JOINT STOCK COMPANY „PATA SALDUS”

(UNIFIED REGISTRATION NUMBER 40003020121)

FINANCIAL REPORT FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2019 (UNAUDITED)

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

Saldus, 2019

CONTENTS

General Information

Name of the Company	***Joint Stock Company ''PATA Saldus''***
Legal status of the Company	Joint Stock Company
Number, place and date of registration	40003020121, August 26,1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV-3801
Type of operations	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 – sawmilling and planing of wood
Members of the Board	Andris Krastiņš - Chairman of the Board (till February 21, 2019) Gatis Zommers – Chairman of the Board (since February 21, 2019) Jānis Mierkalns – Member of the Board Ilze Bukulde - Member of the Board Gatis Zommers - Member of the Board (till February 21, 2019) Arvis Tone – Member of the Board (since February 21, 2019 till June 4, 2019)
Members of the Council	Uldis Mierkalns – Chairman of the Council Jānis Bertrāns - Deputy Chairman of the Council Inga Mierkalna - Member of the Council Ieva Sniedze - Member of the Council
Subsidiary enterprises	
1. Name of the Company	*SIA ''PAKUĻU SPORTA BĀZE'' (100%)*
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	48503009010, November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the Company	Other sports activities
Owner of the Company	JSC ''PATA Saldus'' – 100%
Reporting period	January 1 – June 30, 2019
2. Name of the Company	*ООО ''Деревообрабатывающий комбинат № 3'' (100%)*
Legal status of the Company	Limited Liability Company (*ООО - Общество с ограниченной ответственностью)*
Registration number, date and place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the Company	Woodworking, production of board lumber
Owner of the Company	JSC ''PATA Saldus'' – 100%
Reporting period	January 1 – June 30, 2019

Associated enterprise

1. Name of the Company	SIA ''SALDUS ENERĢIJA'' (20%)
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	40103265702, December 22, 2009
Address	Cēsu iela 14, Rīga, LV-1012
The main areas of activities of the Company	Production of electricity, activities of holding companies.
Owner of the Company	JSC ''PATA Saldus'' – 20%
Reporting period	January 1 - June 30, 2019

Parent Company

Name of the Company	SIA ''PATA'' (67%)
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	40003448619, June 10, 1999
Address	Miera iela 2, Incukalns, Inčukalna nov., LV-2141
The main areas of activities of the Company	Wholesale of wood, silviculture and other foresty activities
Owner of the Company	Uldis Mierkalns – 100%
Reporting period	January 1 – June 30, 2019

Name and address of the Auditor	SIA ''Nexia Audit Advice'' Certified Auditor's Licence No. 134 Number of registration No. 40003858822 Grēcinieku iela 9-3, Rīga, LV-1004, Latvia Certified Auditor Marija Jansone LZRA Certificate No. 25

According to the Registerof 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 Krastiņš
- Appointed member of the Board: Arvis Tone
- Changed the position ''Member of the Board'' to ''Chairman of the Board'': Gatis Zommers

According to the Registerof Enterprises of the Republic of Latvia decision Nr. 6-12/69098 from 04.06.2019 JSC PATA Saldus has recorded the following changes in the Board:

- Released member of the Board: Arvis Tone

Management Report

Type of operations

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

Performance of the Company during the financial year

JSC PATA Saldus loss from operating activities for the 6 monts period of 2019 was EUR 484 657 with a net turnover of EUR 32 296 283, which represents loses per share issued of 0.59 EUR. The Company's financial statements have been prepared based on the information available to board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Company and consolidated group. The report contains true information.

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

The analysis of the Company's annual financial statements shows, that consolidated statement of financial position total is EUR 40 704 448. Non-current assets comprise 55% of the statement of financial position total, of which 91% (EUR 20 493 342) comprise of property, plant and equipment. Equity comprises 37% (EUR 15 171 322) of the statement of financial position total. Non-current liabilities comprise 42% (EUR 16 929 911) of the statement of financial position total, while current liabilities comprise 21% (EUR 8 603 215).

The analysis of the Company's income statement shows, that the revenue of the Company for the 6 months period of 2019 is EUR 32 296 283, the cost of sales is EUR 32 679 996, so that the gross loss amounts to EUR 383 713 and net loss amounts to EUR 484 657.

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

Environment protection

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

Financial risk management

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

Future prospects

In 2019, the Company 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 Company will continue to work on raising employee satisfaction and loyalty, which will improve the efficiency of work, increase productivity, increase customer satisfaction, thus leading to an improvement in the overall financial performance of the Company.

Saldus, August 30, 2019

Board:

Gatis Zommers	Jānis Mierkalns	Ilze Bukulde
Chairman of the Board	Member of the Board	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 company's financial position at the end of the year of account, as well as results of operations and cash flows for the period.

The Management confirms that, in preparing this report for the period ending on 30 June 2019, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standarts have been observed and the financial statements have been prepared in accordance with the principle of continuation.
The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

August 30, 2019

Board:

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

Income Statement

		2019.06.30 EUR	2018.06.30 EUR
Revenue		32 296 283	33 207 754
Costs of goods sold or services provided		-32 679 996	-30 026 857
Gross profit or losses		**-383 713**	**3 180 897**
Distribution expenses		0	-4 420
Administrative expenses		-167 402	-194 908
Other operating income		594 769	428 106
Other operating expenses		-358 368	-321 200
Interest and similar income, incl.		0	0
	a) from other parties	0	0
Interest and similar expenses, incl.		-169 943	-158 461
	a) for other parties	-169 943	-158 461
Profit or loss before corporate income tax		**-484 657**	**2 930 014**
Profit or loss after corporate income tax		**-484 657**	**2 930 014**
Profit or loss for the period		**-484 657**	**2 930 014**
Profit/loss on share (EUR)		**-0.59**	**7.07**

August 30, 2019

Board:

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

Balance Sheet

ASSETS

NON-CURRENT ASSETS	2019.06.30 EUR	2018.12.31 EUR
Intangible assets		
Concessions, patents, licences, trademarks and similar rights	11 863	17 864
Total intangible assets	**11 863**	**17 864**
Fixed assets		
Immovable properties		
a) land plots, buildings and engineering structures	5 972 027	6 063 240
Fauna and flora		
b) biological assets	767 702	767 702
Technological equipment and machinery	13 477 795	12 565 359
Other fixed assets	79 066	84 937
Fixed assets under development and construction in progress	196 752	590 078
Total fixed assets	**20 493 342**	**20 071 316**
Non-current financial investments		
Investments in group companies	1 009 149	1 009 149
Receivables from group companies	716 538	700 929
Participation in capital of associates	8 540	8 540
Deffered tax assets	288 424	288 424
Total non-current financial investments	**2 022 651**	**2 007 042**
TOTAL NON-CURRENT ASSETS	**22 527 856**	**22 096 222**
CURRENT ASSETS		
Inventories		
Raw materials and consumables	2 541 329	4 436 973
Work in progress	1 165 447	1 387 671
Finished goods and goods for sale	2 099 291	1 591 771
Fauna and flora		
a) biological assets	1 562 576	1 562 576
Advances for inventories	21 666	486 756
Total inventories	**7 390 309**	**9 465 747**
Account receivable		
Trade receivables	525 007	424 660
Receivables from group companies	9 643 895	8 934 184
Receivables from associates	0	451 228
Other receivables	263 259	261 891
Deferred expenses	349 560	330 383
Total receivables	**10 781 721**	**10 402 346**
Cash and cash equivalents	4 562	136
TOTAL CURRENT ASSETS	**18 176 592**	**19 868 229**
TOTAL ASSETS	**40 704 448**	**41 964 451**

August 30, 2019

Board:

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

Balance Sheet (continued)

EQUITY AND LIABILITIES

EQUITY	2019.06.30 EUR	2018.12.31 EUR
Share capital	579 916	579 916
Share premium	2 828	2 828
Revaluation reserve of non-current investments	1 370 057	1 370 057
Reserves:		
f) other reserves	3 741 168	3 741 168
Retained earnings:		
a) retained earnings from the previos year	9 962 010	4 661 144
b) current year profit or losses	-484 657	5 300 866
TOTAL EQUITY	**15 171 322**	**15 655 979**
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	12 438 664	10 510 016
Other loans	2 628 431	2 656 272
Deferred income	1 862 816	1 993 756
Total non-current liabilities	**16 929 911**	**15 160 044**
Current liabilities		
Loans from credit institutions	1 403 377	2 236 011
Other loans	151 262	1 058 144
Prepayments received from customers	410	409
Trade payables	5 293 680	5 892 088
Payables to group companies	0	0
Payables to associates	319 808	621 352
Taxes and state social insurance payments	421 060	248 212
Other creditors	254 992	260 079
Deferred income	261 880	261 880
Accrued liabilities	496 746	570 253
Total current liabilities	**8 603 215**	**11 148 428**
TOTAL LIABILITIES	**25 533 126**	**26 308 472**
TOTAL EQUITY AND LIABILITIES	**40 704 448**	**41 964 451**

August 30, 2019

Board:

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

Cash Flow Statement

	6 Month of 2019	6 Month of 2018
Cash flow from operating activities	**EUR**	**EUR**
Profit (+) or loss (-) before corporate income tax	**-484 657**	**2 930 014**
Adjustments for:		
Depreciation and impairment of fixed assets	1 041 273	957 364
Deprecation and impairment of intangible assets	13 737	6 624
Profit (-) or loss (+) from fluctuations of foreign currency rates	-13 390	11 669
Impairment of non-current and current financial investments	-130 940	-114 563
Interest and similar expenses	169 944	158 461
Profit or loss prior to changes in current assets and current liabilities	**595 552**	**3 949 569**
Adjustments for:		
Increase (+) or decrease (-) of account receivable	-379 333	-1 408 947
Increase (+) or decrease (-) of inventory	2 075 438	-1 397 660
Increase (+) or decrease (-) of account payables and other liabilities	-1 656 292	136 858
Gross cash flow from operating activities	**635 780**	**1 279 820**
Interest payments	-172 379	-161 273
Net cash flow generated from operating activities	**463 401**	**1 118 547**
Cash flow from investing activities		
Income from selling fixed assets and intangible assets	0	0
Acquisition of fixed assets and intangible assets	-223 732	-729 492
Prepayments for fixed assets under development and construction in progress	-1 241 115	-11 164
Loans issued	-2 261	-7 995
Net cash flow generated from investing activities	**-1 467 108**	**-748 651**
Cash flow from financing activities		
Loans recieved	1 288 000	736 762
Received subsidies and grants	0	589 454
Repayment of loans	-627 054	-1 304 941
Finance lease payments	-87 881	-93 149
Changes of creditlines	435 068	-373 286
Net cash flow generated from financing activities	**1 008 133**	**-445 160**
Net cash flow in the financial year	**4 426**	**-75 264**
Cash and cash equivalents at the beginning of the financial period	**136**	**114 483**
Cash and cash equivalents at the end of the financial period	**4 562**	**39 219**

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

August 30, 2019

Board:

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

Statement of Changes in Equity

	Share capital	Share premium	Revaluation reserves of non-current investments	Other reserves	Retained earnings from the previous year	Current year profit or losses	**Total equity**
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2017	**579 9169**	**2 828**	**1 370 057**	**3 741 168**	**2 008 402**	**2 798 757**	**10 501 128**
Distribution of profit of the year 2017	0	0	0	0	2 798 757	-2 798 757	0
Current year profit or losses	0	0	0	0	0	2 930 014	2 930 014
June 30, 2018	**579 916**	**2 828**	**1 370 057**	**3 741 168**	**4 807 159**	**2 930 014**	**13 431 142**
December 31, 2018	**579 916**	**2 828**	**1 370 057**	**3 741 168**	**4 661 144**	**5 300 866**	**15 655 979**
Distribution of profit of the year 2018	0	0	0	0	5 300 866	-5 300 866	0
Current year profit or losses	0	0	0	0	0	-484 657	-484 657
March 31, 2019	**579 916**	**2 828**	**1 370 057**	**3 741 168**	**9 962 010**	**-484 657**	**15 171 322**

August 30, 2019

Board:

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

Notes to the Financial Statements

General principles
Financial report has been prepared in accordance with Latvian law "On Accounting" and Law of annual financial statements and annual consolidated financial statements (the Law), as well as in accordance with Cabinet of Ministers rules No. 775 " rules of annual financial statements and consolidated annual financial statements law application." Derogating from the principles of the Law of annual financial statements and annual consolidated financial statements, the Company recognizes, values, presents biological assets in the financial statements in accordance with International Accounting Standard No. 41 "Agriculture", deferred tax assets - No. 12 "Income Taxes".

The financial statements have been prepared according to the historical cost accounting principle. The income statement is prepared in accordance with the function of expense method. The cash flow statement has been prepared under indirect cash flow method. The financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

Accounting policy ensures that the financial statement provides information, that: 1. is sufficient and complete enough to allow user of financial statement to draw sound conclusions about the Company. 2. is reliable in a way that:* revealed financial results and position of the Company is correct - not only legal form of the operations is revealed, but also their economical nature, are neutral in a way that the results are not subjectively biased and are precautious;* Are complete in all essential aspects.

General accounting principles
Financial statement items are valuated according to the following accounting principles:
a) it is assumed that the Company will continue its activities;
b) unless specified separately, the same valuation methods are used as in the previous year;
c) valuation is made with sufficient precaution, meaning that:
- profit is recognized only if earned before the end of financial year;
- all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
- all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.

d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment or day when invoice/receipt was issued. Expenses are reconciled with the revenues of the financial year.
e) Sections related to Asset and Equity, Provision and Liability items are evaluated and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offset.
f) Transactions in the financial statement are represented according to their economic substance and matter rather than according to their legal form.

Changes in accounting policy and disclosures

New and revised IFRSs and interpretations adopted by the Company

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

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

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

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

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

1) *New standards and interpretations:*
   - IFRS 9 Financial Instruments (issued on 24 July 2014) (effective for annual periods beginning on or after 1 January 2018).

     IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project:

- classification and measurement of financial assets and financial liabilities;
- impairment methodology and
- general hedge accounting.

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

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

The Company has reviewed its financial assets and liabilities and the Company does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Company’s financial instruments are not expected to change under IFRS 9 because of the nature of the Company’s operations and the types of financial instruments that it holds. The Company’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 Company’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

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

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

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

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

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

  - over time, in a manner that depicts the Company’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 Company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of consolidated financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

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

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

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

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

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

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

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

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

2) *Amendments:*

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

3) *Clarifications:*

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

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

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

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

1) *New standards and interpretations:*

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

2) *Amendments:*

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) (effective for annual periods beginning on or after 1 January 2020).

The Company has not yet assessed the impact of the above standards, amendments and interpretations on the Company'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 Company are measured using the functional currency, which is currency of the primary economic environment in which the Group companies operate - the Company’s functional currency is euro, except for OOO «Деревообрабатывающий комбинат № 3», which functional currency is Russian roubles (RUB).

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

	31.12.2018 EUR	31.12.2018 EUR
1 RUB	0.0140	0.0125
1 SEK	0.0947	0.0975
1 USD	0.8787	0.8734

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 Company 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.

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 Company's share of the associate's profit or loss after the date of acquisition that the Company 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 Company, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Company. The licences of software which are used in the Company 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 includes 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 Company 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 Company audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Company has to carry out the annual audit of the decrease of the value of assets, the Company 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 Company is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

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

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

This category is the most relevant to the Company. 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 Company 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 Company 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 Company 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 Company’s continuing involvement in the asset.

Impairment of financial assets

Assets carried at amortised cost

The Company 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 Company 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 Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

This category refers mainly to interest-bearing loans.

Trade and other payables

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

Derecognition

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

Cash and cash equivalents

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

Share capital

The Parent company of the Company 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 Company 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 Company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

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

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

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

Sale of goods

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

If income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the Company, then deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

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.

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 Company that can control the Company or have a significant influence over the activities of the Company, key management personnel of the Company 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 Company'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 Company is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period.

The main financial instruments of the Company 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 Company's economic activity. Also, the Company 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 Company's financial instruments are credit risk and liquidity risk. The Company'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 Company 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 Company 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 Company'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 Company evaluates the concentration of risk with respect to trade receivables as low.

Foreign currency risk

The Company'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 Company 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 Company are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Company think that the financial assets and liabilities of the Company on June 30, 2019 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 Company's business activities may not be available.

The Company 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 Company's budget is very useful and helpful in the process of management and control of liquidity risks.

Capital management

Main objective of the Company from capital risk management perspective is to ensure that the Company 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 Company'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 Company.

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 Company 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 Company 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 Company 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 Company 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.