

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

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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

TOGETHER WITH INDEPENDENT AUDITOR’S REPORT

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## General Information

Name of the Parent company	<b>Joint-stock company "PATA Saldus"</b>
Legal status of the Parent company	Joint-stock Company
Registration number, place, and date	40003020121, August 26, 1991, Riga
Address	Kuldīgas street 86C, Saldus, Saldus district, LV-3801
Core business activities of the Group	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 – Sawmilling and planing of wood
Members of the Board: name, surname, position	Andris Krastiņš ( <i>Andris Krastiņš</i> ) - Chairman of the Board (till February 21, 2019) Gatis Zommers ( <i>Gatis Zommers</i> )- Chairman of the Board (since February 21, 2019) Janis Mierkalns ( <i>Jānis Mierkalns</i> )- member of the Board Ilze Bukulde ( <i>Ilze Bukulde</i> ) - member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) - member of the Board (till February 21, 2019) Arvis Tone ( <i>Arvis Tone</i> )- member of the Board (since February 21, 2019 till June 4, 2019)
Members of the Council: name, surname, position	Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – Chairman of the Council Janis Bertrāns ( <i>Jānis Bertrāns</i> ) - Deputy Chairman of the Board Inga Mierkalna ( <i>Inga Mierkalna</i> )- member of the Council Ieva Sniedze - Member of the Council (till August 13, 2019) Inga Jākobsone – Member of the Council (since August 13, 2019)
Reporting year	January 1 – December 31, 2019
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, 2019
2. Name of the company	ООО «Деревообрабатывающий комбинат № 3» (100%)
Legal status of the company	Limited Liability Company
Registration number, place, and date	(ООО - Общество с ограниченной ответственностью) 1066027046337, October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
Core business activities of the Company	Woodworking, production of board lumber
Interest of the Parent company	JSC "PATA Saldus" – 100%
Reporting year	January 1 – December 31, 2019

## 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, 2019

## Ultimate Parent company, that controls JSC "PATA Saldus"

Name of the ultimate Parent company	SIA "PATA" (67%)
Legal status of the ultimate Parent company	Limited Liability Company
Registration number, place, and date	40003448619, June 10, 1999
Address	Miera iela 2, Inčukalns, Inčukalna pag., Inčukalna nov., LV-2141
Core business activities of the ultimate Parent company	Wholesale of wood, silviculture and other forestry activities
Interest of the ultimate Parent company	SIA "PATA" – direct holding – 23%, indirect holding – 44%
Owner of the ultimate Parent company	Uldis Mierkalns – 100%
Reporting year	January 1 – December 31, 2019

Name and address of the Auditor	Marija Jansone Certified Auditor of the Republic of Latvia Certificate No.25	SIA "Nexia Audit Advice" Registration No. 40003858822 Grēcinieku iela 9-3, Rīga, LV-1050, Latvia Licence No.134
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According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12/21838 from 21.02.2019 JSC PATA Saldus has recorded the following changes in the Board:

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

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

- Released Member of the Board: Arvis Tone

According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12/96431 from 13.08.2019 JSC PATA Saldus has recorded the following changes in the Council:

- Released Member of the Council: Ieva Sniedze
- Appointed Member of the Council: Inga Jākobsone

## Management Report

### *To Consolidated report of economic activity for 2019*

#### Type of operations

Principal activities of the Group are forestry and primary wood processing - lumber production. Within the framework of economic activity, the necessary forestry work shall be carried out to ensure reforestation, maintenance and enhancement of the forest by means of environmentally friendly, non-degrading forest management, working in accordance with the requirements and recommendations of forest management and wood supply chain certificates. In the process of wood processing the Group shall operate in accordance with the requirements of the certificate of the energy management system (LVS EN ISO 50'001:2012). In order to meet these requirements, the Group shall regularly take the appropriate monitoring and improvement measures.

#### Performance of the Group during the financial year

The Group's loss from operating activities in 2019 was EUR 1 995 298 with a net turnover of EUR 57 404 518, which represents losses per weighted average share issued of 2.41 EUR.

The Group's losses are related to the adverse market situation in 2019, which was affected by the extreme climate events experienced in recent years – drought, rain, storms, which contributed to the proliferation of large-scale eight-toothed spruce bark beetles in Western Europe. Wood from ravaged forests by bark beetles flowed into the European market, which had a negative impact on the prices of wood products and also on demand. In addition, for the first half of the year, the Group fixed the price of raw materials with major suppliers at the end of 2018 at a growing market. As a result of these factors, the price of sawn wood fell more sharply than the price of raw materials, logging volumes fell by more than 50% compared to the previous year, while several felling areas purchased in 2018 were closed with losses due to the sharp drop in prices and the value of biological assets decreased by kEUR 300. In addition, a deferred tax asset of kEUR 288 was written off in the reporting year, as well as a decision to write down the full stake in the subsidiary company SIA Pakuļu sporta bāze as of it is not planned to further develop the company, which caused losses in the amount of kEUR 52.

The Group's financial statements have been prepared based on the information available to the board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Group and consolidated group. The report contains true information.

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

The analysis of the Group's consolidated financial statements shows, that consolidated statement of financial position total is EUR 39 599 972. Non-current assets comprise 56% of the statement of financial position total, of which 97% (EUR 21 475 412) comprise of property, plant and equipment. Equity comprises 30% (EUR 11 982 470) of the statement of financial position total. Non-current liabilities comprise 43% (EUR 17 016 088) of the statement of financial position total, while current liabilities comprise 27% (EUR 10 601 414).

The analysis of the Group's consolidated statement of comprehensive income shows, that the revenue of the Group for 2019 is EUR 57 404 518, the cost of sales is EUR 58 230 024, so that the gross loss amount is EUR 825 506 and net loss amount is EUR 1 995 298.

#### *Calculation of financial results*

	2019	2018
	EUR	EUR
<b>Items of the Group's consolidated statement of comprehensive income</b>		
Revenue	57 404 518	69 153 648
Gross profit/loss	(825 506)	6 415 621
Profit for the year/loss	(1 995 298)	5 683 363
	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Items of the Group's consolidated statement of financial position</b>		
Current assets	17 370 829	20 006 956
Total assets	39 599 972	41 026 257
Equity	11 982 470	14 247 335
Current liabilities	10 601 414	11 585 890
Total liabilities	27 617 502	26 778 922

Group's financial ratios	2019	2018
<b>Profitability analysis</b> - profitability ratios analyse the effectiveness of the Group's management decisions to fulfil financial tasks.		
Gross margin (Gross profit / Revenue)	-1.44%	9.28%
<i>The gross margin ratio shows the ratio of sales to direct costs. The Group uses this indicator to calculate the extent to which changes in revenue affect gross profit.</i>		
Commercial profitability ratio (Profit for the year / Revenue)	-3.48%	8.22%
<i>The Group uses this ratio to determine the Group's ability to generate profits.</i>		
	<b>2019</b>	<b>2018</b>
Return on Equity (pProfit for the year / Equity)	-16.65%	39.89%
<i>The return on equity shows how effectively the capital invested by the Group's owners is used. The Group uses this indicator to determine how much a potential investor will earn from each of its invested euro.</i>		
Return on Assets (Profit for the year / Total assets)	-5.04%	13.85%
<i>The Group uses this ratio to calculate the return on total assets used by the Group for its economic activities.</i>		
	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Capital structure analysis</b> - capital structure indicators analyze the Group's capital structure and show how many additional liabilities the Group is able to assume.		
Financial Balance Rate (Total assets / Equity)	3.30	2.88
<i>The Group uses this ratio to determine the proportion of cash invested by the Group's owners in the Group's assets.</i>		
Liabilities to Equity (Total liabilities / Equity)	2.30	1.88
<i>The Group uses this ratio to determine to what extent the Group is dependent on borrowed capital.</i>		
Debt to assets ratio (Total liabilities / Total assets)	0.70	0.65
<i>The Group uses this ratio to determine the Group's long-term and short-term liabilities to total assets.</i>		
<b>Liquidity analysis</b> - Liquidity indicators consider the Group's short-term financial performance and liquidity and give an idea of whether the Group is able to settle its current liabilities in a timely and complete manner.		
Current liquidity ratio (Current assets / Current liabilities)	1.64	1.73
<i>The Group uses this ratio to calculate the extent to which the Group's current assets are capable of covering short-term liabilities.</i>		

Financial performance indicators show that the Group is able to settle its obligations, as well as the fact that the Group has sufficient material provision for the further development of business. The Group's losses in the 2019 will be covered by profits from previous years.

#### **Investment programme**

In 2019, the Group implemented strategically important R&D projects. Three new wood drying equipment with recuperation were installed the heating of which uses renewable energy resources. The R&D group continued its work on developing the optimal drying parameters to achieve the maximum elimination of drying defects during the hydrothermal treatment of wood, increasing the ratio of the highest target quality, as well as continuing the section of studies on the arrangement of sawn timber packs in drying chambers and on the individual placement of sawn wood in drying packs with optimal drying spacers placement.

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### **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 not only to environmental pollution, but also to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with SIA Zajā josta on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During technical maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to AS BAO, on which there has been concluded a special agreement on collection of hazardous waste. In this way the Group meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, incl. planned natural resource tax payments, addressing unforeseen environmental problems and reducing ecological risks at all sites.

### **Financial risk management**

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

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

### **Subsequent events**

Following the end of the financial year, in March 2020, the Republic of Latvia and many other countries have entered into force restrictions related to the spread of coronavirus, which significantly reduces economic development in the country and in the world. It is not foreseeable how the situation is likely to develop in the future, hence the uncertainty of economic development remains. The Group management shall continuously assess the situation. Currently, the Group is reviewing its revenue and expenditure structure, effectively improving the Group 's activity on the decline in demand for logging, both by service and by output, re-evaluating investment projects launched, as well as shifting to other outlet markets in the production of sawn wood. The Group's management considers that the Group will be able to overcome the emergency by means of the following compensatory measures, in agreement with creditors on the extension of due dates or the granting of preferential terms, with customers, by agreeing on shorter payment terms for the goods delivered. However, this conclusion is based on information available at the time of the signing of this financial statement and the impact of future events on the activities of the Group may differ from the management assessment in the future. The Group's board recommends covering the losses for the reporting year from the profits of previous periods.

### **Future prospects**

In 2020, the Group will continue to develop and expand nature friendly logging through environmentally friendly, non-degrading forest management, working in accordance with the requirements and recommendations of forest management and wood supply chain certificates.

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

### **Report on corporate governance**

Report on corporate governance for 2019 is electronically publicly available on Nasdaq Riga corporate website: <http://www.nasdaqbaltic.com/market/>.

Saldus, April 29, 2020

Board:

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Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

## Statement of Management Responsibility

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

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

The Management confirms that, in preparing this report for the period ending on 31 December 2019, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the Group's resources conservation as well as fraud prevention and prevention of other irregularities.

Saldus, April 29, 2020

Board:

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Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

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## Consolidated Statement of Comprehensive Income

	Note	2019 EUR	2018 EUR
Revenue	4	57 404 518	69 153 648
Cost of sales	5	(58 230 024)	-62 738 027
<b>Gross profit</b>		<b>(825 506)</b>	<b>6 415 621</b>
Distribution costs	6	(50)	-20 575
Administrative expenses	7	(371 555)	-422 976
Other operating income	8	1 117 463	1 500 495
Other operating expense	8	(1 161 587)	-1 363 021
<b>Operating profit or loss</b>		<b>(1 241 235)</b>	<b>6 109 544</b>
Finance income	9	119	0
Finance costs	9	(460 641)	-323 184
<b>Profit or loss before tax</b>		<b>(1 701 757)</b>	<b>5 786 360</b>
Deferred corporate income tax	10	(288 424)	-96 141
Corporate income tax	10	(5 117)	-6 856
<b>Profit or loss for the year</b>		<b>(1 995 298)</b>	<b>5 683 363</b>
<b>Other comprehensive income or loss</b>		<b>0</b>	<b>0</b>
<b>Total comprehensive income</b>		<b>(1 995 298)</b>	<b>5 683 363</b>
<b>Profit attributable to:</b>			
Owners of the Parent company		(1 995 298)	5 683 363
Non-controlling interest		-	-
		<b>(1 995 298)</b>	<b>5 683 363</b>
<b>Earnings/loss per share</b>			
Basic and diluted earnings per share	32	<b>(2.41)</b>	<b>12.67</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent company		(1 995 298)	5 683 363
Non-controlling interest		-	-
		<b>(1 995 298)</b>	<b>5 683 363</b>

The accompanying notes on pages 14-39 are an integral part of these consolidated financial statements.

Saldus, April 29, 2020

Board:

Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

Inga Siliņa  
Chief accountant

## Consolidated Statement of Financial Position

### ASSETS

	Note	31.12.2019 EUR	31.12.2018 EUR
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Concessions, patents, licenses and similar costs	11	34 997	19 502
Total		<b>34 997</b>	<b>19 502</b>
<b>Property, plant and equipment</b>			
Land, buildings and perennial plantations	12	6 064 783	6 404 233
Technological equipment and machinery	12	12 629 233	12 589 984
Other fixed assets	12	83 425	84 937
Rights of used assets	12	2 324 375	0
Construction in progress	12	373 596	857 617
Total		<b>21 475 412</b>	<b>19 936 771</b>
<b>Biological assets</b>			
<b>Long-term financial investments</b>			
Investment in associated companies	13	0	8 540
Other securities and investments	13	8 540	0
Deferred income tax asset	10	0	288 424
Total		<b>8 540</b>	<b>296 964</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>22 229 143</b>	<b>21 019 301</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials, basic materials and consumables	14	2 019 683	4 533 177
Biological assets	14	1 319 691	1 562 576
Unfinished production	14	1 184 158	1 387 671
Finished production and goods for sale	14	1 873 796	1 630 663
Advance payments for goods	14	18 052	486 756
Total		<b>6 415 380</b>	<b>9 600 843</b>
<b>Receivables</b>			
Trade receivables	15	864 675	424 886
Receivables from related companies	16	9 765 356	8 931 620
Receivables from associated companies	17	0	451 228
Other receivables	18	108 350	264 765
Prepaid expenses	19	213 349	330 383
Total		<b>10 951 730</b>	<b>10 402 882</b>
<b>Cash and cash equivalents</b>			
	20	3 719	3 231
<b>TOTAL CURRENT ASSETS</b>		<b>17 370 829</b>	<b>20 006 956</b>
<b>TOTAL ASSETS</b>		<b>39 599 972</b>	<b>41 026 257</b>

The accompanying notes on pages 14-39 are an integral part of these consolidated financial statements.

Saldus, April 29, 2020

Board:

Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

Inga Siliņa  
Chief accountant

## Consolidated Statement of Financial Position (continued)

EQUITY AND LIABILITIES				31.12.2019	31.12.2018
	0,703	Note		EUR	EUR
<b>Equity</b>					
Share capital		21		579 916	579 916
Share premium				2 828	2 828
Foreign currency exchange fluctuations				86 939	(108 481)
Revaluation reserve of non-current assets				1 370 057	1 370 057
Other reserves				3 741 168	3 741 168
Retained earnings of the previous years				8 196 860	2 978 484
Retained earnings of the reporting year				(1 995 298)	5 683 363
				<b>11 982 470</b>	<b>14 247 335</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions		22		11 654 743	10 510 016
Other loans		23		3 322 844	2 689 260
Deferred revenue		30		2 038 501	1 993 756
		Total		<b>17 016 088</b>	<b>15 193 032</b>
<b>Current liabilities</b>					
Loans from credit institutions		22		1 146 265	2 236 011
Other loans		23		1 378 847	1 058 144
Prepayments received from customers		24		37 410	409
Trade payables		25		5 821 236	6 327 260
Payables to related companies		26		789 005	0
Payables to associated companies		27		0	621 352
Taxes and statutory social insurance contributions		28		225 848	250 252
Other payables		29		212 061	260 329
Deferred revenue		30		284 180	261 880
Accrued liabilities		31		406 562	570 253
		Total		<b>10 601 414</b>	<b>11 585 890</b>
		<b>TOTAL LIABILITIES</b>		<b>27 617 502</b>	<b>26 778 922</b>
<b>TOTAL EQUITY AND LIABILITIES</b>				<b>39 599 972</b>	<b>41 026 257</b>

The accompanying notes on pages 14-39 are an integral part of these consolidated financial statements.

Saldus, April 29, 2020

Board:

Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

Inga Siliņa  
Chief accountant

## Consolidated Statement of Cash Flows

	2019	2018
	EUR	EUR
<b>I. Cash flows from operating activities</b>		
<b>Profit or loss before tax</b>	<b>(1 701 757)</b>	<b>5 786 360</b>
Adjustments for:		
Depreciation of property plant and equipment and intangible assets	2 201 110	2 012 824
Gain / loss on disposal or sale of fixed / biological assets	103 278	(52)
Revaluation of biological assets	57 508	95 114
Gains or losses on foreign currency exchange rate fluctuations	83 676	(290 309)
Income from recognition of financing	(267 455)	(245 509)
Interest and similar costs	467 333	323 184
<b>Operating cash flows before working capital changes</b>	<b>943 693</b>	<b>7 681 612</b>
Adjustments for:		
Increase / decrease in trade and other receivables	(548 454)	(4 076 660)
Increase / decrease in inventories	3 121 244	(3 558 157)
Increase / decrease in trade and other payables	117 302	1 709 154
<b>Cash generated from operations</b>	<b>3 633 785</b>	<b>1 755 949</b>
Interest paid	(392 981)	(323 559)
Corporate income tax paid	(5 117)	(6 856)
<b>Net cash generated from operating activities</b>	<b>3 235 687</b>	<b>1 425 534</b>
<b>II. Cash flows from investing activities</b>		
Income from sales of fixed assets, intangible assets, biological assets	80 979	35 601
Purchase of property, plant and equipment and intangible assets	(1 904 449)	(698 420)
<b>Net cash used in investing activities</b>	<b>(1 823 470)</b>	<b>(662 819)</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from borrowings	1 288 000	948 763
Proceeds from subsidies	334 500	589 457
Repayments of borrowings	(1 098 941)	(2 101 626)
Expenses for leasing of fixed assets	(167 660)	(166 518)
Lease principal amount payments	(1 333 534)	0
Lease interest payments	(75 964)	0
Dividends paid	(358 130)	(146 015)
<b>Net cash used in financing activities</b>	<b>(1 411 729)</b>	<b>(875 939)</b>
<b>IV. Foreign exchange rate fluctuations</b>	<b>0</b>	<b>0</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>488</b>	<b>(113 224)</b>
<b>VI. Cash and cash equivalents at the beginning of the year</b>	<b>3 231</b>	<b>116 455</b>
<b>VII. Cash and cash equivalents at the end of the year</b>	<b>3 719</b>	<b>3 231</b>

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

The accompanying notes on pages 14-39 are an integral part of these consolidated financial statements.

Saldus, April 29, 2020

Board:

Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

Inga Siliņa  
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
<b>Balance as at 31 December 2017</b>	<b>579 916</b>	<b>1 370 057</b>	<b>(314 323)</b>	<b>2 828</b>	<b>3 741 168</b>	<b>852 908</b>	<b>2 677 059</b>	<b>8 909 613</b>
Fluctuation of exchange rate	0	0	205 842	0	0	(551 483)	0	(345 641)
Distribution of profit of the year 2018	0	0	0	0	0	2 677 059	(2 677 059)	0
Revaluation reserve of non-current assets	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	5 683 363	5 683 363
<b>Balance as at 31 December 2018</b>	<b>579 916</b>	<b>1 370 057</b>	<b>(108 481)</b>	<b>2 828</b>	<b>3 741 168</b>	<b>2 978 484</b>	<b>5 683 363</b>	<b>14 247 335</b>
Fluctuation of exchange rate	0	0	195 420	0	0	(464 987)	0	(269 567)
Distribution of profit of the year 2019	0	0	0	0	0	5 683 363	(5 683 363)	0
Revaluation reserve of non-current assets	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	(1 995 298)	(1 995 298)
<b>Balance as at 31 December 2019</b>	<b>579 916</b>	<b>1 370 057</b>	<b>86 939</b>	<b>2 828</b>	<b>3 741 168</b>	<b>8 196 860</b>	<b>(1 995 298)</b>	<b>11 982 470</b>

The accompanying notes on pages 14-39 are an integral part of these consolidated financial statements.

Saldus, April 29, 2020

Board:

Gatis Zommers  
 Chairman of the Board

Jānis Mierkalns  
 Member of the Board

Ilze Bukulde  
 Member of the Board

Inga Siliņa  
 Chief accountant

## Notes to the Consolidated Financial Statements

### 1. General information about the Group

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

Joint stock company "PATA Saldus" (hereinafter - the Parent company) was registered with the Register of Enterprises of the Republic of Latvia on 26 August 1991 and with the Commercial Register of the Republic of Latvia on 8 May 2004. On 2 October 2015, the Joint Stock Company "Saldus mežrupniecība" has changed its name to Joint Stock Company "PATA Saldus", according to the decisions of Annual General Meeting of shareholders on 20 July 2015.

Parent company's shares are listed on the Nasdaq Riga Stock Exchange.

The Group's consolidated financial statements were authorized for issue in accordance with the decision of the Board and Council on 29 April 2019.

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

### 2. Basis of preparation and other significant accounting policies

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

#### **Accounting and valuation principles**

##### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

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

##### **Significant assumptions and judgements**

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

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

The Group carried out a revaluation of its owned lands and forest lands in April 2014 and concluded that their market value exceeds their book value at the time of revaluation.

##### **Consolidation**

The consolidated financial statements include the financial statements of the joint-stock company "PATA Saldus" and its subsidiaries SIA "PAKUĻU SPORTA BĀZE", ООО «Деревообрабатывающий комбинат № 3».

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

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

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

### **Consolidation of foreign subsidiary companies**

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

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

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

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

1) *New standards and interpretations:*

- IFRS 16 "Leases" (issued on 13 January 2016) (effective for annual periods beginning on or after 1 January 2019). IFRS 16 replaces IAS 17 Leases and its interpretations. This standard eliminates the current double-entry model for leases and instead requires most leases to be presented in the balance sheet under a single model and removes the distinction between leases and operating leases.

Under IFRS 16, a contract is a lease or includes a lease if it transfers, in return for consideration, the right to control the use of an identified asset over a specified period of time. The new lease model requires the lessee to recognize the right to use the asset and the lease as such. The right to use the asset is depreciated, while the liability is interest accrued.

- IFRS 16 offers lessees a number of limited exceptions, including:
  - leases with a term not exceeding 12 months and no purchase option, and
  - leases where the underlying asset is of low value.

The implementation of IFRS 16 did not affect the lessor's accounting and the distinction between operating and finance leases will be maintained for lessors.

#### *Transition to IFRS 16*

The Group applied IFRS 16 using the modified retrospective method with the original date of application of the standard on 1 January 2019. Under this method, a standard is applied retrospectively, taking into account the cumulative effect of the initial application of the standard recognized at the date of initial application.

The Group has used the standard's proposed exceptions for leases that expire within 12 months of the date of initial application and for leases that have a low value of the underlying asset. The Group has leased certain equipment, which is considered a low-value asset.

The Group has entered into lease agreements for the lease of various machinery, vehicles and other equipment. Prior to the adoption of IFRS 16, the Group classified each lease as a finance lease at the inception date as a finance lease or an operating lease.

In adopting IFRS 16, the Group applied a united recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets.

#### *Leases previously classified as finance leases*

The Group did not change the initial carrying amount of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases. From 1 January 2019, the requirements of IFRS 16 were applied to these leases.

#### *Leases previously accounted for as operating leases*

- a) The Group has recognized the right to use the assets and lease obligations for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets:
- b) recognized a lease liability at the date of initial application of the lease that was previously classified as an operating lease in application of IAS 17. The Group measured these lease liabilities at the present value of the lease payments, discounted at the interest rates specified in the leases at the date of initial application;
- c) recognized the right to use the asset lease at the date of initial application for a lease that was previously classified as an operating lease in application of IAS 17. The Group measured the right to use the asset on an individual lease basis for an amount equal to the lease liability, adjusted for the amount of prepayments or accrued lease payments related to that lease, recognized in the statement of financial position immediately before the date of initial application.

Based on the above, on January 1, 2019:

- the right to use assets in the amount of EUR 2,703,249 was recognized and presented separately in the statement of financial position;
- lease liabilities in the amount of EUR 2,703,249 were recognized and presented under "Other borrowings".
- IFRIC Interpretation 23 Uncertainty About Income Tax Regimes (issued on 7 June 2017) (effective for annual periods beginning on or after 1 January 2019).

2) *Amendments to standards:*

- Amendments to IFRS 9 "Financial Instruments" (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Amendments, Reductions or Settlements" (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017. for the annual cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).

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

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

1) *New standards and interpretations:*

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

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

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

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

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

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

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

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

1) *New standards and interpretations:*

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

2) *Amendments:*

- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) (effective for annual periods beginning on or after 1 January 2020).

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

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

### **Foreign currency translation**

#### *Functional and presentation currency*

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

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

#### *Transactions and balances*

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
1 RUB	0.0143	0.0125
1 SEK	0.0957	0.0975
1 USD	0.8902	0.8734

#### *Consolidated Group of companies*

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

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

### **Investments in associated companies**

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

### **Intangible assets**

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value. The intangible investments include the licences of software used in the Group, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Group. The licences of software which are used in the Group are accounted in their purchase value by deducting accumulated amortisation. Amortisation is calculated for the whole period of their effective time by applying a linear method. Expenditures related to the maintenance of the software are included as expenditures in the profit/loss statement.

### **Property, plant and equipment**

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

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

Depreciation is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	10-20 years
Equipment and machinery	2-15 years
Forest equipment	3-5 years
Timber processing lines	3-15 years
Other capital assets	2-10 years
Computing and data gathering devices, software	2-5 years

Depreciation is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of assets if their costs are significant to the initial cost of the corresponding capital asset depreciation is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is no longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value cannot be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount. Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Depreciation for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

In accordance with the accounting policies - land of forests are valued using the revaluation method. A plot shall be performed on a regular basis depending on changes in value. If the asset (the land of forests), the revalued value is not significantly different from its balance sheets value, they are revalued every five years by ordering evaluation to the certified forests assessor. In case of radical changes in the real estate market valuation may be ordered more frequently. Last evaluation is made on 29.04.2014

Records are prepared in accordance with IAS 16 requirements.

### **Biological assets**

The Group considers that forest stands should be classified as biological assets, that are valued according to State Forest Service data. Forest stands initially are recognised in their cost value, however after primary developments remaining part is recognised in its fair value. Fair value is determined by expressing net present value of biological asset as at 2018 by applying 8% discount rate. Average price for purchased felling site m3 in 2018 was calculated by taking into consideration cost of felling site m3 and costs associated to purchase it. Difference between carrying value and value set after revaluation is recognised as income or expenses depending whether value of asset is increased or decreased after revaluation. Result is disclosed in profit or loss statement under cost of goods sold. Biological assets that can't be developed within a year are disclosed in balance sheet under Fixed asset in separate position, that is called Biological assets. Biological assets that are predicted to be developed within a year are disclosed under Inventories in separate position, that is called Biological assets.

### **Impairment of non-financial assets**

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

### **Borrowing costs**

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

### **Lease**

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

*The Group is a lessee*

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

a) The right to use the asset

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

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

a) Lease obligations

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

*Accounting policy until 01.01.2019:*

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

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

### **Inventories**

*Unfinished products*

Inventories are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out, by accounting it in the direct purchase cost of materials and labour costs, plus production-related indirect costs, consisting of wages, electricity, depreciation and other production-related costs, calculated at normal production volumes. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

*Raw materials are accounted in their purchase costs.*

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

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

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

### **Financial instruments**

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

#### **Financial assets (accounting after 1 January 2019 under IFRS 9)**

*Initial recognition and measurement*

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

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

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

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

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

#### *Subsequent measurement*

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

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

#### **Financial assets at amortised cost (debt instruments)**

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

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

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

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

#### *Derecognition*

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

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

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

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

#### **Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the

Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

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

#### *Provision for expected credit losses of trade receivables and contract assets*

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

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

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

### **Financial liabilities (accounting after 1 January 2019 under IFRS 9)**

#### *Initial recognition and measurement*

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

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

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

#### *Subsequent measurement*

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

#### **Loans and borrowings**

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

This category refers mainly to interest-bearing loans.

#### **Trade and other payables**

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

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

#### *Derecognition*

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

#### **Offsetting of financial instruments**

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

### **Cash and cash equivalents**

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

### **Share capital**

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

### **Provisions**

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

### **Revenue recognition**

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

#### *Rendering of services*

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

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

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

#### *Sale of goods*

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

#### *Interest*

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

#### *Dividends*

Incomes are recognized when shareholders have rights to receive them.

#### *Income from lease*

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

### **Taxes**

#### *Corporate income tax*

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

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

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

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

#### *Deferred tax*

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

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

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

#### **Contingencies**

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

#### **Employee benefits**

Parent company and its subsidiaries pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments that are included in expenses of the period when incurred.

#### **Support from national and EU institutions**

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

#### **Related parties**

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

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

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

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

### **Earnings or loss per share**

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

### **Subsequent events**

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

### **Financial risk management**

#### **Financial risk factor**

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

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

#### **Financial risks**

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

#### **Credit risk**

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

#### **Trade receivables**

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

The Group manages its credit risk by careful evaluation and regular monitoring of its business partners, by continuously assessing the credit history of customers and assigning credit terms on an individual basis, as well as by applying prepayment conditions for the real estate rental services. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. In determining the recoverability of a trade receivable, the management considers all available information of the trade receivable from the date credit was initially granted up to the reporting date.

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

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

The following is information on credit risk related to trade receivables using the accrual matrix:

December 31, 2019	TOTAL	The deadline is overdue				
		Not overdue	< 30 days	31-60 days	61-90 days	> 90 days
Expected credit loss rates		0.07%	0.27%	0.43%	0.91%	15.67%
Gross carrying amount	<b>10 631 490</b>	1 434 188	3 369 119	3 109 711	2 581 326	137 146
Expected credit losses	<b>73 572</b>	1 099	9 876	14 362	25 445	22 790

### **Foreign currency risk**

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

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

### **Interest rate risk**

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

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

The management of the Group think that the financial assets and liabilities of the Group on December 31, 2018 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

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

### **Liquidity risk**

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

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

### **Capital management**

Main objective of the Group from capital risk management perspective is to ensure that the Group complies with going concern assumption, by providing positive returns to shareholders, benefits to other stakeholders as well as to maintain optimal capital structure, thereby reducing the cost of capital. In order to determine the optimal capital structure, the Group's management may decide on payment of dividends, return on equity indices or issue of equity.

### **Fair value estimation**

#### **Fair value**

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

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

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

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

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

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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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	5 471 000	11 221 238	48 424 981	55 169 271	2 883 774	2 692 744	624 763	70 395	57 404 518	69 153 648
Production costs of the sold production	(5 847 359)	(10 915 088)	(48 330 090)	(48 886 194)	(2 868 814)	(2 695 651)	(1 225 943)	(241 094)	(58 272 206)	(62 738 027)
Selling costs	0	(765)	0	(14 008)	0	0	(50)	(5 802)	(50)	(20 575)
General administration costs	(8 133)	(13 046)	(46 538)	(36 694)	0	0	(316 884)	(373 236)	(371 555)	(422 976)
Other income/expenditures from Group's economic activity	(107 963)	78 079	38 711	6 007	(8 431)	(16 000)	33 559	69 388	(44 124)	137 474
<b>Profit or loss from economic activity</b>	<b>(492 455)</b>	<b>370 418</b>	<b>87 064</b>	<b>6 238 382</b>	<b>6 529</b>	<b>(18 907)</b>	<b>(884 555)</b>	<b>(480 349)</b>	<b>(1 283 417)</b>	<b>6 109 544</b>
Other interest income/payments and the like income	(3 930)	(8 034)	(118 735)	(108 639)	0	361	(269 660)	(206 872)	(392 325)	(323 184)
Company's deferred income tax	0	0	0	0	0	0	(288 424)	(96 141)	(282 424)	(96 141)
Corporate income tax	0	0	0	0	0	0	(5 117)	(6 856)	(5 117)	(6 856)
Income from segments activities	(387 234)	(390 914)	(737 735)	(885 786)	0	0	1 124 969	1 276 700	0	0
<b>Profit or (loss)</b>	<b>(883 619)</b>	<b>(28 530)</b>	<b>(769 406)</b>	<b>5 243 957</b>	<b>6 529</b>	<b>(18 546)</b>	<b>(322 787)</b>	<b>486 482</b>	<b>(1 969 283)</b>	<b>5 683 363</b>
Segment assets	3 577 110	6 657 138	31 661 760	32 729 852	1 885 501	1 597 504	408 489	41 763	37 532 861	41 026 257
Segment liabilities	3 766 257	7 137 700	31 129 190	31 968 132	1 847 790	1 762 766	789 624	157 659	37 532 861	41 026 257

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

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

Segment descriptions:

*Logging*

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

*Timber processing*

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

*Transport*

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

*Other*

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

#### 4. Revenue

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

	0,702804	2019 EUR	2018 EUR
<b><i>Revenues by region</i></b>			
Revenue from sale of goods /rendering of services in Latvia		57 387 266	69 113 412
Revenue from sale of goods /rendering of services in Lithuania		0	32 682
Revenue from sale of goods /rendering of services in Russia		17 252	7 554
		<b>57 404 518</b>	<b>69 153 648</b>

#### 5. Cost of sales

	2019 EUR	2018 EUR
Material purchasing costs	1 648 498	976 170
Felling rights	2 028 451	6 919 069
Sawlogs purchasing costs	37 655 790	39 413 618
Correction for inventory from unfinished production	222 636	167 602
With production-related contractors services	2 414 768	2 415 564
Woodworking equipment maintenance costs	703 645	711 129
Woodworking and forestry equipment maintenance costs	912 894	935 310
Fuel costs	1 179 690	1 240 361
Revaluation of biological assets	247 143	(597 414)
Electricity and heating costs	2 228 075	1 988 686
Wages	3 945 692	4 018 485
State mandatory social security contributions	1 065 068	1 034 807
Accruals for unused vacations	382 245	445 583
Depreciation of plant and equipment and intangible assets	2 101 943	1 934 082
Depreciation of the right to use assets	854 078	0
Real estate tax	20 998	20 557
Lease payments for wood processing, forestry machinery and equipment	207 624	726 544
Other services received	410 783	387 874
	<b>58 230 024</b>	<b>62 738 027</b>

**6. Distribution costs**

	<b>2019</b>	<b>2018</b>
	EUR	EUR
Advertisement, market research and marketing costs	50	6 567
Costs for transportation of goods	0	14 008
Other production costs	0	0
	<b>50</b>	<b>20 575</b>

**7. Administration expenses**

	<b>2019</b>	<b>2018</b>
	EUR	EUR
Wages	87 213	121 420
State mandatory social security contributions	22 690	32 034
Accruals for unused vacations	7 997	9 730
Office maintenance costs	45 702	33 944
Bank services	40 650	65 911
Depreciation of plant and equipment and intangible assets	50 173	51 768
Real estate tax	10 176	2 157
Audit costs for annual report	9 950	8 800
Vehicle costs for administration	8 167	14 771
Other administration costs	75 527	70 916
Legal services	13 310	11 525
	<b>371 555</b>	<b>422 976</b>

**8. Other operating income / expense**

**Other operating income**

	<b>2019</b>	<b>2018</b>
	EUR	EUR
Income from disposal of intangible assets and fixed assets	13 614	35 601
Intangible assets and fixed assets carrying value when disposed	0	(52)
Income from rents	85 993	86 272
Deferred revenue write-downs	267 455	245 506
Co – financing form Rural Support Service and EU structural funds	35 317	37 611
Net income from currency exchange rate fluctuations	177 560	96 903
Write-off of creditor debt	0	554 344
Other income	537 524	444 310
	<b>1 117 463</b>	<b>1 500 495</b>

Object of long-term investment	Net carrying amount at the time of exclusion	Proceeds from disposal	Disposal expenses	Gross income or expenses	Gain or loss on disposal of an item
Nr. 1	96	100	(96)	4	4
Nr. 2	0	420	0	420	420
Nr. 3	0	700	0	700	700
Nr.4	0	1 500	0	1 500	1 500

Nr.5	0	1 500	0	1 500	1 500
Nr.6	0	1 500	0	1 500	1 500
Nr. 7	0	5 372	0	5 372	5 372
Nr. 8	0	1 322	0	1 322	1 322
Nr. 9	0	1 200	0	1 200	1 200
<b>Kopā</b>	<b>96</b>	<b>13 614</b>	<b>(96)</b>	<b>13 518</b>	<b>13 518</b>

#### Other operating expense

	2019	2018
	EUR	EUR
Write-offs of receivables and impairment loss on trade receivables	0	374 840
Rent on real estate	4 183	4 645
Inventory expenses	15 771	15 322
Net loss from currency exchange rate fluctuations	137 730	252 359
Security service costs	132 950	83 450
Utilities and maintenance costs	156 313	158 856
Insurance payments	40 646	39 053
Employee training expenses	16 297	18 265
Labour protection, work clothes	58 342	59 588
Health Insurance	57 818	51 921
Penalties paid	20 153	19 188
Provisions for doubtful debts	27 671	0
Costs of fixed assets disposal	103 278	0
Staff sustainability costs	12 577	54 754
Donations	1 000	6 000
Impairment losses from investments in associates/related companies	52 410	0
Other costs	324 448	224 780
	<b>1 161 587</b>	<b>1 363 021</b>

#### 9. Finance income / expenses

	2019	2018
	EUR	EUR
Other interest income	119	0
	<b>119</b>	<b>0</b>
Interest expense	392 444	323 184
Interest expense on lease obligations	68 197	
	<b>460 641</b>	<b>323 184</b>

#### 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

	2019	2018
	EUR	EUR
Corporate income tax according to the tax return	5 117	6 856
Change in deferred tax	288 424	96 141
	<b>293 541</b>	<b>102 997</b>

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

	2019 EUR	2018 EUR
At 1 January	288 424	384 565
(Decrease) / increase in the reporting year	(288 424)	(96 141)
	<b>0</b>	<b>288 424</b>

## 11. Intangible assets

Software

	EUR	Total
<b>Cost at 31.12.2018</b>	<b>82 183</b>	<b>82 183</b>
2019 Additions	31 307	31 307
2019 Disposals	(754)	(754)
2019 Impairment	8 296	8 296
<b>Cost at 31.12.2019</b>	<b>121 032</b>	<b>121 032</b>
<b>Accumulated amortisation at 31.12.2018</b>	<b>(64 319)</b>	<b>(64 319)</b>
2019 Amortisation charge	(22 209)	(22 209)
2019 Disposals	493	493
2019 Impairment		
<b>Accumulated amortisation at 31.12.2019</b>	<b>(86 035)</b>	<b>(86 035)</b>
<b>Net book amount at 31.12.2018</b>	<b>17 864</b>	<b>17 864</b>
<b>Net book amount at 31.12.2019</b>	<b>34 997</b>	<b>34 997</b>
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
<b>Cost at 31.12.2018</b>	<b>10 053 261</b>	<b>24 490 933</b>	<b>335 501</b>	<b>857 617</b>	<b>35 737 312</b>
2019 Additions	115 328	110 348	47 351	1 453 730	1 726 757
2019 Disposals	(453 734)	(504 819)	(16 726)	0	(975 279)
2019 Reclassification between other asset items	42 862	1 455 703	0	(1 811 604)	(313 039)
2019 Impairment	38 901	3 344	0	(13 922)	28 323
<b>Cost at 31.12.2019</b>	<b>9 796 618</b>	<b>25 555 509</b>	<b>366 126</b>	<b>485 821</b>	<b>36 204 074</b>
<b>Accumulated depreciation at 31.12.2018</b>	<b>3 648 372</b>	<b>11 901 605</b>	<b>250 564</b>	<b>0</b>	<b>15 800 541</b>
2019 Depreciation charge	428 067	1 520 576	48 443	0	1 997 086

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Disposals	(344 605)	(495 905)	(16 306)	(112 225)	(969 041)
<b>Accumulated depreciation at 31.12.2019</b>	<b>3 731 835</b>	<b>12 926 276</b>	<b>282 701</b>	<b>0</b>	<b>16 940 811</b>
<b>Net book amount at 31.12.2018</b>	<b>6 404 233</b>	<b>12 589 984</b>	<b>84 937</b>	<b>857 617</b>	<b>19 936 771</b>
<b>Net book amount at 31.12.2019</b>	<b>6 064 783</b>	<b>12 629 233</b>	<b>83 425</b>	<b>373 596</b>	<b>19 151 037</b>

Depreciation rate (by linear method)

5-20 years	2-15 years	2-10 years
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**Cadastral value of fixed assets**

Cadastral value of land and buildings at December 31, 2019 is EUR 1 502 829.

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

	Revaluation reserve 31.12.2018	Reduction correction of evaluation reserve	Revaluation reserve 31.12.2019
	EUR	EUR	EUR
Real Estate:			
a) Land and buildings	1 370 057	0	1 370 057
<b>TOTAL</b>	<b>1 370 057</b>	<b>0</b>	<b>1 370 057</b>

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

	31.12.2019 EUR	31.12.2018 EUR
Initial Value	1 852 471	1 852 471
<b>Residual value</b>	<b>1 852 471</b>	<b>1 852 471</b>

**13. Investment in associated companies**

Name	Address	Interest		Equity		Profit or loss	
		31.12.2018 %	31.12.2019 %	31.12.2018 EUR	31.12.2019 EUR	2018 EUR	2019 EUR
SIA SALDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	19.54	80 477	0	156 932	0

Participation in other Companies

Name	Address	Interest	
		31.12.2018 %	31.12.2019 %
SIA SALDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	19.54

**14. Inventories**

	31.12.2019 EUR	31.12.2018 EUR
<b>Raw materials, basic materials and consumables</b>		

Joint-stock company "PATA Saldus" and its subsidiaries

Address: Kuldīgas street 86c, Saldus, LV-3801,

Saldus District., Republic of Latvia

Registration number: 40003020121

Consolidated financial statements

for the year ended 31 December 2019

(Audited)

Materials, spare parts, inventory	340 892	238 914
Raw material (logs in the forest and sawmill)	1 678 791	4 294 263
<b>Total</b>	<b>2 019 683</b>	<b>4 533 177</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Biological assets</b>		
Biological assets	1 319 691	1 562 576
<b>Total</b>	<b>1 319 691</b>	<b>1 562 576</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Unfinished production</b>		
Unfinished products (logs in the forest and sawmill)	170 189	94 061
Sawn timber in production	1 013 969	1 293 610
<b>Total</b>	<b>1 184 158</b>	<b>1 387 671</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Finished production and goods for sale</b>		
Finished goods - sawn timber	1 873 796	1 630 663
<b>Total</b>	<b>1 873 796</b>	<b>1 630 663</b>

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Advance payments for goods</b>		
Advance payments for goods	18 052	486 756
<b>Total</b>	<b>18 052</b>	<b>486 756</b>

**15. Trade receivables**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
Trade receivables at their carrying amount	870 650	451 404
Provision for expected credit losses	(5 975)	(26 518)
	<b>864 675</b>	<b>424 886</b>

Movements in the provision for expected credit losses

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
Provision for expected credit losses at the beginning of the reporting year	26 518	51 135
Increase / (decrease) in the provision for expected credit losses	(20 543)	-24 617
	<b>5 975</b>	<b>26 518</b>

**16. Receivables from related companies**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Current</b>		
Receivables from related companies for supply of goods and services	9 832 953	8 931 620

provided		
Provisions for bad and doubtful debts	67 597	0
	<b>9 765 356</b>	<b>8 931 620</b>

Provisions for bad and doubtful debts	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Current</b>		
Provisions for bad and doubtful debts at the beginning of the year	0	51 135
Provisions for bad and doubtful debts	67 597	(24 617)
	<b>67 597</b>	<b>26 518</b>

#### 17. Receivables from associated companies

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
<b>Current</b>		
Receivables from associated companies for supply of goods and services provided	0	451 228
	<b>0</b>	<b>451 228</b>

#### 18. Other receivables

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
VAT overpayment	101 410	257 145
Paid guarantee fees	4 668	4 668
Other receivables	2 272	2 952
	<b>108 350</b>	<b>264 765</b>

#### 19. Prepaid expenses

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
Insurance payments	16 638	17 977
Subscription fees	38	427
Employee health insurance payments	8 344	8 962
1st. lease instalment	130 145	157 024
Other expenses	58 183	145 993
	<b>213 349</b>	<b>330 383</b>

#### 20. Cash and cash equivalents

	<b>31.12.2019</b>	<b>31.12.2018</b>
	EUR	EUR
Cash at bank	3 719	3 231
	<b>3 719</b>	<b>3 231</b>

## 21. Share capital

The Parent company of the Group is a joint-stock company. The Parent company has a share capital of EUR 579 916. On December 18, 2019, the Register of Enterprises of the Republic of Latvia registered changes in the Statutes, which stipulate that the share capital shall be divided into 828 452 shares. The nominal value of each share is EUR 0.70 (zero euro 70 cents). 774 272 shares are public bearer shares and are in dematerialized form, while 54 180 shares are employees, registered shares.

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

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

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

## 22. Loans from credit institutions

	31.12.2019	31.12.2018
	EUR	EUR
<b>Non-current</b>		
Luminor Bank AS (2013-104-OD)	9 352.964	7 729 906
Luminor Bank AS (2010-139-OD)	0	46 759
Luminor Bank AS (2012-85-A)	86 504	173 009
Luminor Bank AS (2012-84-A)	292 397	584 793
Luminor Bank AS (2006/202/A)	4 876	63 386
Luminor Bank AS (2014-169-A)	109 638	512 479
Luminor Bank AS (2017-42-A-CFLA)	850 989	1 187 685
Luminor Bank AS (196K/18T-CFLA)	957 375	212 000
	<b>11 654 743</b>	<b>10 510 016</b>
<b>Current</b>		
Luminor Bank AS (2010-139-OD)	25 658	275 269
Luminor Bank AS (2011-150-OD)	0	706 635
Luminor Bank AS (2012-85-A)	86 504	86 504
Luminor Bank AS (2012-84-A)	292 397	292 397
Luminor Bank AS (2006/202/A)	58 510	58 510
Luminor Bank AS (2014-169-A)	480 000	480 000
Luminor Bank AS (2017-42-A-CFLA)	336 696	336 696
Luminor Bank AS (196K/18T-CFLA)	166 500	0
	<b>1 446 265</b>	<b>2 236 011</b>

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

	31.12.2019	31.12.2018
	EUR	EUR
<b>Non-current</b>		
Other loans	861 574	921 321
JSC Attīstības finanšu institūcija Altum*	1 165 059	1 588 739
Obligations under finance leases	97 888	179 200
	<b>2 124 521</b>	<b>2 689 260</b>
<b>Current</b>		
Obligations under the factoring agreements	0	904 261
JSC Attīstības finanšu institūcija Altum*	317 760	
Obligations under finance leases	166 284	153 883
	<b>484 044</b>	<b>1 058 144</b>

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.

### Lease obligations

The Group has lease agreements for various equipment, machinery, vehicles used in its operations. The lease term of equipment and machinery is usually from 3 to 6 years, while the lease term for vehicles and other equipment is usually from 3 to 5 years.

Carrying amount of lease liabilities and changes during the reporting period: - dati tikai par operatīvo līzingu - pievienot arī finanšu līzingu!

	Kopā
	EUR
<b>On 01.01.2019.</b>	<b>2 703 249</b>
Added	621 432
Interest calculated	75 964
Payments	(1 307 519)
<b>On 31.12.2019.</b>	<b>2 093 126</b>

### 24. Prepayments received from customers

	31.12.2019	31.12.2018
	EUR	EUR
<b>Current</b>		
Payables for supplies of goods and services provided	37 410	409
	<b>37 410</b>	<b>409</b>

### 25. Trade payables

	31.12.2019	31.12.2018
	EUR	EUR
<b>Current</b>		
Payables for supplies of goods and services provided	5 821 236	6 327 260
	<b>5 821 236</b>	<b>6 327 260</b>

**26. Payables to related companies**

	31.12.2019	31.12.2018
<b>Current</b>	EUR	EUR
Payables for supplies of goods and services provided	789 005	0
	<b>789 005</b>	<b>0</b>

**27. Payables to associated companies**

	31.12.2019	31.12.2018
<b>Current</b>	EUR	EUR
Payables for supplies of goods and services provided	0	621 352
	<b>0</b>	<b>621 352</b>

**28. Taxes and statutory social insurance contributions**

	31.12.2019	31.12.2018
	EUR	EUR
Personal income tax	107 329	112 749
Statutory social insurance contributions	105 897	127 454
Real estate tax	438	0
Corporate income tax	5 117	6 856
Nature resource tax	1 269	1 203
Business risk state duty	0	0
Other taxes	5 798	1 990
	<b>225 848</b>	<b>250 252</b>

**29. Other payables**

	31.12.2019	31.12.2018
	EUR	EUR
Salaries	208 898	256 784
Other payables	3 163	3 545
	<b>212 061</b>	<b>260 329</b>

**30. Deferred income**

	31.12.2019	31.12.2018
<b>Non-current</b>	EUR	EUR
EU co-financing for acquisition of assets - long-term part	2 038 501	1 993 756
	<b>2 038 501</b>	<b>1 993 756</b>
<b>Current</b>		
EU co-financing for acquisition of assets - short-term part	284 180	261 880
	<b>284 180</b>	<b>261 880</b>

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

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

### 31. Accrued liabilities

	31.12.2019	31.12.2018
	EUR	EUR
Accrued liabilities	61 401	111 197
Accrued liabilities – unused annual leaves	345 161	459 056
	<b>406 562</b>	<b>570 253</b>

### 32. Basic and diluted earnings per share

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

	2019	2018
	EUR	EUR
Net earnings attributable to owners of the Parent company	(1 995 298)	5 683 363
Weighted average number of ordinary shares in issue	828 452	448 745
	<b>(2.41)</b>	<b>12.67</b>

### 33. Remuneration to commercial company of sworn auditors

	2019	2018
	EUR	EUR
Audit of financial statements and consolidated financial statements	9 950	8 800
	<b>9 950</b>	<b>8 800</b>

### 34. Average number of employees in the Group

Average number of employees during the reporting year - 239 (2018 - 241).

### 35. Compensation of key management personnel

	2019	2018
	EUR	EUR
Salary of the Chairman of the Board	2 063	18 629
Statutory social insurance contributions of the Chairman of the Board	497	4 488
	<b>2 560</b>	<b>23 117</b>

### 36. Expenditures due to the environment protection

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

### 37. Related party transactions

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

In 2019, 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.

	31.12.2019		31.12.2018	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
<b>Related companies</b>				
Parent company	8 976 351	0	8 931 620	0
Subsidiaries	5 355	0	2 564	0
	<b>8 981 706</b>	<b>0</b>	<b>8 934 184</b>	<b>0</b>
<b>Other related parties</b>				
Associated companies	0	0	451 228	621 352
Board and Council members	0	588 333	0	588 333
	<b>0</b>	<b>588 333</b>	<b>451 228</b>	<b>1 209 685</b>
	<b>8 981 706</b>	<b>588 333</b>	<b>9 385 412</b>	<b>1 209 685</b>

	Sales to related parties		Purchase from related parties	
	2019 EUR	2018 EUR	2019 EUR	2018 EUR
Goods and services for sale	50 951 304	64 502 078	11 129 827	18 721 343
	<b>50 951 304</b>	<b>64 502 078</b>	<b>11 129 827</b>	<b>18 721 343</b>
<b>Other related parties</b>				
Goods and services for sale	0	0	1 043 807	966 105
	<b>0</b>	<b>0</b>	<b>1 043 807</b>	<b>966 105</b>
	<b>50 951 304</b>	<b>64 502 078</b>	<b>12 173 634</b>	<b>19 687 448</b>

### 38. Going concern concept

The Group has finished the financial year, which was closed on 31 December 2019, with loss of EUR 1 969 283. As of this date, Group's current assets exceeded current liabilities by EUR 7 664 218, and total assets exceeded total liabilities by EUR 12 008 485.

Financial results of 2019 are in accordance with going concern assumption, as well as a going concern is dependent of financial results in next periods.

### 39. 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 2019.

Following the end of the financial year, in March 2020, the Republic of Latvia and many other countries have entered into force restrictions related to the spread of coronavirus, which significantly reduces economic development in the country and in the world. It is not foreseeable how the situation is likely to develop in the future, hence the uncertainty of economic development remains. The Group management shall continuously assess the situation. Currently, the Group is reviewing its revenue and expenditure structure, effectively improving the Group's activity on the decline in demand for logging, both by service and by output, re-evaluating investment projects launched, as well as shifting to other outlet markets in the production of sawn wood. The Group's management considers that the Group will be able to overcome the emergency by means of the following compensatory measures, in agreement with creditors on the extension of due dates or the granting of preferential terms, with customers, by agreeing on shorter payment terms for the goods delivered. However, this conclusion is based on information available at the time of the signing of this financial statement and the impact of future events on the activities of the Group may differ from the management assessment in the future. The Group's board recommends covering the losses for the reporting year from the profits of previous periods.

Saldus, April 29, 2020

Board:

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Gatis Zommers  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Ilze Bukulde  
Member of the Board

Inga Siliņa  
Chief accountant

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

Consolidated financial statements  
for the year ended 31 December 2019  
(Audited)

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## **Independent Auditor's Report**