

JOINT-STOCK COMPANY “PATA SALDUS” AND ITS SUBSIDIARIES
(REGISTRATION NUMBER 40003020121)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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General Information

Name of the Parent company	Joint-stock company "PATA Saldus"
Legal status of the Parent company	Joint-stock Company
Registration number, place, and date	40003020121, August 26, 1991, Riga
Address	Kuldīgas street 86C, Saldus, Saldus district, LV-3801
Core business activities of the Group	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 – Sawmilling and planing of wood
Members of the Board: name, surname, position	Andris Krastiņš (<i>Andris Krastiņš</i>) - Chairman of the Board (till February 21, 2019) Gatis Zommers (<i>Gatis Zommers</i>)- Chairman of the Board (since February 21, 2019) Janis Mierkalns (<i>Jānis Mierkalns</i>)- member of the Board Ilze Bukulde (<i>Ilze Bukulde</i>) - member of the Board Gatis Zommers (<i>Gatis Zommers</i>) - member of the Board (till February 21, 2019) Arvis Tone (<i>Arvis Tone</i>)- member of the Board (since February 21, 2019)
Members of the Council: name, surname, position	Uldis Mierkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Janis Bertrāns (<i>Jānis Bertrāns</i>) - Deputy Chairman of the Board Inga Mierkalna (<i>Inga Mierkalna</i>)- member of the Council Ieva Sniedze (<i>Ieva Sniedze</i>)- member of the Council
Reporting year	January 1 – December 31, 2018
Subsidiaries	
1. Name of the company	SIA "PAKUĻU SPORTA BĀZE" (100%)
Legal status of the company	Limited Liability Company
Registration number, place, and date	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 year	January 1 – December 31, 2018
2. Name of the company	ООО «Деревообрабатывающий комбинат № 3» (100%)
Legal status of the company	Limited Liability Company
Registration number, place, and date	(ООО - Общество с ограниченной ответственностью) 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 year	January 1 – December 31, 2018
Associates	
Name of the company	SIA "SALDUS ENERĢIJA" (20%)
Legal status of the company	Limited Liability Company
Registration number, place, and date	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 year	January 1 – December 31, 2018

Joint-stock company "PATA Saldus" and its subsidiaries

Address: Kuldīgas street 86c, Saldus, LV-3801,
Saldus District., Republic of Latvia
Registration number: 40003020121

Consolidated financial statements
for the year ended 31 December 2018
(Audited)

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
Registration number, place, and date	40003448619, June 10, 1999
Address	Miera iela 2, Inčukalns, Inčukalna pag., 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 year	January 1 – December 31, 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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According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12/21838 from 21.02.2019 JSC PATA Saldus has recorded the following changes in the Board:

- Released Chairman of the Board: Andris Krastins (Andris Krastiņš)
- Appointed member of the Board: Arvis Tone (Arvis Tone)
- Changed the position "Member of the Board" to "Chairman of the Board": Gatis Zommers (Gatis Zommers)

Management Report

To Consolidated report of economic activity for 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 year

JSC PATA Saldus profit from operating activities in 2018 was EUR 5 683 363 with a net turnover of EUR 69 153 648, which represents earnings per share issued of 12.67 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. The report contains true information.

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

The analysis of the Group's consolidated financial statements shows, that consolidated statement of financial position total is EUR 41 026 257. Non-current assets comprise 51% of the statement of financial position total, of which 95% (EUR 19 936 771) comprise of property, plant and equipment. Equity comprises 35% (EUR 14 247 335) of the statement of financial position total. Non-current liabilities comprise 37% (EUR 15 193 032) of the statement of financial position total, while current liabilities comprise 28% (EUR 11 585 890).

The analysis of the Group's consolidated statement of comprehensive income shows, that the revenue of the Group for 2018 is EUR 69 153 648, the cost of sales is EUR 62 738 027, so that the gross profit amounts to EUR 6 415 621 and net profit amounts to EUR 5 683 363.

Calculation of financial results

	2018	2017
Items of the Group's consolidated statement of comprehensive income	EUR	EUR
Revenue	69 153 648	50 921 177
Gross profit	6 415 621	3 726 333
Profit for the year	5 683 363	2 677 059

	31.12.2018	31.12.2017
Items of the Group's consolidated statement of financial position	EUR	EUR
Current assets	20 006 956	12 441 671
Total assets	41 026 257	34 240 611
Equity	14 247 335	8 909 613
Current liabilities	11 585 890	8 109 808
Total liabilities	26 778 922	25 330 998

Group's financial ratios

Profitability analysis - profitability ratios analyse the effectiveness of the Group's management decisions to fulfil financial tasks

Gross margin (gross profit / revenue)	9.28%	7.32%
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The gross margin ratio shows the ratio of sales to direct costs. The Group uses this indicator to calculate the extent to which changes in revenue affect gross profit.

Commercial profitability ratio (profit for the year / revenue)	8.22%	5.26%
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The Group uses this ratio to determine the Group's ability to generate profits.

Joint-stock company "PATA Saldus" and its subsidiaries

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Consolidated financial statements
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	2018	2017
Return on Equity (Profit for the year / Equity)	39.89%	30.05%
<i>The return on equity shows how effectively the capital invested by the Group's owners is used. The Group uses this indicator to determine how much a potential investor will earn from each of its invested euro.</i>		
Return on Assets (Profit for the year / Total assets)	13.85%	7.82%
<i>The Group uses this ratio to calculate the return on total assets used by the Group for its economic activities.</i>		

31.12.2018 31.12.2017

Capital structure analysis - capital structure indicators analyze the Group's capital structure and show how many additional liabilities the Group is able to assume.

Financial Balance Rate (Total assets / Equity)	2.88	3.84
<i>The Group uses this ratio to determine the proportion of cash invested by the Group's owners in the Group's assets.</i>		
Liabilities to Equity (Total liabilities / Equity)	1.88	2.84
<i>The Group uses this ratio to determine to what extent the Group is dependent on borrowed capital.</i>		
Debt to assets ratio (Total liabilities / Total assets)	0.65	0.74
<i>The Group uses this ratio to determine the Group's long-term and short-term liabilities to total assets.</i>		

Liquidity analysis - Liquidity indicators consider the Group's short-term financial performance and liquidity and give an idea of whether the Group is able to settle its current liabilities in a timely and complete manner.

Current liquidity ratio (Current assets / Current liabilities)	1.73	1.53
<i>The Group uses this ratio to calculate the extent to which the Group's current assets are capable of covering short-term liabilities.</i>		

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.

Environment protection

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

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.

The policy of financial risk management of the Group is described on page 26.

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 2019, the Group will continue to develop and expand environmentally friendly logging according to FSC and PEFC Forest Management and Wood Flow Certificate requirements.

In 2019, 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.

Report on corporate governance

Report on corporate governance for 2018 is electronically publicly available on Nasdaq Riga corporate website: <http://www.nasdaqbaltic.com/market/>.

Saldus, April 29, 2019

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Arvis Tone
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 31 December 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.

Saldus, April 29, 2019

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Arvis Tone
Member of the Board

Consolidated Statement of Comprehensive Income

	Note	2018 EUR	2017 EUR
Revenue	4	69 153 648	50 921 177
Cost of sales	5	-62 738 027	-47 194 844
Gross profit		6 415 621	3 726 333
Distribution costs	6	-20 575	-30 553
Administrative expenses	7	-422 976	-479 224
Other operating income	8	1 500 495	1 124 540
Other operating expense	8	-1 363 021	-1 174 873
Operating profit or loss		6 109 544	3 166 223
Finance income	9	0	69
Finance costs	9	-323 184	-329 026
Profit or loss before tax		5 786 360	2 837 266
Deferred corporate income tax	10	-96 141	-96 141
Corporate income tax	10	-6 856	-64 066
Profit or loss for the year		5 683 363	2 677 059
Other comprehensive income or loss		0	0
Total comprehensive income		5 683 363	2 677 059
Profit attributable to:			
Owners of the Parent company		5 683 363	2 677 059
Non-controlling interest		-	-
		5 683 363	2 677 059
Earnings/loss per share			
Basic and diluted earnings per share	32	12.67	6.46
Total comprehensive income attributable to:			
Owners of the Parent company		5 683 363	2 677 059
Non-controlling interest		-	-
		5 683 363	2 677 059

The accompanying notes on pages 14-40 are an integral part of these consolidated financial statements.

Saldus, April 29, 2019

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board	Arvis Tone Member of the Board	Inga Siliņa Chief accountant
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Consolidated Statement of Financial Position

ASSETS

	Note	31.12.2018 EUR	31.12.2017 EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licenses and similar costs	11	17 864	19 502
Total		17 864	19 502
Property, plant and equipment			
Land, buildings and perennial plantations	12	6 404 233	6 625 459
Technological equipment and machinery	12	12 589 984	11 813 674
Other fixed assets	12	84 937	70 983
Construction in progress	12	857 617	2 013 401
Total		19 936 771	20 523 517
Biological assets			
Long-term financial investments			
Investment in associated companies	13	8 540	8 540
Deferred income tax asset	10	288 424	384 565
Total		296 964	393 105
TOTAL NON-CURRENT ASSETS		21 019 301	21 798 940
CURRENT ASSETS			
Inventories			
Raw materials, basic materials and consumables	14	4 533 177	2 180 187
Biological assets	14	1 562 576	1 085 082
Unfinished production	14	1 387 671	1 603 943
Finished production and goods for sale	14	1 630 663	1 122 470
Advance payments for goods	14	486 756	51 004
Total		9 600 843	6 042 686
Receivables			
Trade receivables	15	424 886	179 719
Receivables from related companies	16	8 931 620	5 630 868
Receivables from associated companies	17	451 228	20 729
Other receivables	18	264 765	181 156
Prepaid expenses	19	330 383	270 058
Total		10 402 882	6 282 530
Cash and cash equivalents	20	3 231	116 455
TOTAL CURRENT ASSETS		20 006 956	12 441 671
TOTAL ASSETS		41 026 257	34 240 611

The accompanying notes on pages 14-40 are an integral part of these consolidated financial statements.

Saldus, April 29, 2019

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Arvis Tone
Member of the Board

Inga Siliņa
Chief accountant

Consolidated Statement of Financial Position (continued)

EQUITY AND LIABILITIES				31.12.2018	31.12.2017
	0,703	Note		EUR	EUR
Equity					
Share capital		21		579 916	579 916
Share premium				2 828	2 828
Foreign currency exchange fluctuations				-108 481	-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				2 978 484	852 908
Retained earnings of the reporting year				5 683 363	2 677 059
TOTAL EQUITY				14 247 335	8 909 613
LIABILITIES					
Non-current liabilities					
Loans from credit institutions		22		10 510 016	12 526 539
Other loans		23		2 689 260	3 005 546
Deferred revenue		30		1 993 756	1 689 105
		Total		15 193 032	17 221 190
Current liabilities					
Loans from credit institutions		22		2 236 011	1 421 411
Other loans		23		1 058 144	1 158 353
Prepayments received from customers		24		409	980
Trade payables		25		6 327 260	4 263 045
Payables to related companies		26		0	155 467
Payables to associated companies		27		621 352	0
Taxes and statutory social insurance contributions		28		250 252	249 154
Other payables		29		260 329	189 104
Deferred revenue		30		261 880	222 583
Accrued liabilities		31		570 253	449 711
		Total		11 585 890	8 109 808
TOTAL LIABILITIES				26 778 922	25 330 998
TOTAL EQUITY AND LIABILITIES				41 026 257	34 240 611

The accompanying notes on pages 14-40 are an integral part of these consolidated financial statements.

Saldus, April 29, 2019

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board	Arvis Tone Member of the Board	Inga Siliņa Chief accountant
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Consolidated Statement of Cash Flows

	2018	2017
	EUR	EUR
I. Cash flows from operating activities		
Profit or loss before tax	5 786 360	2 837 266
Adjustments for:		
Depreciation of property plant and equipment and intangible assets	2 012 824	1 933 402
Gain / loss on disposal or sale of fixed / biological assets	-52	1 283
Revaluation of biological assets	95 114	-96 980
Gains or losses on foreign currency exchange rate fluctuations	-290 309	326 912
Income from recognition of financing	-245 509	-222 584
Interest and similar costs	323 184	328 106
Operating cash flows before working capital changes	7 681 612	5 107 405
Adjustments for:		
Increase / decrease in trade and other receivables	-4 076 660	-2 205 828
Increase / decrease in inventories	-3 558 157	-70 706
Increase / decrease in trade and other payables	1 709 154	-55 199
Cash generated from operations	1 755 949	2 775 672
Interest paid	-323 559	-328 189
Corporate income tax paid	-6 856	-64 066
Net cash generated from operating activities	1 425 534	2 383 417
II. Cash flows from investing activities		
Income from sales of fixed assets, intangible assets, biological assets	35 601	1 065 926
Purchase of property, plant and equipment and intangible assets	-698 420	-3 042 801
Net cash used in investing activities	-662 819	-1 976 875
III. Cash flows from financing activities		
Proceeds from borrowings	948 763	1 620 113
Proceeds from subsidies	589 457	0
Repayments of borrowings	- 2 101 626	- 1 706 114
Expenses for leasing of fixed assets	-166 518	-204 545
Dividends paid	-146 015	0
Net cash used in financing activities	-875 939	-290 546
IV. Foreign exchange rate fluctuations	0	0
V. Net increase in cash and cash equivalents	-113 224	115 996
VI. Cash and cash equivalents at the beginning of the year	116 455	459
VII. Cash and cash equivalents at the end of the year	3 231	116 455

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

The accompanying notes on pages 14-40 are an integral part of these consolidated financial statements.

Saldus, April 29, 2019

Board:

Gatis Zommers Chairman of the Board	Jānis Mierkalns Member of the Board	Ilze Bukulde Member of the Board	Arvis Tone Member of the Board	Inga Siliņa Chief accountant
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Consolidates 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 2016	579 916	1 570 057	-262 768	2 828	3 741 168	-401 450	851 625	6 081 376
Fluctuation of exchange rate	0	0	-51 555	0	0	402 733	0	351 178
Distribution of profit of the year 2016	0	0	0	0	0	851 625	-851 625	0
Revaluation reserve of non-current assets	0	-200 000	0	0	0	0	0	-200 000
Profit for the period	0	0	0	0	0	0	2 677 059	2 677 059
Balance as at 31 December 2017	579 916	1 370 057	-314 323	2 828	3 741 168	852 908	2 677 059	8 909 613
Fluctuation of exchange rate	0	0	205 842	0	0	-551 483	0	-345 641
Distribution of profit of the year 2017	0	0	0	0	0	2 677 059	-2 677 059	0
Revaluation reserve of non-current assets	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	5 683 363	5 683 363
Balance as at 31 December 2018	579 916	1 370 057	-108 481	2 828	3 741 168	2 978 484	5 683 363	14 247 335

The accompanying notes on pages 14-40 are an integral part of these consolidated financial statements.

Saldus, April 29, 2019

Board:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

Arvis Tone
Member of the Board

Inga Siliņa
Chief accountant

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 29 April 2019.

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 and interpretations issued by the International Accounting Standards Board are effective for the current period:

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 applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The Group reviewed its financial assets and liabilities, and the classification and measurement requirements of IFRS 9 did not have a significant impact on the Group because of the nature of the Company'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 following are the changes in the classification of the Company's financial assets:

- Trade receivables previously classified as Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost.

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.

- 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 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. 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. 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.

The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients.

Applying IFRS 15 did not have a material impact on the Group's financial statements.

- 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 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).
- 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 and amendments to IFRS 1, IAS 28 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).

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).

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) *New standards and interpretations:*

- 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.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipment that are considered of low value.

It is expected that the new standard, when initially applied, will not have material impact on the Group's financial statements, since lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained. The Group has not yet prepared an analysis of the expected quantitative impact of the new standard.

- 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 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 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).

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 17 Insurance Contracts (issued on 18 May 2017) (effective for annual periods beginning on or after 1 January 2021).

2) *Amendments:*

- 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).
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018) (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).

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 OOO «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 OOO «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.

	31.12.2018	31.12.2017
	EUR	EUR
1 RUB	0.0125	0.0144
1 SEK	0.0975	0.1016
1 USD	0.8734	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 2018 by applying 8% discount rate. Average price for purchased felling site m3 in 2018 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, 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 (accounting before 1 January 2018 under IAS 39)

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 assets (accounting after 1 January 2018 under IFRS 9)

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 (accounting before 1 January 2018 under IAS 39)

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.

Financial liabilities (accounting after 1 January 2018 under IFRS 9)

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.

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, 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.

3. Segment information

	Logging		Timber processing		Other		Transport		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	11 221 238	5 488 411	55 169 271	44 010 406	2 692 744	1 329 020	70 395	93 340	69 153 648	50 921 177
Production costs of the sold production	-10 915 088	-5 180 579	-48 886 194	-40 409 922	-2 695 651	-1 328 678	-241 094	-275 665	-62 738 027	-47 194 844
Selling costs	-765	0	-14 008	-20 180	0	0	-5 802	-10 373	-20 575	-30 553
General administration costs	-13 046	-8 057	-36 694	-75 456	0	0	-373 236	-395 711	-422 976	-479 224
Other income/expenditures from Group's economic activity	78 079	23 437	6 007	-155 800	-16 000	-8 155	69 388	90 185	137 474	-50 333
Profit or loss from economic activity	370 418	323 212	6 238 382	3 349 048	-18 907	-7 813	-480 349	-498 224	6 109 544	3 166 223
Other interest income/payments and the like income	-8 034	-11 849	-108 639	-95 431	361	42	-206 872	-221 719	-323 184	-328 957
Company's deferred income tax	0	0	0	0	0	0	-96 141	-96 141	-96 141	-96 141
Corporate income tax	0	0	0	0	0	0	-6 856	-64 066	-6 856	-64 066
Income from segments activities	-390 914	-284 136	-885 786	-881 501	0	0	1 276 700	1 165 637	0	0
Profit or (loss)	-28 530	27 227	5 243 957	2 372 116	-18 546	-7 771	486 482	285 487	5 683 363	2 677 059
Segment assets	6 657 138	3 690 538	32 729 852	29 593 644	1 597 504	893 665	41 763	62 764	41 026 257	34 240 611
Segment liabilities	7 137 700	3 758 593	31 968 132	29 318 042	1 762 766	963 977	157 659	199 999	41 026 257	34 240 611

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

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

Segment descriptions:

Logging

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

Timber processing

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

Transport

Income in this segment mainly arises from incomes of wood transportation services.

Other

Collected lease payments for the use of the Group's real estate and other income which is not related to the Group's economic activity.

4. Revenue

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

	0,702804	2018	2017
		EUR	EUR
<i>Revenues by region</i>			
Revenue from sale of goods /rendering of services in Latvia		69 113 412	50 911 942
Revenue from sale of goods /rendering of services in Lithuania		32 682	4 608
Revenue from sale of goods /rendering of services in Russia		7 554	4 627
		69 153 648	50 921 177

5. Cost of sales

	2018	2017
	EUR	EUR
Material purchasing costs	976 170	1 150 484
Felling rights	6 919 069	2 603 222
Sawlogs purchasing costs	39 413 618	32 002 584
Correction for inventory from unfinished production	167 602	18 554
With production-related contractors services	2 415 564	1 369 493
Woodworking equipment maintenance costs	711 129	667 147
Woodworking and forestry equipment maintenance costs	935 310	721 376
Fuel costs	1 240 361	938 936
Revaluation of biological assets	(597 414)	(573 547)
Electricity and heating costs	1 988 686	1 716 376
Wages	4 018 485	2 863 787
State mandatory social security contributions	1 034 807	739 981
Accruals for unused vacations	445 583	336 173
Depreciation of plant and equipment and intangible assets	1 934 082	1 843 428
Real estate tax	20 557	20 275
Lease payments for wood processing, forestry machinery and equipment	726 544	390 712
Other services received	387 874	385 863
	62 738 027	47 194 844

6. Distribution costs

	2018	2017
	EUR	EUR
Advertisement, market research and marketing costs	6 567	285
Costs for transportation of goods	14 008	10 088
Other production costs	0	20 180
	20 575	30 533

7. Administration expenses

	2018	2017
	EUR	EUR
Wages	121 420	127 164
State mandatory social security contributions	32 034	32 131
Accruals for unused vacations	9 730	9 625
Office maintenance costs	33 944	37 206
Bank services	65 911	85 990
Depreciation of plant and equipment and intangible assets	51 768	58 134
Real estate tax	2 157	2 157
Audit costs for annual report	8 800	8 800
Vehicle costs for administration	14 771	20 975
Other administration costs	70 916	89 555
Legal services	11 525	7 487
	422 976	479 224

8. Other operating income / expense

Other operating income

	2018	2017
	EUR	EUR
Income from disposal of intangible assets and fixed assets	35 601	1 062 176
Intangible assets and fixed assets carrying value when disposed	(52)	(1 060 232)
Income from rents	86 272	91 611
Deferred revenue write-downs	245 506	222 583
Co – financing from Rural Support Service and EU structural funds	37 611	21 572
Net income from currency exchange rate fluctuations	96 903	86 082
Write-off of creditor debt	554 344	0
Other income	444 310	700 748
	1 500 495	1 124 540

Other operating expense

	2018	2017
	EUR	EUR
Write-offs of receivables and impairment loss on trade receivables	374 840	318 670
Rent on real estate	4 645	7 178
Inventory expenses	15 322	83 502
Net loss from currency exchange rate fluctuations	252 359	160 316
Security service costs	83 450	21 863
Utilities and maintenance costs	158 856	175 678
Insurance payments	39 053	36 713
Employee training expenses	18 265	20 466
Labour protection, work clothes	59 588	57 501
Health Insurance	51 921	43 867
Penalties paid	19 188	15 564
Staff sustainability costs	54 754	0
Donations	6 000	0
Other costs	224 780	233 555
	1 363 021	1 174 873

9. Finance income / expenses

	2018 EUR	2017 EUR
Other interest income	0	69
	0	69
Interest expense	323 184	329 026
	323 184	329 026

10. Corporate income tax

The Group companies JSC "PATA Saldus" and SIA "PAKUĻU SPORTA BĀZE" calculate its corporate income tax in accordance laws and regulations of the Republic of Latvia.

a) Components of corporate income tax

	2018 EUR	2017 EUR
Corporate income tax according to the tax return	6 856	64 066
Change in deferred tax	96 141	96 141
	102 997	160 207

The gross movement on the deferred income tax account is as follows:

	2018 EUR	2017 EUR
At 1 January	384 565	480 706
(Decrease) / increase in the reporting year	(96 141)	(96 141)
	288 424	384 565

11. Intangible assets

Software

	EUR	Total
Cost at 31.12.2017	69 655	69 655
2018 Additions	14 092	14 092
2018 Disposals	(1 564)	(1 564)
2018 Impairment	0	0
Cost at 31.12.2018	82 183	82 183
Accumulated amortisation at 31.12.2017	(50 153)	(50 153)
2018 Amortisation charge	(15 730)	(15 730)
2018 Disposals	1 564	1 564
2018 Impairment	0	0
Accumulated amortisation at 31.12.2018	(64 319)	(64 319)
Net book amount at 31.12.2017	19 502	19 502
Net book amount at 31.12.2018	17 864	17 864
Amortisation rate (by linear method)	5 years	

12. Property, plant and equipment

	Land and buildings	Technological equipment and machinery	Other fixed assets	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR
Cost at 31.12.2017	9 882 980	22 526 557	309 966	2 013 401	34 732 904
2018 Additions	250 739	4 402 722	201 117	3 286 223	8 140 801
2018 Disposals	-1 941	-2 394 838	-167 041	-4 418 918	-6 982 738
2018 Impairment	-42 255	-4 830	0	-23 089	-70 174
Cost at 31.12.2018	10 089 523	24 529 611	344 042	857 617	35 820 793
Accumulated depreciation at 31.12.2017	3 257 521	10 712 883	238 983	0	14 209 387
2018 Depreciation charge	429 710	1 522 642	46 937	0	1 999 289
2018 Disposals	-1 941	-295 898	-26 815	0	-324 654
Accumulated depreciation at 31.12.2018	3 685 290	11 939 627	259 105	0	15 884 022
Net book amount at 31.12.2017	6 625 459	11 813 674	70 983	2 013 401	20 523 517
Net book amount at 31.12.2018	6 404 233	12 589 984	84 937	857 617	19 936 771

Depreciation rate (by linear method)

5-20 years

2-15 years

2-10 years

Cadastral value of fixed assets

Cadastral value of land and buildings at December 31, 2018 is EUR 1 502 829.

Revaluation reserve changes in the reporting year by asset positions are as follows:

	Revaluation reserve 31.12.2017	Reduction correction of evaluation reserve	Revaluation reserve 31.12.2018
	EUR	EUR	EUR
Real Estate:			
a) Land and buildings	1 370 057	0	1 370 057
Non-current assets held for sale	0	0	0
TOTAL	1 370 057	0	1 370 057

In case if the revaluation had not been made, the value of the land plot would be as follows:

	31.12.2018 EUR	31.12.2017 EUR
Initial value	1 852 471	1 706 995
Residual value	1 852 471	1 706 995

13. Investment in associated companies

Name	Address	Interest		Equity		Profit or loss	
		31.12.2017 %	31.12.2018 %	31.12.2017 EUR	31.12.2018 EUR	2017 EUR	2018 EUR
SIA SALDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	20	1 310	80 477	-240 354	156 932

14. Inventories

	31.12.2018	31.12.2017
	EUR	EUR
Raw materials, basic materials and consumables		
Materials, spare parts, inventory	238 914	273 831
Raw material (logs in the forest and sawmill)	4 294 263	1 906 356
Total	4 533 177	2 180 187
	31.12.2018	31.12.2017
	EUR	EUR
Biological assets		
Biological assets	1 562 576	1 085 082
Total	1 562 576	1 085 082
	31.12.2018	31.12.2017
	EUR	EUR
Unfinished production		
Unfinished products (logs in the forest and sawmill)	94 061	161 958
Sawn timber in production	1 293 610	1 441 985
Total	1 387 671	1 603 943
	31.12.2018	31.12.2017
	EUR	EUR
Finished production and goods for sale		
Finished goods - sawn timber	1 630 663	1 122 470
Total	1 630 663	1 122 470

During the Group's inventory count as at 31.12.2018. non-marketable stocks were not found.

	31.12.2018	31.12.2017
	EUR	EUR
Advance payments for goods		
Advance payments for goods	486 756	51 004
Total	486 756	51 004

15. Trade receivables

	31.12.2018	31.12.2017
	EUR	EUR
Trade receivables at their carrying amount	451 404	230 854
Provision for expected credit losses	(26 518)	(51 135)
	424 886	179 719

Movements in the provision for expected credit losses

	31.12.2018	31.12.2017
	EUR	EUR
Provision for expected credit losses at the beginning of the reporting year	51 135	46 127
Increase / (decrease) in the provision for expected credit losses	-24 617	5 008
	26 518	51 135

16. Receivables from related companies

	31.12.2018	31.12.2017
Current	EUR	EUR
Receivables from related companies for supply of goods and services provided	8 931 620	5 630 868
	8 931 620	5 630 868

17. Receivables from associated companies

	31.12.2018	31.12.2017
Current	EUR	EUR
Receivables from associated companies for supply of goods and services provided	451 228	20 729
	451 228	20 729

18. Other receivables

	31.12.2018	31.12.2017
	EUR	EUR
VAT overpayment	257 145	172 566
Paid guarantee fees	4 668	4 237
Other receivables	2 952	4 353
	264 765	181 156

19. Prepaid expenses

	31.12.2018	31.12.2017
	EUR	EUR
Insurance payments	17 977	14 448
Subscription fees	427	354
Employee health insurance payments	8 962	7 245
1st. lease instalment	157 024	116 958
Other expenses	145 993	131 053
	330 383	270 058

20. Cash and cash equivalents

	31.12.2018	31.12.2017
	EUR	EUR
Cash at bank	3 231	116 455
	3 231	116 455

21. 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, the Register of Enterprises of the Republic of Latvia registered changes in the Statutes, which stipulate that the share capital shall be divided into 828 452 shares. The nominal value of each share is EUR 0.70 (zero euro 70 cents). 774 272 shares are public bearer shares and are in dematerialized form, while 54 180 shares are employees, registered shares.

Bearer shares give equal right to receive dividends, liquidation quota and voting rights at the shareholders meeting. Employee shares are registered shares. Only employees and Board and Council members of the company or company itself can gain employee shares. Owners of employee shares have equal right to receive dividends. But owners of employee shares have no voting rights at the shareholders meetings as well as they have no right to receive liquidation quota. Board and Council members do not own voting shares.

In the reporting year, the Group's share capital remained unchanged.

Ultimate Parent company is SIA "PATA", legal address Miera iela 2, Inčukalns, Inčukalna pag., Inčukalna novads, LV-2141. The consolidated annual report of the Group is prepared by SIA PATA. A copy of the consolidated annual report is available at the Register of Enterprises of the Republic of Latvia.

22. Loans from credit institutions

	31.12.2018	31.12.2017
	EUR	EUR
Non-current		
Luminor Bank AS (2013-104-OD)	7 729 906	7 692 163
Luminor Bank AS (2010-139-OD)	46 759	261 406
Luminor Bank AS (2011-150-OD)	0	701 778
Luminor Bank AS (2012-85-A)	173 009	259 513
Luminor Bank AS (2012-84-A)	584 793	877 190
Luminor Bank AS (2006/202/A)	63 386	121 896
Luminor Bank AS (2014-169-A)	512 479	992 479
Luminor Bank AS (2017-42-A-CFLA)	1 187 685	1 620 114
Luminor Bank AS (196K/18T-CFLA)	212 000	0
	10 510 016	12 526 539
Current		
Luminor Bank AS (2010-139-OD)	275 269	504 000
Luminor Bank AS (2011-150-OD)	706 635	0
Luminor Bank AS (2012-85-A)	86 504	86 504
Luminor Bank AS (2012-84-A)	292 397	292 397
Luminor Bank AS (2006/202/A)	58 510	58 510
Luminor Bank AS (2014-169-A)	480 000	480 000
Luminor Bank AS (2017-42-A-CFLA)	336 696	0
	2 236 011	1 421 411

As a collateral in case of claims that may arise from the signed loan agreement, the Company has pledged all its assets as an aggregate of things at the moment of pledge, as well as future components of this aggregate. Loan repayment period is up to 31.12.2021.

23. Other loans

	31.12.2018	31.12.2017
	EUR	EUR
Non-current		
Other loans	921 321	1 131 590
JSC Attīstības finanšu institūcija Altum*	1 588 739	1 588 739
Obligations under finance leases	179 200	285 217
	2 689 260	3 005 546
Current		
Obligations under the factoring agreements	904 261	993 029
Obligations under finance leases	153 883	165 324
	1 058 144	1 158 353

Loan from AS Attīstības finanšu institūcijas Altum is dedicated to the purchase, supply and installation of sawing and finished product sorting equipment and for the construction of a sawmill. Real estate serves as collateral. The loan repayment date is until August 26, 2024.

Finance lease liabilities

The Group has acquired fixed assets under finance lease. Total finance lease liabilities as at December 31, 2018 is EUR 333 083.

The future minimum finance lease payments are:

	2018	2017
	EUR	EUR
Payable within 1 year	161 649	174 492
Payable from 2 to 5 years	185 737	293 164
Finance lease gross liabilities	347 386	467 656
Future finance costs	(14 303)	(17 115)
Present value of finance lease liabilities	333 083	450 541

24. Prepayments received from customers

	31.12.2018	31.12.2017
	EUR	EUR
Current		
Payables for supplies of goods and services provided	409	980
	409	980

25. Trade payables

	31.12.2018	31.12.2017
	EUR	EUR
Current		
Payables for supplies of goods and services provided	6 327 260	4 263 045
	6 327 260	4 263 045

26. Payables to related companies

	31.12.2018	31.12.2017
	EUR	EUR
Current		
Payables for supplies of goods and services provided	0	155 467
	0	155 467

27. Payables to associated companies

	31.12.2018	31.12.2017
Current	EUR	EUR
Payables for supplies of goods and services provided	621 352	0
	621 352	0

28. Taxes and statutory social insurance contributions

	31.12.2018	31.12.2017
	EUR	EUR
Personal income tax	112 749	92 840
Statutory social insurance contributions	127 454	90 098
Corporate income tax	6 856	64 066
Nature resource tax	1 203	289
Business risk state duty	0	75
Other taxes	1 990	1 786
	250 252	249 154

29. Other payables

	31.12.2018	31.12.2017
	EUR	EUR
Salaries	256 784	184 474
Other payables	3 545	4 630
	260 329	189 104

30. Deferred income

	31.12.2018	31.12.2017
	EUR	EUR
Non-current		
EU co-financing for acquisition of assets - long-term part	1 993 756	1 689 105
	1 993 756	1 689 105
Current		
EU co-financing for acquisition of assets - short-term part	261 880	222 583
	261 880	222 583

Deferred income includes: 1. V/A Latvian Investment and Development Agency program funding according to project No. APV/2.1.2.4.0/13/03/030 with an agreement No.L-APV-14-0114, that was received in 2015 in amount of EUR 462 735 and is intended for acquisition and development of fixed assets; 2. V/A Latvian Investment and Development Agency program funding according to project No.APV/2.1.2.4.0/09/01/034 with an agreement No.L-APV-10-0015, that was received in time period between 2010 and 2013 in amount of EUR 3 339 616, and was intended for acquisition and development of fixed assets. Deferred income from LIDA funding are recognized as income in the income statement of purchased assets during the useful life of 10-15 years, respectively.

For 5 years since receipt of funding the Group has an obligation to comply with co-funding agreement terms about use of the acquired asset in project place and intended project aims, by avoiding asset alienation and use of third parties, by insuring the asset and by complying with other obligations. In non – compliance case with agreement conditions the Group could be required to repay the funds. According to management's assessment, this scenario is very unlikely.

31. Accrued liabilities

	31.12.2018	31.12.2017
	EUR	EUR
Accrued liabilities	111 197	133 294
Accrued liabilities – unused annual leaves	459 056	316 417
	570 253	449 711

32. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the Parent company by the weighted average number of ordinary shares in issue during the year. The Parent company has no potential dilutive ordinary shares; therefore, diluted earnings per share are the same as the basic earnings per share.

	2018	2017
	EUR	EUR
Net earnings attributable to owners of the Parent company	5 683 363	2 677 059
Weighted average number of ordinary shares in issue	448 745	414 226
	12.67	6.46

33. Remuneration to commercial company of sworn auditors

	2018	2017
	EUR	EUR
Audit of financial statements and consolidated financial statements	8 800	8 800
	8 800	8 800

34. Average number of employees in the Group

Average number of employees during the reporting year - 241 (2017 - 225).

35. Compensation of key management personnel

	2018	2017
	EUR	EUR
Salary of the Chairman of the Board	18 629	30 344
Statutory social insurance contributions of the Chairman of the Board	4 488	7 158
	23 117	37 502

36. Expenditures due to the environment protection

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

37. Related party transactions

The main shareholder of the Group, whose effective interest is 67% of shares of the Group, is SIA "PATA" (Latvia), reg.No.40003448619. The ultimate Parent company is SIA "PATA" (Latvia).

In 2017, the Group had transactions with the following group companies that are directly or indirectly subsidiaries of SIA "PATA". The Group had also transactions with companies owned by its subsidiaries and with related entity SIA "SALDUS ENERĢIJA" (Latvia), that is not part of the Group. During the financial year the Group has not entered into transactions with the Management Board and Council members, with the exception of salaries paid for the job.

	31.12.2018		31.12.2017	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Related companies				
Parent company	8 931 620	0	5 630 868	155 467
Subsidiaries	2 564	0	1 085 102	0
	8 934 184	0	6 715 970	155 467
Other related parties				
Associated companies	451 228	621 352	20 729	0
Board and Council members	0	588 333	0	588 333
	451 228	1 209 685	20 729	588 333
	9 385 412	1 209 685	6 736 699	743 800

	Sales to related parties		Purchase from related parties	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
Goods and services for sale	64 502 078	47 964 099	18 721 343	9 976 188
	64 502 078	47 964 099	18 721 343	9 976 188
Other related parties				
Goods and services for sale	1 398 906	1 210 191	966 105	593 702
	1 398 906	1 210 191	966 105	593 702
	65 900 984	49 174 290	19 687 448	10 569 890

38. Commitments

Operating lease commitments

The Group exploits forestry industrial equipment, as well as cars for administration needs that have been received under operating lease agreements. Lease expenses recognized in financial statement are EUR 624 316.

The Group has the following non-cancellable lease liabilities:

	2018 EUR	2017 EUR
Payable within 1 year	908 137	348 701
Payable from 2 to 5 years	2 068 522	1 044 081
	2 976 659	1 392 782

39. Going concern concept

The Group has finished the financial year, which was closed on 31 December 2018, with profit of EUR 5 683 363. As of this date, Group's current assets exceeded current liabilities by EUR 8 421 066, and total assets exceeded total liabilities by EUR 14 247 335.

Financial results of 2018 are in accordance with going concern assumption, as well as a going concern is dependent of financial results in next periods.

40. Events after the reporting period

As of the last day of the reporting period until the date of signing of these financial statements there were no material events, which would have a significant effect on the financial position of the Group as at 31 December 2018.

Saldus, April 29, 2019

Board:

Gatis Zommers	Jānis Mierkalns	Ilze Bukulde	Arvis Tone	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

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

Consolidated financial statements
for the year ended 31 December 2018
(Audited)

Independent Auditor's Report