabilities using the exchange rates that differ from the initial transaction accounting rates are recognized in the statement of comprehensive income in net value. Loans to ООО «Деревообрабатывающий комбинат № 3» into the currency used in the Group is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss statement - 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 in equity. The Group is subject to significant foreign currency revaluation.

	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

Translation to presentation currency

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Investments in associated companies

Investments in associates are accounted for using the equity method according to which the investment in an associate is initially recognized at cost and its carrying amount is increased or decreased to recognize the Group's share of the associate's profit or loss after the date of acquisition that the Group recognizes in profit or loss.

Intangible assets

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 Group, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Group. The licences of software which are used in the Group are accounted in their purchase value by deducting accumulated amortisation. Amortisation 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.

Property, plant and equipment

Property, plant and equipment are accounted in their initial value except for their depreciation and the decrease of their value. For land the depreciation is not calculated. Acquired assets below EUR 142 are included in the profit and loss account.

Depreciation is calculated starting with the following month after the property, plant and equipment is put into operation or engaged in commercial activity. For each part of the fixed assets, the costs of which are significant in relation to the total cost of this fixed asset, depreciation is calculated separately. When fixed assets are sold or written off, their original value and accumulated depreciation are eliminated and the gain or loss on sale of property, plant and equipment is recognized in the income statement.

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 fixed assets	2-10 years
Computing and data gathering devices, software	2-5 years

Depreciation is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of assets if their costs are significant to the initial cost of the corresponding capital asset depreciation 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 no 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 cannot 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. Depreciation 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 was made by SIA Latio experts on 16.12.2020. Records are prepared in accordance with IAS 16 requirements.

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 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.

Impairment of non-financial assets

At the end of each year the Group audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Group has to carry out the annual audit of the decrease of the value of assets, the Group 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.

Borrowing costs

Borrowing costs are shown in profit or loss at the time when they occur in accordance with the IAS 23.

Lease

At the time of concluding the agreement, the Group assesses whether the agreement includes a lease, ie if the agreement provides for the right to control the use of an identified asset for a specified period of time in exchange for consideration.

The Group is a lessee

The Group applies a united recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes a lease obligation to make lease payments and a right to use assets that evidences a right to use the underlying assets.

a) The right to use the asset

The Group recognizes the right to use an asset on the commencement date of the lease (ie the date the asset is available for use). The right to use an asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and is adjusted for any revaluation of lease liabilities. The cost of the right to use the asset includes the amount of the recognized lease liability, the initial direct costs and lease payments made on or before the inception date, less any lease incentives received. The rights to use the assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets:

Equipment and machinery	3-4 years
Cars	2-4,4 years

a) Lease obligations

At the inception of the lease, the Group recognizes a lease liability measured at the present value of the lease payments due during the lease term. Lease payments include fixed payments (including fixed insignificant payments) less any rental incentives received, variable rental payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The Group's lease liabilities are included in 'Other borrowings'.

Accounting policy until 01.01.2019:

Financial lease transactions when the Group 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, by accounting it in the direct purchase cost of materials and labour costs, plus production-related indirect costs, consisting of wages, electricity, depreciation and other production-related costs, calculated at normal production volumes. 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, depreciation 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.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 (see Note 2.18 "Revenue recognition").

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - (a) the Group has transferred substantially all the risks and rewards of the asset, or
 - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. Loans and borrowings are recognised initially at fair value less any associated discounts or premiums and directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in other comprehensive income during the period of the loan or borrowing using the effective interest rate method. Gains / losses are recognized in the statement of comprehensive income as interest income / expenses.

This category refers mainly to interest-bearing loans.

Trade and other payables

After initial recognition, trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

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

Share capital

The Parent company of the Group is a joint-stock company. The Parent company has a share capital of EUR 579 916. On December 18, 2018 in Register of Enterprises of the Republic of Latvia were registered changes in the Statute that determines that Share capital divided in 828 452 shares. The value of the each share is EUR 0.70 (0 euro 70 cents). 774 272 shares are public bearer shares and are in a dematerialized form, but 54 180 shares are personal, registered shares. Taking into account that the Parent company's equity instruments are traded on the public securities market, the Parent company also prepares consolidated financial statements even though JSC "PATA Saldus" is a subsidiary of another company (SIA "PATA").

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Revenue recognition

Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Rendering of services

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.

When another party is involved in providing goods or services to its customer, the Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Group is a principal and records revenue on a gross basis if it controls the promised goods or services before transferring them to the customer. However, if the Group's role is only to arrange for another entity to provide the goods or services, then the Group is an agent and will need to record revenue at the net amount that it retains for its agency services. The Group has generally concluded that it is the principal in its revenue arrangements.

Sale of goods

Incomes are recognized when the Group has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Group 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.

Taxes

Corporate income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the country where the Group company operates and generates taxable income.

The corporate income tax of Parent company and subsidiaries Group until 31 December 2017 was calculated by applying the 15% corporate income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

In accordance with applicable laws and regulations of the Republic of Latvia that are in force as of 1 January 2018, 0% corporate income tax is applied to reinvested profit (current income tax is paid only when a company pays dividends or other payments with the aim of actual profit distribution (conditionally distributed profit)). Instead of the corporate income tax payable on profits, the Latvian companies pay corporate income tax on dividends (also deemed dividends and expenses comparable to dividends), costs not directly related to economic activities, interest payments to non-financial companies and individuals exceeding certain limits, bad debts that are written off, transfer pricing adjustments, liquidation quota.

As of 1 January 2018 the current income tax rate is 20/80 on the amount paid out as net dividends. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Group's non-current assets, the treatment of temporary non-taxable allowances and reserves, as well as tax losses carried forward for the subsequent years.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Contingencies

Contingent liabilities are not recognized in these consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Employee benefits

Parent company and its subsidiaries 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 incurred.

Support from national and EU institutions

The grants received are recognized when there is reasonable assurance that the company will comply with the conditions attaching to it and that the grant will be received. The grant received is recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Grants related to assets are presented in the statement of financial position as a deferred income.

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (IAS 24 Related Party Disclosures – “reporting entity”):

1. A person or a close member of that person's family is related to a reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity; or
 - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
2. An entity is related to a reporting entity if any of the following conditions applies:
 - the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- the entity is controlled or jointly controlled by a person identified in point 1);
- a person identified in the first sub point of point 1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
- the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related parties are the shareholders of the Group that can control the Group or have a significant influence over the activities of the Group, key management personnel of the Group and close member of any above-mentioned persons, as well as entities over which those persons have a control or significant influence.

Earnings or loss per share

Earnings or loss per share are calculated by dividing the net result for the year attributable to ordinary owners of the Parent company shares by the average number of shares in issue during the year. The average number of the issued shares during the year has been weighted to take into account the timing of the issuance of new shares, if any.

Reclassification of items

During the reporting period, to improve the quality of the prepared financial statements, including compliance with the requirements of the Law on Annual Financial Statements and Consolidated Financial Statements and regulations issued by the Cabinet of Ministers, changes were made in the classification of items (including the breakdown of items) compared to the previous reporting period. If it is believed to be impractical to reclassify comparative amounts, the items are not reclassified. The reclassification (including the breakdown of items) has no financial implications. In the 2020 annual report, the comparative indicators for 2019 are classified according to the principles used in the 2020 report and are comparable.

Subsequent events

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

Financial risk management

Financial risk factor

The risk management function within the Group is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Group is exposed during or at the end of the reporting period.

The main financial instruments of the Group are granted and received short-term loans, money, short-term deposits and financial lease. The main objective of these financial instruments is to secure the financing of Group's economic activity. Also, the Group comes in touch with some other financial instruments, for example, debts of buyers and customers and debts of other debtors, debts to suppliers and constructors and other debtors which directly arise from its economic activity.

Financial risks

The main financial risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group's top management oversees the management of these risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) as they provide services on credit, and investing activities, but there are no significant concentrations of credit risk. Credit risk arises from long-term and short-term loans, trade and other receivables, loans issued, as well as cash and cash equivalents.

Trade receivables

Customer credit risk is managed in accordance with Group's established policy, procedures and control relating to customer credit risk management.

The Group manages its credit risk by careful evaluation and regular monitoring of its business partners, by continuously assessing the credit history of customers and assigning credit terms on an individual basis, as well as by applying prepayment conditions for the real estate rental

services. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. In determining the recoverability of a trade receivable, the management considers all available information of the trade receivable from the date credit was initially granted up to the reporting date.

The Group evaluates the concentration of risk with respect to trade receivables as low.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

Foreign currency risk

The Group's financial assets and liabilities subject to foreign exchange risk include cash and cash equivalents, trade and other payables, advances on construction, short-term loans, payables to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The Group does not use financial instruments to manage the foreign currency fluctuations risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The companies which belong to the Group are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Group think that the financial assets and liabilities of the Group on December 31, 2020 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

The Group does not have any policies for managing the interest rate risks.

Liquidity risk

Liquidity risk is the risk that suitable resources of funding for the Group's business activities may not be available.

The Group is controlling its liquidity risk by securing relevant financing, by using credit lines and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analysing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Group's budget is very useful and helpful in the process of management and control of liquidity risks.

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.

Fair value estimation

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

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- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value of financial instruments

The Group has financial instruments which are not measured at fair value in the statement of financial position. For these financial instruments, the fair values are not materially different to their carrying amounts, since the interest payable is close to current market rates.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- trade and other receivables;
- other current financial assets;
- cash and cash equivalents;
- trade and other payables.