

**JOINT-STOCK COMPANY „PATA SALDUS” AND ITS SUBSIDIARIES**

(REGISTRATION NUMBER 40003020121)

**UNAUDITED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2018**

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

**Saldus, 2018**

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## General Information

Name of the Group	<b>Joint-stock company “PATA Saldus”</b>
Legal status of the Group	Joint-stock Company
Registration number, place, and date	40003020121, August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV-3801
The main areas of activities of the Group	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 – Sawmilling and planning of wood
Members of the Board	Andris Krastiņš - Chairman of the Board Jānis Mierkalns – member of the Board Ilze Bukulde - member of the Board Gatis Zommers - member of the Board
Members of the Council	Uldis Mierkalns – Chairman of the Council Jānis Bertrāns - Deputy Chairman of the Council Inga Mierkalna - member of the Council Ieva Sniedze - member of the Council
Subsidiaries	
1. Name of the company	<i>SIA “PAKUĻU SPORTA BĀZE” (100%)</i>
Legal status of the company	Limited Liability Company
Number and date of registration in the commercial register	48503009010, November 21, 2002
Address	“Mežvidi”, Novadnieku pag., Saldus novads, LV-3801
Core business activities of the company	Other sports activities
Interest of the Parent company	JSC “PATA Saldus” – 100%
Reporting period	January 1 – June 30, 2018
2. Name of the company	<i>ООО “Деревообрабатывающий комбинат № 3” (100%)</i>
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, 2018

Associates

Name of the company	SIA “SALDUS ENERĢIJA” (20%)
Legal status of the company	Limited Liability Company
Number and date of registration in the commercial register	40103265702, December 22, 2009
Address	Cēsu iela 14, Rīga, LV-1012
Core business activities of the company	Production of electricity, activities of holding companies.
Interest of the Parent company	JSC “PATA Saldus” – 20%
Reporting period	January 1 – June 30, 2018

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, 2018

Name and address of the Auditor	Marija Jansone Certified Auditor of the Republic of Latvia Certificate No. 25	SIA “Nexia Audit Advice” Registration No. 40003858822 Grēcinieku iela 9-3, Rīga, LV-1050, Latvia Licence No. 134
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## Management Report

### *To Consolidated report of economic activity for the 6 month period of 2018*

#### Type of operations

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

#### Performance of the Group during the financial period

JSC PATA Saldus profit from operating activities for the 6 month period of 2018 was EUR 2 848 005 with a net turnover of EUR 33 209 874, which represents earnings per share issued of 6.88 EUR. The Group's financial statements have been prepared based on the information available to board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Group and consolidated group. It is in interest of the Group to take care of their employees' social protection and well-being, because only then the development of the Group can be sustainable.

#### Financial risk management

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

#### Subsequent events

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

#### Future prospects

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

In 2018 it is planned to expand its activities by installing additional timber drying plants with recuperation, where for heating renewable energy will be used.

The 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.

August 31, 2018

Board:

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Andris Krastiņš  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Gatis Zommers  
Member of the Board

Ilze Bukulde  
Member of the Board

## Statement of Management Responsibility

Management is responsible for preparing financial statements based on the initial accounting records of each year of account, which truly reflects the Group's financial position at the end of the year of account, as well as results of operations and cash flows for the period. The Management 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 2018, 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, 2018

Board:

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Andris Krastiņš  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Gatis Zommers  
Member of the Board

Ilze Bukulde  
Member of the Board

## Consolidated Statement of Comprehensive income

	2018.06.30 EUR	2017.06.30 EUR
Revenue	33 209 874	24 623 844
Cost of sales	-30 027 314	-23 510 112
<b>Gross profit</b>	<b>3 182 560</b>	<b>1 113 732</b>
Distribution costs	-4 420	-11 196
Administrative expenses	-203 239	-248 449
Other operating income	470 266	699 262
Other operating expense	-432 837	-383 610
<b>Operating profit or loss</b>	<b>3 012 330</b>	<b>1 169 739</b>
Finance income	0	69
Finance costs	-164 325	-171 869
<b>Profit or loss before tax</b>	<b>2 848 005</b>	<b>997 939</b>
<b>Profit or loss for the period</b>	<b>2 848 005</b>	<b>997 939</b>
<b>Profit/loss on share</b>	<b>6.88</b>	<b>2.41</b>
EUR per share		

August 31, 2018

Board:

Andris Krastiņš Chairman of the Board	Jānis Mierkalns Member of the Board	Gatis Zommers Member of the Board	Ilze Bukulde Member of the Board
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## Consolidated Statement of Financial Position

### ASSETS

	2018.06.30 EUR	2017.12.31 EUR
<b>NON-CURRENT ASSETS</b>		
<b>Intangible assets</b>		
Concessions, patents, licences and similar costs	24 548	19 502
TOTAL	<b>24 548</b>	<b>19 502</b>
<b>Property, plant and equipment</b>		
Land, buildings and perennial plantations	6 618 434	6 625 459
Technological equipment and machinery	13 228 492	11 813 674
Other fixed assets	83 708	70 983
Construction in progress	292 618	2 013 401
TOTAL	<b>20 223 252</b>	<b>20 523 517</b>
<b>Biological assets</b>		
	<b>862 816</b>	<b>862 816</b>
<b>Long-term financial investments</b>		
Investment in associated companies	8 540	8 540
Deferred income tax asset	384 565	384 565
TOTAL	<b>393 105</b>	<b>393 105</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>21 503 721</b>	<b>21 798 940</b>
<b>CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw materials, basic materials and consumables	3 568 205	2 180 187
Biological assets	1 049 910	1 085 082
Unfinished production	1 573 080	1 603 943
Finished production and goods for sale	1 190 313	1 122 470
Advance payments for goods	50 857	51 004
TOTAL	<b>7 432 365</b>	<b>6 042 686</b>
<b>Receivables</b>		
Trade receivables	350 558	179 719
Receivables from related companies	6 655 683	5 630 868
Receivables from associated companies	77 453	20 729
Other receivables	228 023	181 156
Prepaid expenses	376 585	270 058
TOTAL	<b>7 688 302</b>	<b>6 282 530</b>
<b>Cash and cash equivalents</b>		
	42 499	116 455
<b>TOTAL CURRENT ASSETS</b>	<b>15 163 166</b>	<b>12 441 671</b>
<b>TOTAL ASSETS</b>	<b>36 666 887</b>	<b>34 240 611</b>

August 31, 2018

Board:

Andris Krastiņš Chairman of the Board	Jānis Mierkalns Member of the Board	Gatis Zommers Member of the Board	Ilze Bukulde Member of the Board
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## Consolidated Statement of Financial Position (continued)

### EQUITY AND LIABILITIES

Equity	2018.06.30	2017.12.31
	EUR	EUR
Share capital	579 916	579 916
Share premium	2 828	2 828
Foreign currency exchange fluctuations	-319 791	-314 323
Revaluation reserve of non-current assets	1 370 057	1 370 057
Other reserves	3 741 168	3 741 168
Retained earnings of the previous years	3 587 391	852 908
Retained earnings of the reporting year	2 848 005	2 677 059
<b>TOTAL EQUITY</b>	<b>11 809 574</b>	<b>8 909 613</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans from credit institutions	11 795 074	12 526 539
Other loans	2 722 383	3 005 546
Deferred revenue	2 124 696	1 689 105
<b>TOTAL</b>	<b>16 642 153</b>	<b>17 221 190</b>
<b>Current liabilities</b>		
Loans from credit institutions	1 421 411	1 421 411
Other loans	991 805	1 158 353
Prepayments received from customers	675	980
Trade payables	4 391 668	4 263 045
Payable to related companies	0	155 467
Accrued liabilities	458 633	449 711
Taxes and statutory social insurance contributions	433 664	249 154
Other payables	255 424	189 104
Deferred revenue	261 880	222 583
<b>TOTAL</b>	<b>8 215 160</b>	<b>8 109 808</b>
<b>TOTAL LIABILITIES</b>	<b>24 857 313</b>	<b>25 330 998</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>36 666 887</b>	<b>34 240 611</b>

August 31, 2018

Board:

Andris Krastiņš  
 Chairman of the Board

Jānis Mierkalns  
 Member of the Board

Gatis Zommers  
 Member of the Board

Ilze Bukulde  
 Member of the Board

## Consolidated Statement of Cash Flow

	6 Month of 2018	6 Month of 2017
	EUR	EUR
<b>Cash flow from operating activities</b>		
<b>Profit (+) or loss (-) before tax</b>	<b>2 848 005</b>	<b>997 939</b>
Adjustments for:		
Depreciation of property plant and equipment	972 979	960 112
Deprecation of intangible assets	6 624	10 058
Profit (-) or loss (+) from fluctuations of exchange rate	92 452	132 821
Non-current and current financial investment value adjustments	-114 566	-111 292
Interest and similar costs	164 325	171 319
<b>Operating cash flow before working capital changes</b>	<b>3 969 819</b>	<b>2 160 957</b>
Adjustments for:		
Increase / decrease in trade and other receivables	-1 405 997	-678 173
Increase / decrease in inventories	-1 397 660	662 232
Increase / decrease in trade and other payables	112 835	-464 315
<b>Cash generated from operations</b>	<b>1 278 997</b>	<b>1 680 701</b>
Interest paid	-167 137	-174 213
<b>Net cash flow generated from operating activities</b>	<b>1 111 860</b>	<b>1 506 488</b>
<b>Cash flow from investing activities</b>		
Income from sales of fixed assets, intangible assets, biological assets	0	1 065 926
Purchase of property, plant and equipment and intangible assets	-729 492	-87 714
Prepayments for fixed assets under development and construction in progress	-11 164	-1 070 099
<b>Net cash flow generated from investing activities</b>	<b>-740 656</b>	<b>-91 887</b>
<b>Cash flow from financing activities</b>		
Loans recieved	736 762	0
Received subsidies and grants	589 454	0
Repayment of loans	-1 304 941	-516 142
Finance lease payments	-93 149	-101 660
Changes of creditlines	-373 286	-599 319
<b>Net cash flow generated from financing activities</b>	<b>-445 160</b>	<b>-1 217 121</b>
<b>Net cash flow in the financial period</b>	<b>-73 956</b>	<b>197 480</b>
<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>116 455</b>	<b>459</b>
<b>Cash and cash equivalents at the end of the financial period</b>	<b>42 499</b>	<b>197 939</b>

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

August 31, 2018

Board:

Andris Krastiņš Chairman of the Board	Jānis Mierkalns Member of the Board	Gatis Zommers Member of the Board	Ilze Bukulde Member of the Board
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## Consolidated 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
<b>Balance as at 31 December 2016</b>	<b>579 916</b>	<b>1 570 057</b>	<b>-262 768</b>	<b>2 828</b>	<b>3 741 168</b>	<b>-401 450</b>	<b>851 625</b>	<b>6 081 376</b>
Fluctuation of exchange rate	0	0	-25 557	0	0	61 083	0	35 525
Distribution of profit of the year 2016	0	0	0	0	0	851 625	-851 625	0
Profit for the period	0	0	0	0	0	0	997 939	997 939
<b>Balance as at 30 June 2017</b>	<b>579 916</b>	<b>1 570 057</b>	<b>-288 326</b>	<b>2 828</b>	<b>3 741 168</b>	<b>511 258</b>	<b>997 939</b>	<b>7 114 840</b>
<b>Balance as at 31 December 2017</b>	<b>579 916</b>	<b>1 370 057</b>	<b>-314 323</b>	<b>2 828</b>	<b>3 741 168</b>	<b>852 908</b>	<b>2 677 059</b>	<b>8 909 613</b>
Fluctuation of exchange rate	0	0	-5 468	0	0	57 424	0	51 956
Distribution of profit of the year 2017	0	0	0	0	0	2 677 059	-2 677 059	0
Profit for the period	0	0	0	0	0	0	2 848 005	2 848 005
<b>Balance as at 30 June 2018</b>	<b>579 916</b>	<b>1 370 057</b>	<b>-319 791</b>	<b>2 828</b>	<b>3 741 168</b>	<b>3 587 391</b>	<b>2 848 005</b>	<b>11 809 574</b>

August 31, 2018

Board:

Andris Krastiņš Chairman of the Board	Jānis Mierkalns Member of the Board	Gatis Zommers Member of the Board	Ilze Bukulde Member of the Board
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## Notes to the 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.

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 April 2014 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", ООО «Деревообрабатывающий комбинат № 3».

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 Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Group.

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

#### **New and revised IFRSs and interpretations adopted by the Group**

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

1) *Amendments:*

- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016) (effective for annual periods beginning on or after 1 January 2017)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) (effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017).

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

#### **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, amendments and interpretations to the existing standards and interpretations issued and adopted in the EU were in issue but not yet effective:

1) *New standards and interpretations:*

- IFRS 9 Financial Instruments (issued on 24 July 2014) (effective for annual periods beginning on or after 1 January 2018).  
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project:
  - classification and measurement of financial assets and financial liabilities;
  - impairment methodology and
  - general hedge accounting.

The impairment model in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has reviewed its financial assets and liabilities and the Group does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. The Group's financial assets are measured at amortised cost, which meet the conditions for classification at amortised cost under IFRS 9. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model - “expected credit loss” model - applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade receivables by approximately 5%.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015) (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS.

The new model specifies that revenue should be recognised when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Group's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that a Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of consolidated financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's consolidated financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's consolidated financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

- IFRS 16 Leases (issued on 13 January 2016) (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

IFRS 16 introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ("small-ticket" leases).

Lessor accounting shall remain largely unaffected by the introduction of IFRS 16 and the lessor will retain the distinction between operating and finance leases.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2018).

## 2) Amendments:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied for the first time).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) (amendments to IFRS 1, IAS 28 effective for annual periods beginning on or after 1 January 2018).

## 3) Clarifications:

- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) (effective for annual periods beginning on or after 1 January 2018).

The Group is in the process of assessment impact of the above standards, amendments and interpretations on the Group's financial statements and has not yet made conclusions.

### ***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 14 Regulatory Deferral Accounts (issued on 30 January 2014) (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- IFRS 17 Insurance Contracts (issued on 18 May 2017) (effective for annual periods beginning on or after 1 January 2021).
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) (effective for annual periods beginning on or after 1 January 2019).

2) *Amendments:*

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
- 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).

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. Re-estimation of the capital of 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 posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post in equity.

	<b>30.06.2018</b>	<b>31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
1 RUB	0.0137	0.0144
1 USD	0.8578	0.8338

#### *Consolidated Group of companies*

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 capital 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 is made on 29.04.2014. 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 2016 by applying 8% discount rate. Average price for purchased felling site m3 in 2016 was calculated by taking into consideration cost of felling site m3 and costs associated to purchase it. Difference between carrying value and value set after revaluation is recognised as income or expenses depending whether value of asset is increased or decreased after revaluation. Result is disclosed in profit or loss statement under cost of goods sold. Biological assets that can't be developed within a year are disclosed in balance sheet under Fixed asset in separate position, that is called Biological assets. Biological assets that are predicted to be developed within a year are disclosed under Inventories in separate position, that is called Biological assets.

### **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**

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. 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 as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as described below.

### **Loans and receivables**

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment determined on individual bases. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

Gains and losses are recognised as finance income or finance costs or other operating expense in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process. The effective interest method is not used for short-term receivables, as in this case, the impact of discounting is not significant.

This category generally applies to loans issued, 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 derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset, or
  - (b) 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

### **Impairment of financial assets**

#### *Assets carried at amortised cost*

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. Such reversal is recognised in the income statement.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that we will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

### **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, 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 follows:

#### **Loans and borrowings**

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**

Trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

#### *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 comprehensive income.

### **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. 387 136 shares are public bearer shares and are in a dematerialized form, but 27 090 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 is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *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.

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

#### *Sale of goods*

Incomes are recognized when the 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.

### **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.

### **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.

#### **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 June 30, 2018 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;
- 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.