JOINT-STOCK COMPANY “PATA SALDUS” AND ITS SUBSIDIARIES

(REGISTRATION NUMBER 40003020121)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

TOGETHER WITH INDEPENDENT AUDITORS’ REPORT

Saldus, 2018

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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 (*Andris Krastiņš) -* Chairman of the Board Janis Mierkalns (*Jānis Mierkalns*)– member of the Board Ilze Bukulde (*Ilze Bukulde)* - member of the Board Gatis Zommers *(Gatis Zommers)* - member of the Board
Members of the Council: name, surname, position	Uldis Mierkalns (*Uldis Mierkalns*) – Chairman of the Council Janis Bertrans (*Jānis Bertrāns*) - Deputy Chairman of the Board Inga Mierkalna (*Inga Mierkalna)*- member of the Council Atis Kalnins (*Atis Kalniņš)*- member of the Council (was released on 22.09. 2017) Ieva Sniedze (*Ieva Sniedze)*- member of the Council
Reporting year	January 1 – December 31, 2017

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, 2017
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, place, and date	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, 2017

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, 2017

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 foresty 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, 2017

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

Management Report

To Consolidated report of economic activity for 2017

Type of operations

Principal activities of the Group are forestry and primary wood processing - lumber production. The Group complies with FSC 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 2017 was EUR 2 677 059 with a net turnover of EUR 50 921 177, which represents earnings per share issued of 6.46 EUR. The Group's financial statements have been prepared based on the information available to board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Group and consolidated group. It is in interest of the Group to take care of their employees' social protection and well-being, because only then the development of the Group can be sustainable.

Financial risk management

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

The policy of financial risk management of the Group is described on page 22.

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 2018, the Group will continue to develop and expand environmentally friendly logging according to FSC and PEFC Forest Management and Wood Flow Certificate requirements.
In 2018, it is planned to expand its activities by installing additional timber drying plants with recuperation, where for heating renewable energy will be used.
The Group will continue to work on raising employee satisfaction and loyalty, which will improve the efficiency of work, increase productivity, increase customer satisfaction, thus leading to an improvement in the overall financial performance of the Group.

Report on corporate governance

Report on corporate governance for 2017 is electronically publicly available on Nasdaq Riga corporate website: http://www.nasdaqbaltic.com/market/.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde
Chairman of the Board	Member 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 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 2017, 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 27, 2018

Board:

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

Consolidated Statement of Comprehensive Income

	Note	2017 EUR	2016 EUR
Revenue	4	50 921 177	42 609 997
Cost of sales	5	-47 194 844	-41 631 333
Gross profit		**3 726 333**	**978 664**
Distribution costs	6	-30 553	-32 656
Administrative expenses	7	-479 224	-585 351
Other operating income	8	1 124 540	968 613
Other operating expense	8	-1 174 873	-508 195
Operating profit or loss		**3 166 223**	**821 075**
Finance income	9	69	85
Finance costs	9	-329 026	-341 217
Profit or loss before tax		**2 837 266**	**479 943**
Deferred corporate income tax	10	-96 141	371 732
Corporate income tax	10	-64 066	-50
Profit or loss for the year		**2 677 059**	**851 625**
Other comprehensive income or loss		0	0
Total comprehensive income		**2 677 059**	**851 625**
Profit attributable to:			
Owners of the Parent company		2 677 059	851 625
Non-controlling interest		-	-
		2 677 059	**851 625**
Earnings/loss per share			
Basic and diluted earnings per share	30	**6,46**	**2,06**
Total comprehensive income attributable to:			
Owners of the Parent company		2 677 059	851 625
Non-controlling interest		-	-
		2 677 059	**851 625**

The accompanying notes on pages 12-36 are an integral part of these consolidated financial statements.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

Consolidated Statement of Financial Position

ASSETS

NON-CURRENT ASSETS	Note	31.12.2017 EUR	31.12.2016 EUR
Intangible assets			
Concessions, patents, licenses and similar costs	11	19 502	19 125
Total		**19 502**	**19 125**
Property, plant and equipment			
Land, buildings and perennial plantations	12	6 625 459	7 026 277
Technological equipment and machinery	12	11 813 674	13 130 454
Other fixed assets	12	70 983	55 817
Construction in progress	12	2 013 401	307 767
Total		**20 523 517**	**20 520 315**
Biological assets		**862 816**	**765 836**
Long-term financial investments			
Investment in associated companies	13	8 540	8 540
Deferred income tax asset	10	384 565	480 706
Total		**393 105**	**489 246**
TOTAL NON-CURRENT ASSETS		**21 798 940**	**21 794 522**
CURRENT ASSETS			
Inventories			
Raw materials, basic materials and consumables	14	2 180 187	1 949 655
Biological assets	14	1 085 082	635 755
Unfinished production	14	1 603 943	1 824 568
Finished production and goods for sale	14	1 122 470	1 324 268
Advance payments for goods	14	51 004	63 991
Total		**6 042 686**	**5 798 237**
Receivables			
Trade receivables	15	179 719	154 906
Receivables from related companies	16	5 630 868	3 388 545
Receivables from associated companies	17	20 729	184 482
Other receivables	18	181 156	253 906
Prepaid expenses	19	270 058	165 165
Total		**6 282 530**	**4 147 004**
Cash and cash equivalents	20	116 455	459
TOTAL CURRENT ASSETS		**12 441 671**	**9 945 700**
Non-current assets classified as held for sale			
Property, plant and equipment held for sale		**0**	**274 997**
TOTAL ASSETS		**34 240 611**	**32 015 219**

The accompanying notes on pages 12-36 are an integral part of these consolidated financial statements.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

Consolidated Statement of Financial Position (continued)

EQUITY AND LIABILITIES

	Note	31.12.2017 EUR	31.12.2016 EUR
Equity			
Share capital	21	579 916	579 916
Share premium		2 828	2 828
Foreign currency exchange fluctuations		-314 323	-262 768
Revaluation reserve of non-current assets		1 370 057	1 570 057
Other reserves		3 741 168	3 741 168
Retained earnings of the previous years		852 908	-401 450
Retained earnings of the reporting year		2 677 059	851 625
TOTAL EQUITY		**8 909 613**	**6 081 376**
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	22	12 526 539	12 488 093
Other loans	23	3 005 546	3 319 379
Deferred revenue	28	1 689 105	1 911 689
Total		**17 221 190**	**17 719 161**
Current liabilities			
Loans from credit institutions	22	1 421 411	1 545 858
Other loans	23	1 158 353	1 202 928
Prepayments received from customers		980	0
Trade payables	24	4 263 045	4 200 881
Payables to related companies	25	155 467	153 726
Taxes and statutory social insurance contributions	26	249 154	292 478
Other payables	27	189 104	180 445
Deferred revenue	28	222 583	222 583
Accrued liabilities	29	449 711	415 783
Total		**8 109 808**	**8 214 682**
TOTAL LIABILITIES		**25 330 998**	**25 933 843**
TOTAL EQUITY AND LIABILITIES		**34 240 611**	**32 015 219**

The accompanying notes on pages 12-36 are an integral part of these consolidated financial statements.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

Consolidated Statement of Cash Flows

	2017	2016
I. Cash flows from operating activities	**EUR**	**EUR**
Profit or loss before tax	**2 837 266**	**479 943**
Adjustments for:		
Depreciation of property plant and equipment and intangible assets	1 933 402	1 794 251
Gain / loss on disposal or sale of fixed / biological assets	1 283	-34 621
Revaluation of biological assets	-96 980	-138 676
Provisions (excluding allowance for doubtful debts)	0	-213 657
Gains or losses on foreign currency exchange rate fluctuations	326 912	-227 055
Income from recognition of financing	-222 584	-222 583
Interest and similar income	0	-85
Interest and similar costs	328 106	341 217
Operating cash flows before working capital changes	**5 107 405**	**1 778 734**
Adjustments for:		
Increase / decrease in trade and other receivables	-2 205 828	-1 005 086
Increase / decrease in inventories	-70 706	-581 682
Increase / decrease in trade and other payables	-55 199	1 739 040
Cash generated from operations	**2 775 672**	**1 931 006**
Interest paid	-328 189	-339 507
Corporate income tax paid	-64 066	-50
Net cash generated from operating activities	**2 383 417**	**1 591 449**
II. Cash flows from investing activities		
Income from sales of fixed assets, intangible assets, biological assets	1 065 926	41 500
Purchase of property, plant and equipment and intangible assets	-3 042 801	-577 228
Net cash used in investing activities	**-1 976 875**	**-535 728**
III. Cash flows from financing activities		
Proceeds from borrowings	1 620 113	333 436
Proceeds from subsidies	0	51 415
Repayments of borrowings	- 1 706 114	- 1 160 176
Expenses for leasing of fixed assets	-204 545	-285 459
Net cash used in financing activities	**-290 546**	**-1 060 784**
IV. Foreign exchange rate fluctuations	**0**	**0**
V. Net increase in cash and cash equivalents	**115 996**	**-5 063**
VI. Cash and cash equivalents at the beginning of the year	**459**	**5 522**
VII. Cash and cash equivalents at the end of the year	**116 455**	**459**

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

The accompanying notes on pages 12-36 are an integral part of these consolidated financial statements.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

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 2015	**541 990**	**1 600 057**	**-353 525**	**2 828**	**3 741 168**	**1 549 507**	**-1 737 130**	**5 344 895**
Fluctuation of exchange rate	0	0	90 758	0	0	-205 901	0	-115 144
Distribution of profit of the year 2015	0	0	0	0	0	-1 737 130	1 737 130	0
Revaluation reserve of non-current assets	0	-30 000	0	0	0	30 000	0	0
Retained earnings of the previous years	37 926	0	0	0	0	-37 926	0	0
Profit for the period	0	0	0	0	0	0	851 625	851 625
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 2015	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**

The accompanying notes on pages 12-36 are an integral part of these consolidated financial statements.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	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 mezrupnieciba" 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 27 April 2018.

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”, OOO «Деревообрабатывающий комбинат № 3».

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

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

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

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Group's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Group.

Changes in accounting policy and disclosures

New and revised IFRSs and interpretations adopted by the Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2) *Amendments:*

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

3) *Clarifications:*

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

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

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

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

1) *New standards and interpretations:*
   - IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
   - IFRS 17 Insurance Contracts (issued on 18 May 2017) (effective for annual periods beginning on or after 1 January 2021).
   - IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) (effective for annual periods beginning on or after 1 January 2019).
2) *Amendments:*
   - Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
   - Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).
   - Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
   - Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) (effective for annual periods beginning on or after 1 January 2020).

The Group has not yet assessed the impact of the above standards, amendments and interpretations on the Group's financial statements.

Accounting principles have not changed compared to the previous reporting period.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Group are measured using the functional currency, which is currency of the primary economic environment in which the Group companies operate - the Group's functional currency is euro, except for 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.

	31.12.2017	**31.12.2016**
	EUR	**EUR**
1 RUB	0.0144	0.0156
1 USD	0.8338	0.9488

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 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 Group considers that forest stands should be classified as biological assets, that are valued according to State Forest Service data. Forest stands initially are recognised in their cost value, however after primary developments remaining part is recognised in its fair value. Fair value is determined by expressing net present value of biological asset as at 2016 by applying 8% discount rate. Average price for purchased felling site m3 in 2016 was calculated by taking into consideration cost of felling site m3 and costs associated to purchase it. Difference between carrying value and value set after revaluation is recognised as income or expenses depending whether value of asset is increased or decreased after revaluation. Result is disclosed in profit or loss statement under cost of goods sold. Biological assets that can't be developed within a year are disclosed in balance sheet under Fixed asset in separate position, that is called Biological assets. Biological assets that are predicted to be developed within a year are disclosed under Inventories in separate position, that is called Biological assets.

Impairment of non-financial assets

At the end of each year the Group audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Group has to carry out the annual audit of the decrease of the value of assets, the Group establishes the recoverable amount for each asset. The recoverable amount is the biggest amount of selling value from which is subtracted expenditures related to the selling value and use-values. In order to determine the decrease of value, assets are grouped in the lowest possible level for which it is possible to separately determine cash flows (cash flow generating assets). If the balance value of assets is bigger than its recoverable amount, the decrease of the value of asset is acknowledged and the assets are written off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

Borrowing costs

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

Lease

Financial lease transactions when the Group is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

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

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

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

This category generally applies to loans issued, trade and other receivables.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

This category refers mainly to interest-bearing loans.

Trade and other payables

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

Derecognition

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

Cash and cash equivalents

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

Share capital

The Parent company of the Group is a joint-stock company. The Parent company has a share capital of EUR 579 916. 387 136 shares are public bearer shares and are in a dematerialized form, but 27 090 shares are personal, registered shares. Taking into account that the Parent company's equity instruments are traded on the public securities market, the Parent company also prepares consolidated financial statements even though JSC "PATA Saldus" is a subsidiary of another company (SIA "PATA").

Provisions

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

Revenue recognition

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

Rendering of services

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

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

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

Sale of goods

Incomes are recognized when the Group has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Group has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors’ debts.

Interest

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

Taxes

Corporate income tax

The corporate income tax of Parent company and subsidiaries Group is 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.

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.

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 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.

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, 2017 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	5 488 411	3 889 143	44 010 406	37 086 820	1 329 020	1 239 140	93 340	394 894	50 921 177	42 609 997
Production costs of the sold production	-5 180 579	-3 551 252	-40 409 922	-35 839 274	-1 328 678	-1 228 021	-275 665	-1 012 786	-47 194 844	-41 631 333
Selling costs	0	0	-20 180	-20 374	0	0	-10 373	-12 282	-30 553	-32 656
General administration costs	-8 057	-9 713	-75 456	-55 467	0	0	-395 711	-520 171	-479 224	-585 351
Other income/expenditures from Group's economic activity	23 437	42 908	-155 800	119 694	-8 155	-6 505	90 185	304 321	-50 333	460 418
Profit or loss from economic activity	**323 212**	**371 086**	**3 349 048**	**1 291 399**	**-7 813**	**4 614**	**-498 224**	**-846 024**	**3 166 223**	**821 075**
Other interest income/payments and the like income	-11 849	-14 299	-95 431	-95 476	42	85	-221 719	-231 442	-328 957	-341 132
Company's deferred income tax	0	0	0	0	0	0	-96 141	371 732	-96 141	371 732
Corporate income tax	0	0	0	0	0	0	-64 066	-50	-64 066	-50
Income from segments activities	-284 136	-217 149	-881 501	-958 454	0	0	1 165 637	1 175 603	0	0
Profit or (loss)	**27 227**	**139 638**	**2 372 116**	**237 469**	**-7 771**	**4 699**	**285 487**	**469 819**	**2 677 059**	**851 625**
Segment assets	3 690 538	2 922 126	29 593 644	27 865 354	893 665	931 034	62 764	296 705	34 240 611	32 015 219
Segment liabilities	3 758 593	2 730 975	29 318 042	27 561 025	963 977	944 370	199 999	778 850	34 240 611	32 015 219

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.

Revenues by region	**2017** EUR	**2016** EUR
Revenue from sale of goods /rendering of services in Latvia	50 911 942	42 586 848
Revenue from sale of goods /rendering of services in Lithuania	4 608	3 860
Revenue from sale of goods /rendering of services in Estonia	0	8 945
Revenue from sale of goods /rendering of services in Russia	4 627	10 344
	50 921 177	**42 609 997**

5. Cost of sales

	2017 EUR	**2016** EUR
Material purchasing costs	1 150 484	1 294 432
Felling rights	2 603 222	1 688 077
Sawlogs purchasing costs	32 002 584	28 517 849
Correction for inventory from unfinished production	18 554	(56 707)
With production-related contractors services	1 369 493	1 236 826
Woodworking equipment maintenance costs	667 147	737 448
Woodworking and forestry equipment maintenance costs	721 376	695 202
Fuel costs	938 936	757 765
Revaluation of biological assets	(573 547)	(138 675)
Electricity and heating costs	1 716 376	1 508 330
Wages	2 863 787	2 766 169
State mandatory social security contributions	739 981	646 135
Accruals for unused vacations	336 173	48 851
Depreciation of plant and equipment and intangible assets	1 843 428	1 693 463
Real estate tax	20 275	19 108
Lease payments for wood processing, forestry machinery and equipment	390 712	185 332
Other services received	385 863	31 728
	47 194 844	**41 631 333**

6. Distribution costs

	2017 EUR	**2016** EUR
Advertisement, market research and marketing costs	285	360
Costs for transportation of goods	10 088	12 282
Other production costs	20 180	20 014
	30 533	**32 656**

7. Administration expenses

	2017	2016
	EUR	EUR
Wages	127 164	206 922
State mandatory social security contributions	32 131	48 813
Accruals for unused vacations	9 625	4 012
Office maintenance costs	37 206	105 710
Bank services	85 990	56 160
Depreciation of plant and equipment and intangible assets	58 134	57 606
Real estate tax	2 157	2 188
Audit costs for annual report	8 800	7 300
Vehicle costs for administration	20 975	29 280
Other administration costs	89 555	67 360
Legal services	7 487	0
	479 224	**585 351**

8. Other operating income / expense

Other operating income

	2017	2016
	EUR	EUR
Income from disposal of intangible assets and fixed assets	1 062 176	55 858
Intangible assets and fixed assets carrying value when disposed	(1 060 232)	(21 237)
Net income from disposal of intangible assets and fixed assets	1 944	34 621
Income from rents	91 611	114 237
Deferred revenue write-downs	222 583	222 583
Co – financing form Rural Support Service and EU structural funds	21 572	28 490
Net income from currency exchange rate fluctuations	86 082	223 718
Other income	700 748	344 964
	1 124 540	**968 613**

Other operating expense

	2017	2016
	EUR	EUR
Provisions for bad and doubtful debts	318 670	11 206
Rent on real estate	7 178	13 802
Inventory expenses	83 502	0
Net loss from currency exchange rate fluctuations	160 316	0
Security service costs	21 863	72 156
Utilities and maintenance costs	175 678	196 947
Insurance payments	36 713	33 647
Employee training expenses	20 466	23 343
Health Insurance	43 867	35 942
Penalties paid	15 564	39 119
Other costs	291 056	82 033
	1 174 873	**508 195**

9. Finance income / expenses

	2017 EUR	2016 EUR
Other interest income	69	85
	69	**85**
Interest expense	329 026	341 217
	329 026	**341 217**

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

	2017 EUR	2016 EUR
Corporate income tax according to the tax return	64 066	50
Change in deferred tax	96 141	(371 732)
	160 207	**(371 682)**

Calculated corporate income tax expense, according to tax returns and deferred tax change differs from the theoretically calculated tax amount as follows:

	2017 EUR	2016 EUR
Profit or loss before income tax	2 958 914	479 893
Theoretically calculated tax at 15% tax rate	**443 837**	**71 984**
The tax effect of:		
Expenditure which should not reduce the taxable income	0	35 208
Non-taxable income	0	(52 850)
Prior period unrecognized deferred tax assets	0	(426 024)
Non-economic activities	10 323	0
Increase of the taxable income	2 262 287	0
Decrease of the taxable income	(3 509 760)	0
Losses that reduces the taxable income	(1 291 869)	0
Adjusted taxable income	429 895	0
Tax from adjusted taxable income	64 484	0
Tax deduction for donations	(468)	0
Minimum tax on economic activity	50	0
	64 066	**(371 682)**

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

	2017 EUR	2016 EUR
At 1 January	480 706	108 974
(Decrease) / increase in the reporting year	(96 141)	371 732
	384 565	**480 706**

11. Intangible assets

		Software EUR	Total
Cost at 31.12.2016		**57 137**	**57 137**
2017	Additions	15 043	15 043
	Disposals	(2 525)	(2 525)
	Impairment	0	0
Cost at 31.12.2017		**69 655**	**69 655**
Accumulated amortisation at 31.12.2016		**38 012**	**38 012**
2016	Amortisation charge	14 666	14 666
	Disposals	(2 525)	(2 525)
	Impairment	0	0
Accumulated amortisation at 31.12.2017		**(50 153)**	**(50 153)**
Net book amount at 31.12.2016		**19 125**	**19 125**
Net book amount at 31.12.2017		**19 502**	**19 502**
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 31.12.2016		**9 863 514**	**22 495 068**	**267 185**	**307 767**	**32 933 534**
2017	Additions	47 038	149 042	53 735	1 719 773	1 969 588
	Disposals	0	-112 153	-10 954	0	-123 107
	Impairment	-27 572	-5 400	0	-14 139	-47 111
Cost at 31.12.2017		**9 882 980**	**22 526 557**	**309 966**	**2 013 401**	**34 732 904**
Accumulated depreciation at 31.12.2016		**2 837 237**	**9 364 614**	**211 368**	**0**	**12 413 219**
2017	Depreciation charge	420 284	1 460 422	37 908	0	1 918 614
	Disposals	0	-112 153	-10 293	0	-122 446
Accumulated depreciation at 31.12.2017		**3 257 521**	**10 712 883**	**238 983**	**0**	**14 209 387**
Net book amount at 31.12.2016		**7 026 277**	**13 130 454**	**55 817**	**307 767**	**20 520 315**
Net book amount at 31.12.2017		**6 625 459**	**11 813 674**	**70 983**	**2 013 401**	**20 523 517**
Depreciation rate (by linear method)		5-20 years	2-15 years	2-10 years		

a) Capitalized interest from borrowings
Capitalized interest from borrowings for 2017 is included under fixed asset position "Land and buildings " in amount of EUR 0 (2016 - EUR 18 478).

b) Cadastral value of fixed assets
Cadastral value of land and buildings at December 31, 2017 is EUR 1 422 140.

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

	Revaluation reserve 31.12.2016	Reduction correction of evaluation reserve	Revaluation reserve 31.12.2017
	EUR	EUR	EUR
Real Estate:			
a) Land and buildings	1 370 057	0	1 370 057
Non-current assets held for sale	200 000	(200 000)	0
TOTAL	**1 570 057**	**(200 000)**	**1 370 057**

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

	31.12.2017	31.12.2016
	EUR	EUR
Initial value	2 010 256	1 706 995
Residual value	**2 010 256**	**1 706 995**

13. Investment in associated companies

Name	Address	Interest 31.12.2016	Interest 31.12.2017	Equity 31.12.2016	Equity 31.12.2017	Profit or loss 2016	Profit or loss 2017
		%	%	EUR	EUR	EUR	EUR
SIA SALDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	20	319 431	1 310	-508 214	-240 354

14. Inventories

Raw materials, basic materials and consumables	31.12.2017 EUR	31.12.2016 EUR
Materials, spare parts, inventory	273 831	241 100
Raw material (logs in the forest and sawmill)	1 906 356	1 708 555
Total	**2 180 187**	**1 949 655**

Biological assets	31.12.2017 EUR	31.12.2016 EUR
Biological assets	1 085 082	635 755
Total	**1 085 082**	**635 755**

Unfinished production	31.12.2017 EUR	31.12.2016 EUR
Unfinished products (logs in the forest and sawmill)	161 958	81 585
Sawn timber in production	1 441 985	1 742 983
Total	**1 603 943**	**1 824 568**

Finished production and goods for sale	31.12.2017 EUR	31.12.2016 EUR
Finished goods - sawn timber	1 122 470	1 324 268
Total	**1 122 470**	**1 324 268**

During the Group’s inventory count as at 31.12.2017. non-marketable stocks were not found.

	31.12.2017	31.12.2016
Advance payments for goods	EUR	EUR
Advance payments for goods	51 004	63 991
Total	**51 004**	**63 991**

15. Trade receivables

	31.12.2017	31.12.2016
	EUR	EUR
Trade receivables at their carrying amount	230 854	201 033
Allowance for bad and doubtful debts	(51 135)	(46 127)
	179 719	**154 906**

For doubtful receivables, special allowance in amount of 100% of their principal amount is made.

Movements in the allowance for doubtful debts

	31.12.2017	31.12.2016
	EUR	EUR
Allowance for doubtful debts at the beginning of the reporting year	46 127	35 455
Increase / (decrease) in the allowance for doubtful debts	5 008	10 672
	51 135	**46 127**

16. Receivables from related companies

	31.12.2017	31.12.2016
Current	EUR	EUR
Receivables from related companies for supply of goods and services provided	5 630 868	3 388 545
	5 630 868	**3 388 545**

17. Receivables from associated companies

	31.12.2017	31.12.2016
Current	EUR	EUR
Receivables from associated companies for supply of goods and services provided	20 729	184 482
	20 729	**184 482**

18. Other receivables

	31.12.2017	31.12.2016
	EUR	EUR
VAT overpayment	172 566	164 767
Paid guarantee fees	4 237	57 037
Advances paid for services	0	27 620
Payroll	0	423
Other receivables	4 353	4 059
	181 156	**253 906**

19. Prepaid expenses

	31.12.2017	31.12.2016
	EUR	EUR
Insurance payments	14 448	12 004
Subscription fees	354	417
Employee health insurance payments	7 245	5 615
1st. lease installment	116 958	42 654
Other expenses	131 053	104 475
	270 058	**165 165**

20. Cash and cash equivalents

	31.12.2017	31.12.2016
	EUR	EUR
Cash at bank	116 455	459
	116 455	**459**

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. The par value of shares is EUR 1.40 (one euro 40 cents). 387 136 shares are public bearer shares and are in a dematerialized form, but 27 090 shares are personal, registered 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

	31.12.2017	31.12.2016
	EUR	EUR
Non-current		
Luminor Bank AS (2013-104-OD)	7 692 163	7 826 256
Luminor Bank AS (2010-139-OD)	261 406	806 646
Luminor Bank AS (2011-150-OD)	701 778	686 702
Luminor Bank AS (2012-85-A)	259 513	346 017
Luminor Bank AS (2012-84-A)	877 190	1 169 587
Luminor Bank AS (2006/202/A)	121 896	180 406
Luminor Bank AS (2014-169-A)	992 479	1 472 479
Luminor Bank AS (2017-42-A-CFLA)	1 620 114	0
	12 526 539	**12 488 093**
Current		
Luminor Bank AS (2010-139-OD)	504 000	504 000
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 (2006-147-A)	0	124 447
Luminor Bank AS (2014-169-A)	480 000	480 000
	1 421 411	**1 545 858**

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

	31.12.2017	31.12.2016
Non-current	EUR	EUR
Other loans	1 131 590	1 280 089
JSC Attistības finanšu institūcija Altum*	1 588 739	1 588 739
Obligations under finance leases	285 217	450 551
	3 005 546	**3 319 379**
Current		
Obligations under the factoring agreements	993 029	998 393
Obligations under finance leases	165 324	204 535
	1 158 353	**1 202 928**

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, 2017 is EUR 450 541.

The future minimum finance lease payments are:

	2017	2016
	EUR	EUR
Payable within 1 year	174 492	218 425
Payable from 2 to 5 years	293 164	467 625
Finance lease gross liabilities	**467 656**	**686 050**
Future finance costs	(17 115)	(30 964)
Present value of finance lease liabilities	**450 541**	**655 086**

24. Trade payables

	31.12.2017	31.12.2016
Current	EUR	EUR
Payables for supplies of goods and services provided	4 263 045	4 200 881
	4 263 045	**4 200 881**

25. Payables to related companies

	31.12.2017	31.12.2016
Current	EUR	EUR
Payables for supplies of goods and services provided	155 467	153 726
	155 467	**153 726**

26. Taxes and statutory social insurance contributions

	31.12.2017	31.12.2016
	EUR	EUR
Personal income tax	92 840	118 036
Statutory social insurance contributions	90 098	171 177
Corporate income tax	64 066	48
Nature resource tax	289	142
Business risk state duty	75	0
Other taxes	1 786	3 075
	249 154	**292 478**

27. Other payables

	31.12.2017	31.12.2016
	EUR	EUR
Salaries	184 474	176 125
Other payables	4 630	4 320
	189 104	**180 445**

28. Deferred income

	31.12.2017	31.12.2016
Non-current	EUR	EUR
EU co-financing for acquisition of assets - long-term part	1 689 105	1 911 689
	1 689 105	**1 911 689**
Current		
EU co-financing for acquisition of assets - short-term part	222 583	222 583
	222 583	**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.

29. Accrued liabilities

	31.12.2017	31.12.2016
	EUR	EUR
Accrued liabilities	133 294	140 770
Accrued liabilities – unused annual leaves	316 417	275 013
	449 711	**415 783**

30. 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.

	2017	2016
	EUR	EUR
Net earnings attributable to owners of the Parent company	2 677 059	851 625
Weighted average number of ordinary shares in issue	414 226	414 226
	6.46	**2.06**

31. Remuneration to commercial company of sworn auditors

	2017	2016
	EUR	EUR
Audit of financial statements and consolidated financial statements	8 800	7 300
Other audit services	0	300
	8 800	**7 600**

32. Average number of employees in the Group

Average number of employees during the reporting year - 225 (2016 - 203).

33. Compensation of key management personnel

	2017	2016
	EUR	EUR
Salary of the Chairman of the Board	30 344	52 855
Statutory social insurance contributions of the Chairman of the Board	7 158	12 469
	37 502	**65 324**

34. 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 Green Belt ltd. 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 BAO ltd. 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.

35. 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.

	31.12.2017		31.12.2016	
	Receivables EUR	**Payables EUR**	**Receivables EUR**	**Payables EUR**
Related companies				
Parent company	5 630 868	155 467	3 388 544	153 726
Subsidiaries	1 085 102	0	1 382 670	0
Sister companies	0	1 262	93 453	1 641
	6 715 970	**156 729**	**4 864 667**	**155 367**
Other related parties				
Associated companies	20 729	0	184 482	0
Board and Council members	0	588 333	0	588 333
	20 729	**588 333**	**184 482**	**588 333**
	6 736 699	**745 062**	**5 049 148**	**743 700**

	Sales to related parties		Purchase from related parties	
	2017 EUR	**2016 EUR**	**2017 EUR**	**2016 EUR**
Goods and services for sale	47 964 099	39 856 909	9 976 188	7 974 016
	47 964 099	**39 856 909**	**9 976 188**	**7 974 016**
Other related parties				
Goods and services for sale	1 210 191	1 111 790	593 702	530 321
	1 210 191	**1 111 790**	**593 702**	**530 321**
	49 174 290	**40 968 699**	**10 569 890**	**8 504 337**

36. 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 303 859.

The Group has the following non-cancellable lease liabilities:

	2017	2016
	EUR	EUR
Payable within 1 year	348 701	151 480
Payable from 2 to 5 years	1 044 081	637 536
	1 392 782	**789 017**

37. Going concern concept

The Group has finished the financial year, which was closed on 31 December 2017, with profit of EUR 2 677 059. As of this date, Group's current assets exceeded current liabilities by EUR 4 331 863, and total assets exceeded total liabilities by EUR 8 909 613.

Financial results of 2017 are in accordance with going concern assumption, as well as a going concern is dependent of financial results in next periods.

38. 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 2017.

Saldus, April 27, 2018

Board:

Andris Krastiņš	Jānis Mierkalns	Gatis Zommers	Ilze Bukulde	Inga Siliņa
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Chief accountant

Independent Auditor's Report