

JOINT STOCK COMPANY "PATA SALDUS"

ANNUAL REPORT

for the 12 months period started on 1 January 2019 and ended 31 December 2019

Saldus, 2020

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The Annual Report is prepared as a unitary document and includes the Report of the Management, the Financial Statements and the Independent Auditor's Report.

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INFORMATION ABOUT THE COMPANY

Name of the company	Joint Stock Company "PATA Saldus"		
Legal status of the company	Joint Stock Company		
Number, place and date of registration	Commercial register No 40003020121 August 26, 1991, Riga		
Address	Kuldīgas iela 86C, Saldus novads Saldus, LV-3801 Latvia		
Type of operations	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 - sawmilling and planing of wood		
Members of the Board	Andris Krastiņš - Chairman of the board (till February 21, 2019) Gatis Zommers - Chairman of the board (since February 21, 2019) Jānis Mierkalns - member of the board Ilze Bukulde - member of the board Gatis Zommers - member of the board (till February 21, 2019) Arvis Tone - member of the board (since February 21, 2019 till June 04, 2019)		
Members of the Council	Uldis Mierkalns - Chairman of the Council Jānis Bertrāns - Deputy Chairman of the Council Inga Mierkalna - member of the Council Ieva Sniedze - member of the Council (till August 13, 2019) Inga Jākobsone - member of the Council (since August 13, 2019)		
Shareholder who owns 5% and more shares of total shares with voting rights	Saldus MRU SIA	44,38%	343 666 shares
	Kubit SIA	27,82%	215 394 shares
	PATA SIA	22,93%	177 516 shares
Subsidiary enterprise			
1. Name of the company	PAKULI SPORTS PREMISES (PAKUĻU SPORTA BĀZE) (100%)		
Legal status of the company	Limited Liability Company		
Registration number, date, place	48503009010, November 21, 2002		
Address	"Mežvidi", Novadnieku pag., Saldus novads, LV-3801		
The main areas of activities of the company	Other sports activities		
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%		
Reporting year	January 1 – December 31, 2019		
2. Name of the company	Woodworking Centre No.3 (Деревообрабатывающий комбинат № 3) (100%)		
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)		
Registration number, date, place	1066027046337 October 9, 2006		
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А		
The main areas of activities of the company	Woodworking, production of board lumber		
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%		
Reporting year	January 1 – December 31, 2019		

JOINT STOCK COMPANY "PATA SILDUS"
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Associated enterprise till 05.08.2019

1. Name of the company	SILDUS ENERGY (<i>SILDUS ENERĢIJA</i>) (20% till 05.08.2019, 19,54% since 05.08.2019)
Legal status of the company	Limited Liability Company
Registration number, date, place	40103265702, December 22, 2009

Address	Cesu street (Cēsu iela) 14, Riga (Rīga), LV-1012
The main areas of activities of the company	Production of electricity, activities of holding companies
Owner of the company	PATA Saldus (PATA Saldus), JSC – 20% till 05.08.2019, 19,54% since 05.08.2019
Reporting year	January 1-December 31, 2019

Parent company

1. Name of the company	PATA (PATA) (67%)
Legal status of the company	Limited Liability Company
Registration number, date, place	40003448619, June 10, 1999

Address	Miera iela 2 (Miera iela 2), Incukalns (Inčukalns), LV-1004
The main areas of activities of the company	Wholesale of wood, silviculture and other forestry activities.

Owner of the company	Uldis Mierkalns (Uldis Mierkalns) – 100%
Reporting year	January 1 – December 31, 2019

Financial year	1 January, 2019 - 31 December, 2019
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Name and address of the Auditor	Nexia Audit Advice LLC Certified Auditor's Licence No. 134 Number of registration No. 40003858822 Grecinieku iela 9-3 (Grēcinieku iela 9-3) Riga (Rīga), LV-1004 Latvia Certified Auditor Svetlana Šemele-Baikova LZRA Certificate No. 212
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According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12/21838 from 21.02.2019 JSC PATA Saldus has recorded the following changes in the Board:

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

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

Type of operations

Principal activities of the Company 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 JSC PATA Saldus 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 Company shall regularly take the appropriate monitoring and improvement measures, but the proportion of these costs in the cost of production is not relevant.

Performance of the Company during the financial year

JSC PATA Saldus loss from operating activities in 2019 was EUR 1 865 259 with a net turnover of EUR 57 387 266, which represents losses per weighted average share issued of 2.25 EUR.

The Company'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 Company 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 Company'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 Company and consolidated group. The report contains true information.

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

The analysis of the Company's financial statements shows, that statement of financial position total is EUR 38 569 876. Non-current assets comprise 55% of the statement of financial position total, of which 92% (EUR 19 596 570) comprise of property, plant and equipment. Equity comprises 35% (EUR 13 432 590) of the statement of financial position total. Non-current liabilities comprise 41% (EUR 15 784 524) of the statement of financial position total, while current liabilities comprise 24% (EUR 9 352 762).

The analysis of the Company's statement of comprehensive income shows, that the revenue of the Company for 2019 is EUR 57 387 266, the cost of sales is EUR 58 258 074, so that the gross loss amount is EUR 870 808 and net loss amount is EUR 1 865 259.

Calculation of financial results

Items of the Company's statement of comprehensive income	2019 EUR	2018 EUR
Revenue	57 387 266	69 146 094
Gross profit/loss	(870 808)	6 410 212
Profit for the year/loss	(1 865 259)	5 300 866

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Items of the Company's statement of financial position	31.12.2019 EUR	31.12.2018 EUR
Current assets	17 255 582	19 868 229
Total assets	38 569 876	41 964 451
Equity	13 432 590	15 655 979
Current liabilities	9 352 762	11 148 428
Total liabilities	25 137 286	26 308 472

Company's financial ratios	2019	2018
Profitability analysis - profitability ratios analyse the effectiveness of the Company's management decisions to fulfil financial tasks.		
Gross margin (Gross profit / Revenue)	-1.52%	9.27%
<i>The gross margin ratio shows the ratio of sales to direct costs. The Company uses this indicator to calculate the extent to which changes in revenue affect gross profit.</i>		
Commercial profitability ratio (Profit for the year / Revenue)	-3.25%	7.67%
<i>The Company uses this ratio to determine the Company's ability to generate profits.</i>		
	2019	2018
Return on Equity (Profit for the year / Equity)	-13.89%	33.86%
<i>The return on equity shows how effectively the capital invested by the Company's owners is used. The Company 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)	-4.84%	12.63%
<i>The Company uses this ratio to calculate the return on total assets used by the Company for its economic activities.</i>		

	31.12.2019	31.12.2018
Capital structure analysis - capital structure indicators analyze the Company's capital structure and show how many additional liabilities the Company is able to assume.		
Financial Balance Rate (Total assets / Equity)	2.87	2.68
<i>The Company uses this ratio to determine the proportion of cash invested by the Company's owners in the Company's assets.</i>		
Liabilities to Equity (Total liabilities / Equity)	1.87	1.68
<i>The Company uses this ratio to determine to what extent the Company is dependent on borrowed capital.</i>		
Debt to assets ratio (Total liabilities / Total assets)	0.65	0.63
<i>The Company uses this ratio to determine the Company's long-term and short-term liabilities to total assets.</i>		

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

Current liquidity ratio (Current assets / Current liabilities)	1.84	1.78
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The Company uses this ratio to calculate the extent to which the Company's current assets are capable of covering short-term liabilities.

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

Investment programme

In 2019, the Company 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.

Environment protection

The core economic activity of the Company is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related 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 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 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 Company meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, 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 Company are loans, finance and operating leases, cash and cash equivalents. The purpose of these financial instruments is to provide the Company with necessary financial depth. The Company has also other financial instruments, such as trade receivables and payables, that are generated through operational activities. The main financial risks arising from use of financial instruments are interest, credit and liquidity risks. In order to reduce financial risks, the Company performs planning of budget and cash flows, with various scenarios applied. Management performs monitoring and control of commercial activities and actual flow of finances of the Company on regular basis. An additional guarantee for proper risk evaluation are credit institutions, that assess credit risk of the Company on regular basis by setting a customised credit rating for the entity.

The policy of financial risk management of the Company is described in the Annex 43.

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 Company management shall continuously assess the situation. Currently, the Company is reviewing its revenue and expenditure structure, effectively improving the Company company'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 Company's management considers that the Company 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 Company may differ from the management assessment in the future. In the period between the last day of the reporting year and the date when the Management Board signs the financial statements, there have been no other significant or extraordinary circumstances that would significantly affect the annual result and the financial position of the Company. The Board of the Company recommends to cover the losses of the reporting year from the profit of the previous periods.

Future prospects

In 2020, the Company 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 Company will continue to work on raising employee satisfaction and loyalty, which will improve the efficiency of work, increase productivity, increase customer satisfaction, thus leading to an improvement in the overall financial performance of the Company.

Report on corporate governance

The management of the Company shall be responsible for preparing the financial statements on the basis of the initial accounting records for each reporting period, which truly reflects the financial position of the company at the end of the reporting year, as well as the performance and cash flow for that period.

Management confirms that, when drawing up this report for the period ending on 31 December 2019, appropriate accounting methods were used, their application was consistent, reasonable and precautionary decisions have been taken. The management shall confirm that the relevant accounting principles of Latvia have been observed and that the financial statements have been drawn up in accordance with the principle of continuation of activity. Management shall be responsible for keeping adequate accounting records, for maintaining the funds of the company, and for preventing fraud and other unfair practices.

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:

Gatis Zommers
Chairman of the Board

Jānis Mierkalns
Member of the Board

Ilze Bukulde
Member of the Board

INCOME STATEMENT

	Notes	2019 EUR	2018 EUR
Revenue: from other core activities	(2)	57 387 266	69 146 094
Costs of goods sold or services provided	(3)	(58 258 074)	(62 735 882)
Gross profit or losses		(870 808)	6 410 212
Distribution expenses	(4)	(50)	(20 575)
Administrative expenses	(5)	(353 244)	(400 127)
Other operating income	(6)	952 533	849 248
Other operating expenses	(7)	(911 629)	(1 115 452)
Interest and similar income	(8)	2 799	2 565
incl.			
<i>a) from group companies</i>		<i>2 680</i>	<i>2 565</i>
<i>a) from other parties</i>		<i>119</i>	<i>0</i>
Interest and similar expenses	(9)	(391 369)	(322 058)
incl.			
<i>b) for other parties</i>		<i>(391 369)</i>	<i>(322 058)</i>
Profit or losses before corporate income tax		(1 571 768)	5 403 813
Corporate income tax for the financial year	(10)	(5 067)	(6 806)
Profit or losses after corporate income tax		(1 576 835)	5 397 007
Changes in deferred tax assets or liabilities	(10)	(288 424)	(96 141)
Profit or losses for the financial year		(1 865 259)	5 300 866
		<u>-2,25</u>	<u>11,81</u>

Notes on pages 14 to 29 are an integral part of these financial statements.

Gatis Zommers
Chairman of the board

Inga Silīņa
Chief Accountant

Jānis Mierkalns
board member
Ilze Bukulde
board member

Saldus, 29 April 2020

BALANCE SHEET

		31.12.2019. EUR	31.12.2018. EUR
	Notes		
<u>ASSETS</u>			
Non-current assets			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights	(11)	34 997	17 864
Total intangible assets:		34 997	17 864
Fixed assets, investment property and biological assets			
Immovable properties			
a) land plots, buildings and engineering structures	(12)	5 698 660	6 063 240
Fauna and flora:			
b) biological assets	(12)	710 194	767 702
Technological equipment and machinery	(12)	12 872 087	12 565 359
Other fixed assets	(12)	83 425	84 937
Fixed assets under development and construction in progress	(12)	232 204	590 078
Total fixed assets, investment property and biological assets:		19 596 570	20 071 316
Non-current financial investments:			
Investments in subsidiaries	(13)	956 739	1 009 149
Loans to related parties	(19)	717 448	700 929
Participation in capital of associates	(13)	0	8 540
Other securities and investments	(13)	8 540	0
Deferred tax assets	(10)	0	288 424
Total non-current financial investments:		1 682 727	2 007 042
Total non-current assets:		21 314 294	22 096 222
Current assets			
Inventories:			
Raw materials and consumables	(14)	1 951 591	4 436 973
Work in progress	(15)	1 184 158	1 387 671
Finished goods and goods for sale	(16)	1 829 479	1 591 771
Fauna and flora			
b) biological assets		1 319 691	1 562 576
Advances for inventories	(17)	18 052	486 756
Total inventories:		6 302 971	9 465 747
Accounts receivable:			
Trade receivables	(18)	863 344	424 660
Receivables from related parties	(19)	9 768 146	8 934 184
Receivables from associates	(20)	0	451 228
Other receivables	(21)	106 510	261 891
Deferred expenses	(22)	213 349	330 383
Total receivables:		10 951 349	10 402 346
Cash and bank:	(23)	1 262	136
Total current assets:		17 255 582	20 885 918
<u>Total assets</u>		<u>38 569 876</u>	<u>42 982 140</u>

Notes on pages 14 to 29 are an integral part of these financial statements.

BALANCE SHEET

		31.12.2019. EUR	31.12.2018. EUR
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(24)	579 916	579 916
Share premium		2 828	2 828
Non-current investments revaluation reserve	(12)	1 370 057	1 370 057
Reserves:			
f) other reserves	(25)	3 741 168	3 741 168
Retained earnings or uncovered losses brought forward from previous years	(26)	9 603 880	4 661 144
Current year profit or losses	(26)	(1 865 259)	5 300 866
Total equity:		13 432 590	15 655 979
Liabilities:			
Non-current liabilities:			
Loans from banks	(27)	11 654 743	10 510 016
Other borrowings	(28)	2 091 280	2 656 272
Deferred income	(34)	2 038 501	1 993 756
Total non-current liabilities:		15 784 524	15 160 044
Current liabilities:			
Loans from banks	(27)	1 446 265	2 236 011
Other borrowings	(28)	484 044	1 058 144
Advances from customers	(29)	37 410	409
Trade payables	(30)	5 473 385	5 892 088
Payables to group companies	(31)	789 005	0
Payables to associates	(37)	0	621 352
Taxes and state social insurance payments	(32)	220 000	248 212
Other creditors	(33)	211 911	260 079
Deferred income	(34)	284 180	261 880
Accrued liabilities	(35)	406 562	570 253
Total current liabilities:		9 352 762	11 148 428
Total liabilities:		25 137 286	26 308 472
<u>Total equity, provisions and liabilities</u>		<u>38 569 876</u>	<u>41 964 451</u>

Notes on pages 14 to 29 are an integral part of these financial statements.

Gatis Zommers
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 29 April 2020

Jānis Mierkalns
board member
Ilze Bukulde
board member

STATEMENT OF CHANGES IN EQUITY

	2019 EUR	2018 EUR
Notes		
Share capital		
Opening balance	579 916	579 916
Closing balance	<u>579 916</u>	<u>579 916</u>
Stock (share) premium account		
Opening balance	2 828	2 828
Closing balance	<u>2 828</u>	<u>2 828</u>
Non-current investment revaluation reserve		
Opening balance	1 370 057	1 370 057
Closing balance	<u>1 370 057</u>	<u>1 370 057</u>
Reserves		
Opening balance	3 741 168	3 741 168
Closing balance	<u>3 741 168</u>	<u>3 741 168</u>
Retained earnings		
Opening balance	9 962 010	4 807 159
Increase/decrease in retained earnings for the financial year	(2 223 389)	5 154 851
Closing balance	<u>7 738 621</u>	<u>9 962 010</u>
Equity		
Opening balance	15 655 979	10 501 128
Closing balance	<u><u>13 432 590</u></u>	<u><u>15 655 979</u></u>

Notes on pages 14 to 29 are an integral part of these financial statements.

Gatis Zommers
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 29 April 2020

Jānis Mierkalns
board member
Ilze Bukulde
board member

CASH FLOW STATEMENT

	2019 EUR	2018 EUR
Notes		
Cash flow from operating activities		
Profit or losses before corporate income tax	(1 571 768)	5 403 813
<u>Adjustments for:</u>		
depreciation and impairment of fixed assets	2 195 702	2 063 546
depreciation and impairment of intangible assets	0	15 730
gain or losses from fluctuations of foreign currency rates	(14 315)	28 831
interest and similar revenue	(2 790)	(2 565)
impairment adjustments for long-term and short-term financial investments	52 410	0
net gain or loss on sale or liquidation of long-term investments	103 278	0
impairment of non-current and current financial investments	(267 455)	(245 506)
interest and similar expenses	391 369	322 058
	886 431	7 585 907
Profit or loss prior to changes in current assets and current		
Increase or decrease of account receivable	(546 156)	(3 747 062)
Increase or decrease of inventory	3 162 776	(3 578 241)
Increase or decrease of account payables and other liabilities	(1 275 918)	1 511 764
	2 227 133	1 772 368
Gross cash flow generated from operating activities		
Interest payments	(392 981)	(322 433)
Corporate income tax payments	(5 067)	(6 806)
Net cash flow generated from operating activities	1 829 085	1 443 129
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(384 655)	(698 472)
Advance payments for fixed assets, costs of creation of fixed assets	(1 438 815)	0
Proceeds from sale of fixed and intangible assets	0	35 601
Loans issued	(2 261)	(18 665)
Net cash flow generated from investing activities	(1 825 731)	(681 536)
Cash flow from financing activities		
Loans received	1 288 000	948 762
Subsidies, grants, gifts or donations received	334 500	589 457
Repayment of loans	(1 718 993)	(2 150 686)
Changes in credit lines	620 055	0
Finance lease payments	(167 660)	(117 458)
Dividends paid	(358 130)	(146 015)
Net cash flow generated from financing activities	(2 228)	(875 940)
Net cash flow in the financial year	1 126	(114 347)
Cash and cash equivalents at the beginning of the financial year	(23) 136	114 483
Cash and cash equivalents at the end of the financial year	(23) 1 262	136

Notes on pages 14 to 29 are an integral part of these financial statements.

Gatis Zommers
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 29 April 2020

Jānis Mierkalns
board member
Ilze Bukulde
board member

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of accounting policies

General principles

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

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

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

General accounting principles

Financial statement items are valued according to the following accounting principles:

- a) it is assumed that the Company will continue its activities;
- b) unless specified separately, the same valuation methods are used as in the previous year;
- c) valuation is made with sufficient precaution, meaning that:
 - profit is recognized only if earned before the end of financial year;
 - all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
 - all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.
- d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment or day when invoice/receipt was issued. Expenses are reconciled with the revenues of the financial year.
- e) Sections related to Asset and Equity, Provision and Liability items are evaluated and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offset.
- f) Transactions in the financial statement are represented according to their economic substance and matter rather than according to their legal form.

Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia.

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2019.	31.12.2018.
	EUR	EUR
1 USD	0,8902	0,8734
1 RUB	0,0143	0,0125
1 SEK	0,0957	0,0975

Income recognition and revenue

Revenue contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:

Sales of goods - after significant ownership risk and rewards have been passed to the buyer;

Rendering of services - under the percentage of completion method;

Income from fines and penalties - at the moment when payment is received;

Interest income - on an accrual basis;

Dividends - at the moment of acquiring legal rights to receive them.

Intangible investments and fixed assets

Intangible investments and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements intangible and fixed assets are recognized at purchase cost or revalued amount less depreciation.

The difference arising from revaluation is recognized in equity under "Non-current investment revaluation reserve", however value reduction is written-off from value increase that was recognised in reserve during prior years. Surplus is included in income statement. In case of disposal or liquidation of fixed assets, the reserves are written-off to the Income statement in full amount.

Depreciation is calculated on a straight-line basis applying following rates of depreciation set by the management, which are based on the estimated useful life of fixed assets:

	Depreciation % per annum
Intangible assets	2-5
Buildings	10-20
Technological equipment	2-15
Other machinery and equipment, transport vehicles	2-10

The Company capitalizes its fixed assets valued over EUR 142 with useful life exceeding 1 year. 100% Depreciation is applied after commissioning for improvements and other low costs items with the value less than EUR 142 .

If sufficient evidence is acquired that the future economic benefit associated with subsequent repair or reconstruction costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. By capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they have incurred.

Net gains or losses from disposal of fixed assets is calculated as the difference between the carrying amount of fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal has incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, value of fixed or intangible asset is decreased to its recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell this asset or value in use.

Biological assets

The Company has decided, that forest stands should be considered as biological assets. Biological assets are accounted and evaluated in accordance with IAS 41 "Agriculture" requirements. 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 2019 by applying 8% discount rate. Average price for purchased felling site m3 in 2019 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.

Capitalization of borrowing and other costs

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during period with no active development of asset.

Research and development costs

Research costs are recognized in the income statement when incurred. Development costs that relate to development of asset intended for sale or own use, are capitalized and recognized as intangible assets and amortized on a straight-line basis starting from the beginning of commercial production of the respective product over the period when the return on this asset is expected.

Investments in subsidiaries, associates and other entities

Participation in capital of subsidiaries, associates and other entities, is recognized at their cost less impairment losses.

Inventories

Inventories are recognized at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses, that are directly related to production of particular item, are included in production cost of inventories. Selling expenses are not included in cost. Balance value of inventories is calculated by applying the FIFO method. If net realizable value of inventories is lower than its costs, then the difference is recognized as provisions for the decrease of value.

Accounts receivable

Trade receivables are recognized at invoiced amounts. After the initial recognition account receivables are measured at net amount less provisions for doubtful debts. Provisions for doubtful receivables are recognized when the management of the Company considers that it is probable that the total amount of receivables will not be collected in full.

Prepaid expenses and deferred income

Payments made before the balance sheet date, but relating to subsequent years, are shown under "Prepaid expenses". Payments received before the balance sheet date, but relating to the following year or subsequent years, are shown as deferred income.

Borrowings and loans

Loans and borrowings are initially recognized at their initial value, which is determined by adding to the fair value of the loan or borrowing amount the costs related to the receipt of the loan or deducting the costs related to the issue of the loan. Borrowings are recognized in the value of funds received, net of transaction costs incurred.

Subsequently, borrowings are stated at amortized costs using the actual interest method. Any difference between the original amount borrowed net of transaction costs and the redemption value is recognized gradually in the income statement during the loan use period or in accordance with accounting policy capitalized at the value of construction in progress.

Provisions, contingent liabilities and assets

Provisions are liabilities related to events from current or previous years and at the preparation of financial statements it is probable that an outflow of resources will be required to settle the obligations and their amounts can be reliably estimated. Provisions are valued at present value of expenditures expected to settle corresponding obligation.

Contingent liabilities are not recognized. These could be classified as liabilities only when a probability of resource outflow becomes sufficiently well-grounded. Similarly, contingent assets are not recognized until probability that the Company will gain economic benefits related to a transaction becomes virtually certain.

Accrued liabilities

Accrued liabilities recognize clearly known amounts of liabilities to suppliers and contractors for goods or services received during the reporting year for which for other reasons the corresponding source document (invoice) for payment has not yet been received at the balance sheet date.

Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying average salary day rate of employees for last six months of financial year with amount of accrued but unused annual leave days at the end of reporting year.

Grants and government assistance

Grants received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in income statement on straight-line basis over the useful life of acquired assets. Other grants and financial support to cover the expenses are recognized as an income in the period when the respective funding has been received and all material conditions in respect to the grants received has been fulfilled (when the grants are received).

Lease-to-buy (financial lease) - the Company is the lessee

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, they are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or present value of minimum lease payments. Lease interest payments are included in income statement when incurred.

Lease without redemption rights (operating lease) - the Company is the lessee

In cases when assets are leased under conditions without redemption rights, lease payments and prepayment for lease are included in income statement when they arise. Lease classification whether it is financial or operating lease, is determined by substance and essence of the lease, rather than just legal form of lease. Lease is classified as a financial lease also if lease term covers majority of leased asset's useful life. This applies even if the ownership rights are not transferred to lessee at the end of the lease term or in case if the asset is so specific, that without a substantial modification it could not be used by other parties.

a) Corporate income tax for the financial year

Corporate income tax for the financial year is included in financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax

In the context of the change in corporate tax regulations, the procedure for calculating corporate income tax has completely changed and the basis for calculating deferred tax assets has disappeared. In order to ensure compliance with the requirement of a true and fair view of the law, the impact of corporate income tax reform in the financial report is reflected by the company as follows:

- preparing an annual report for the reporting year in which it became known that in the next reporting year the new corporate income tax regulation as a result of the corporate income tax reform would continue to apply insofar as this would not be in conflict with the Company's annual report preparation rules and taking into account the new corporate income tax regulations the provisions for covering uncovered losses of previous years is gradually written off from the balance of deferred tax asset balances calculated on the basis of the provisions of the previous corporate income tax provisions for covering tax losses. The amounts of deferred tax assets excluded from the balance sheet are shown in the income statement line "Revenue or charges from changes in deferred tax assets or liabilities".

Share premium

If the new issued shares are sold at a value higher than their nominal value, the Company will receive a positive mark-up. If they are sold at a lower value, the Company shows the negative value in the same item with a minus sign.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

Group companies

Subsidiaries of the group or the parent company of the group, or other subsidiaries of the group, or subsidiaries of the subsidiaries of the group are regarded as the group companies.

Associates

An associated company is an entity within a significant influence of other company, which is provided by holding no less than 20% and no more than 50% of the voting rights.

Related parties

Related parties are considered Group companies, Board and Council members, their close family members and entities, in which the previously mentioned persons or companies have significant influence or control.

Subsequent events

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

(2) Revenue

	2019	2018
	EUR	EUR
a) By operating activities		
Income from forestry (NACE2 02.20)	5 471 000	11 221 238
Income from timber processing (NACE2 16.10)	48 424 981	55 169 271
Income from freight forwarding (NACE2 49.41)	2 883 774	2 692 744
Income from equipment, premises and territory management (NACE2 81.10)	607 511	62 841
	57 387 266	69 146 094
b) By location		
Income from sales of goods/services in Latvia	57 387 266	69 113 412
Income from sales of goods/services to Lithuania	0	32 682
	57 387 266	69 146 094

(3) Costs of goods sold or services provided

	2019	2018
	EUR	EUR
Purchase of costs of goods sold	1 648 498	976 170
Raw materials and consumables	2 028 451	6 919 069
Purchase of felling rights	37 655 790	39 413 618
Correction for unfinished production inventory	222 636	167 602
Subcontractors' services, outsourced works and services	2 414 768	2 415 564
Woodworking equipment maintenance costs	703 645	711 129
Woodworking and forest equipment maintenance costs	912 894	935 310
Fuel costs	1 179 690	1 240 361
Revaluation of biological assets	247 143	(597 414)
Utility expenses	2 228 075	1 988 686
Salary expenses	3 945 692	4 018 485
State mandatory social insurance contributions	1 065 068	1 034 807
Accrual for unused vacations	382 245	445 583
Depreciation of intangible and fixed assets	2 088 269	1 932 394
Real estate tax	20 540	20 100
Lease payment for wood processing, forestry machinery and equipment	1 019 242	624 316
Other lease payments for wood processing and forestry machinery	84 642	102 228
Other services received	410 786	387 874
	58 258 074	62 735 882

(4) Distribution expenses

	2019	2018
	EUR	EUR
Advertising, market research and marketing costs	50	6 567
Freight forwarding expenses	0	14 008
	50	20 575

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(5) Administrative expenses	2019 EUR	2018 EUR
Salary expenses	87 213	121 420
State mandatory social insurance contributions	22 690	32 034
Accrual for unused vacations	7 997	9 730
Office expenses	36 223	33 944
Bank services	40 596	65 867
Depreciation of intangible and fixed assets	49 925	51 768
Real estate tax	2 157	2 157
Financial statement audit expenses	9 950	8 800
Administration department vehicle expenses	8 167	14 771
Other administrative expenses	75 016	48 111
Legal services	13 310	11 525
	353 244	400 127

(6) Other operating income	2019 EUR	2018 EUR
Income from disposal of intangible and fixed assets	13 614	35 601
Net carrying value of intangible and fixed assets at the moment of disposal	0	(52)
Rental income	85 993	86 272
Depreciation of deferred income (see also Note 34)	267 455	245 506
Co-financing from Rural Support Service and EU structural funds	35 317	37 611
Net gain from fluctuations of currency exchange rates	14 003	0
Other income	536 151	444 310
	938 919	813 699

* 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	1500	0	1500	1 500
Nr. 5	0	1500	0	1500	1 500
Nr. 6	0	1500	0	1500	1 500
Nr. 7	0	5372	0	5372	5 372
Nr. 8	0	1322	0	1322	1 322
Nr. 9	0	1200	0	1200	1 200
Total	96	13614	(96)	13518	13 518

(7) Other operating expenses	2019 EUR	2018 EUR
Write-off of bad debts	0	374 840
Rent on real estate	4 183	4 645
Low value inventory write-off	15 771	15 322
Net losses from currency exchange rate fluctuations	0	28 831
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
Labor 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 expenses	212 220	200 739
	911 629	1 115 452

(8) Interest and similar income

a) from group companies	2019 EUR	2018 EUR
Other interest income	2 680	2 565
	2 680	2 565
b) from other parties		
Other interest income	119	0
	119	0

(9) Interest and similar expenses

b) from other parties	2019 EUR	2018 EUR
Interest charge	391 369	322 058
	391 369	322 058
Total interest and similar expenses	391 369	322 058

(10) Corporate income tax

a) Components of corporate income tax	2019 EUR	2018 EUR
Corporate income tax according to the tax return	5 067	6 806
	5 067	6 806

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	288 424	384 565
Deferred tax charged to the income statement	(288 424)	(96 141)
Deferred tax liabilities (asset) at the end of the financial year	0	288 424

On the basis of amendments to Cabinet Regulation No. 22 of December 22, 2015. 775 "Regulations on the Application of the Law of annual financial statements and annual consolidated financial statements", paragraph 35.1, the Company writes off EUR 288 424 from the Deferred Tax Assets.

(11) Intangible assets

	Concessions, patents, licenses, trade marks and similar rights	Total		Concessions, patents, licenses, trade marks and similar rights	Total
	EUR	EUR		EUR	
Initial cost			Initial cost		
31.12.2018	82 183	82 183	31.12.2017	69 655	69 655
Purchase	31 307	31 307	Purchase	14 092	14 092
Disposals	(754)	(754)	Disposals	(1 564)	(1 564)
Reclassification between other assets items	0	8 296			
31.12.2019	121 032	121 032	31.12.2018	82 183	82 183
Depreciation			Depreciation		
31.12.2018	(64 319)	(64 319)	31.12.2017	(50 153)	(50 153)
Calculated	(22 209)	(22 209)	Calculated	(15 730)	(15 730)
Disposals	493	493	Disposals	1 564	1 564
31.12.2019	(86 035)	(86 035)	31.12.2018	(64 319)	(64 319)
Net carrying amount 31.12.2017	17 864	17 864	Net carrying amount 31.12.2016	19 502	19 502
Net carrying amount 31.12.2018	34 997	34 997	Net carrying amount 31.12.2017	17 864	17 864

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	Land plots, buildings and engineering structures	Biological Assets	Technological equipment and machinery	Other fixed assets	Fixed assets under development and construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Initial cost						
31.12.2016	9 355 160	862 816	22 285 559	301 424	1 722 773	34 527 732
Purchase/ increased value	250 739	0	683 670	201 117	2 586 357	3 721 883
Disposals	(1 941)	(95 114)	(2 394 838)	(167 040)	0	(2 658 933)
Reclassification between other asset items	0	0	3 719 052	0	(3 719 052)	0
31.12.2017	9 603 958	767 702	20 574 391	335 501	590 078	35 590 682
Depreciation						
31.12.2016	(3 126 330)	0	(10 518 817)	(230 440)	0	(13 875 587)
Calculated	(416 329)	0	(1 505 166)	(46 937)	0	(1 968 432)
Disposals	1 941	0	295 899	26 813	0	324 653
31.12.2017	(3 540 718)	0	(11 728 084)	(250 564)	0	(15 519 366)
Net carrying amount 31.12.2016	6 228 829	862 816	11 766 742	70 983	1 722 773	20 652 143
Net carrying amount 31.12.2017	6 063 240	767 702	12 565 359	84 937	590 078	20 071 316

	Land plots, buildings and engineering structures	Biological Assets	Technological equipment and machinery	Other fixed assets	Fixed assets under development and construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Initial cost						
31.12.2018.	9 603 958	767 702	24 293 443	335 501	590 078	35 590 682
Purchase/ increased value	115 328	0	209 097	47 351	1 453 730	1 825 506
Disposals	(453 734)	(57 508)	(504 819)	(16 726)	0	(1 032 787)
Reclassification between other asset items	42 862	0	1 760 446	0	(1 811 604)	(8 296)
31.12.2019.	9 308 414	710 194	25 758 167	366 126	232 204	36 375 105
Depreciation						
31.12.2018.	(3 540 718)	0	(11 728 084)	(250 564)	0	(15 519 366)
Calculated	(413 641)	0	(1 653 901)	(48 443)	0	(2 115 985)
Disposals	344 605	0	495 905	16 306	0	856 816
31.12.2019.	(3 609 754)	0	(12 886 080)	(282 701)	0	(16 778 535)
Net carrying amount 31.12.2018	6 063 240	767 702	12 565 359	84 937	590 078	20 071 316
Net carrying amount 31.12.2019	5 698 660	710 194	12 872 087	83 425	232 204	19 596 570

Cadastral value of fixed assets

Cadastral value of lands and buildings owned by the Company on December 31, 2019 is EUR 1 472 303 (on December was EUR 1 422 140).

The changes of fixed asset revaluation reserve in the financial year by fixed assets items are as follows:

	Revaluation reserves 31.12.2017	Revaluation reserves 31.12.2018
	EUR	EUR
Real estate		
a) land plots, buildings and engineering structures	1 370 057	1 370 057
TOTAL	1 370 057	1 370 057

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
Cost	1 852 471	1 852 471
Net carrying amount	1 852 471	1 852 471

Pursuant to Section 6 Part 5 of the Corporate Income Tax Law that was in effect till December 31, 2017, when defining the taxable corporate income, the results of revaluation of balance sheet items and off-balance sheet items shall not be taken into account, except revaluation of assets due to change of foreign currency rates.

(13) Participation in the capital

a) movement of participation

	Participation in the equity of group companies EUR	Non-current Participation in the equity of associates EUR	Participation in other capitals EUR	Total EUR
Initial cost				
31.12.2018.	1 009 149	8 540	0	1 017 689
Disposals, reclassification	(52 410)	(8 540)	8 540	(52 410)
31.12.2019.	956 739	0	8 540	965 279
Net carrying amount 31.12.2018	1 009 149	8 540	0	1 017 689
Net carrying amount 31.12.2019	956 739	0	8 540	965 279

b) participation in the equity of subsidiaries

Name	Address	Participating interest		Equity		Profit	
		31.12.2018. %	31.12.2019. %	31.12.2018. EUR	31.12.2019. EUR	2018 EUR	2019 EUR
SIA PAKUĻU SPORTA BĀZE	"Mežvidi", Novadnieku pag., Saldus novads, LV-3801	100	100	348 139	236 720	553 793	-111 419
Деревобратывающий комбинат № 3	180005, Россия, г. Псков, Зональное шоссе, д. 44-А	100	100	-847 816	-966 628	-166 733	-543

c) participation in the equity of associates

Name	Address	Participating interest		Equity		Profit	
		31.12.2018. %	31.12.2019. %	31.12.2018. EUR	31.12.2019. EUR	2018 EUR	2019 EUR
SIA SILDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	19,54	80 477	305 996	156 932	-18 562

(d) participation in other Companies

Name	Address	Participating interest	
		31.12.2018. %	31.12.2019. %
SIA SILDUS ENERĢIJA	Cēsu iela 14, Rīga, LV-1012	20	19,54

(14) Raw materials and consumables	31.12.2019. EUR	31.12.2018. EUR
Materials, spare parts, Inventories:	272 800	142 710
Raw materials (logs in forest and sawmill)	1 678 791	4 294 263
	1 951 591	4 436 973
(15) Work in progress	31.12.2019. EUR	31.12.2018. EUR
Forestry work in progress	170 189	94 061
Sawn timber in production	1 013 969	1 293 610
	1 184 158	1 387 671
(16) Finished goods and goods for sale	31.12.2019. EUR	31.12.2018. EUR
Finished goods saw timber	1 829 479	1 591 771
	1 829 479	1 591 771
(17) Advances for inventories	31.12.2019. EUR	31.12.2018. EUR
Advances for inventories	18 052	486 756
	18 052	486 756
(18) Trade receivables	31.12.2019. EUR	31.12.2018. EUR
Book value of trade receivables	914 156	451 178
(Provisions for bad and doubtful debts)	(50 812)	(26 518)
	863 344	424 660

Provisions for bad and doubtful debts have been made in 100 % of their book value.

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(19) Receivables from group companies	31.12.2019.	31.12.2018.
	EUR	EUR
Non-current		
Loans to ООО Деревообрабатывающий комбинат № 3	717 448	700 929
	<u>717 448</u>	<u>700 929</u>
Current		
Receivables from the group companies for the goods delivered and services provided	10 323 945	9 487 362
Accrual for doubtful debts	(555 799)	(553 178)
	<u>9 768 146</u>	<u>8 934 184</u>

In the reporting year JSC PATA Saldus has lent money to ООО Деревообрабатывающий комбинат №3 - 173 000 RUB (2 261 EUR). Loan term for long-term loans is set until year 2021.

(20) Receivables from associates	31.12.2019.	31.12.2018.
	EUR	EUR
Debts to associated companies for the goods delivered and services provided	0	451 228
	<u>0</u>	<u>451 228</u>

(21) Other receivables	31.12.2019.	31.12.2018.
	EUR	EUR
VAT overpaid	101 410	257 145
Paid guarantee fees	4 668	4 668
Other receivables	432	78
	<u>106 510</u>	<u>261 891</u>

(22) Deferred expenses	31.12.2019.	31.12.2018.
	EUR	EUR
Insurance payments	16 638	17 977
Prepayment for office rent	38	427
Subscription fees	8 344	8 962
1st lease installment	130 145	157 024
Other expenses	58 183	145 993
	<u>213 349</u>	<u>330 383</u>

(23) Cash and bank	31.12.2019.	31.12.2018.
	EUR	EUR
Cash at bank in checking accounts	1 262	136
	<u>1 262</u>	<u>136</u>

(24) Share capital

The company is a joint stock company. The share capital of the Company is EUR 579 916. Value per share is EUR 0.70 (zero euro 70 euro cents). 774 272 shares are public bearer shares and are dematerialized, however 54 180 of shares are staff registered staff shares. In accordance with the minutes of the Company's Supervisory Board, the Supervisory Board resolves: to accept the issuance of 54,180 (fifty four thousand one hundred and eighty) shares of the Company's personnel to the following members of the Company's Management Board until the end of 2019:

To Gatis Zommers, a member of the Management Board of the Company, is issued 18,060 (eighteen thousand sixty) shares of the personnel of AS PATA Saldus;

To Jānis Mierkalns, a member of the Management Board of the Company, is issued 18,060 (eighteen thousand sixty) shares of the personnel of AS PATA Saldus;

To Ilze Bukulde, a member of the Board of the Company, is issued 18,060 (eighteen thousand sixty) shares of the personnel of AS PATA Saldus. The members of the Management Board and the Supervisory Board do not own voting shares.

The parent of the Company is SIA PATA with the legal address Miera iela 2, Inčukalns, Inčukalna pagasts, Inčukalna novads LV-2141. 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.

(25) Reserves

According to the Latvian statutory requirements the Company created reserves in the previous periods. This legal requirement is no more effective in the financial year. These reserves are expected to be reclassified to retained earnings.

(26) Distribution of the Company's profit

The Board of the Company recommends to cover the losses of the reporting year from the retained earnings of previous years. Based on the decision of the shareholders' meeting of JSC PATA Saldus on July 29, 2019, the Company paid dividends for the results of 2018 from retained earnings to the holders of personal shares for the total amount of EUR 358,130.

(27) Loans from banks

	31.12.2019. EUR	31.12.2018. EUR
Non-current		
Luminor Bank AS (2013-104-OD)	9 352 964	7 729 905
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
	11 654 743	10 510 016
Current		
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
	1 446 265	2 236 011

Agreement no. 2013-104-OD - Subject of the pledge: all the property of the commercial pledgor as a joint property at the time of the pledge, as well as the subsequent components of the joint property. Registered mortgage on the real estate owned by the Company at the address Kuldīgas Street 86A, Saldus, Saldus district. The maximum amount of the secured claim is EUR 12,398,100.

Agreement no. 196K / 18T - Pledge subject: Property, plant and equipment. The maximum amount of the secured claim is EUR 1,950,000.

Contract No.2017-42-A - Subject of the pledge: Property, plant and equipment. The maximum amount of the secured claim is EUR 3,090,703.

Mezzanine loan agreement No.MA/12/14 - Subject of the pledge: Property, plant and equipment. The maximum amount of the secured claim is EUR 2,065,800.

Agreement No.2014-169-A - Subject of the pledge: Property, plant and equipment. The maximum amount of the secured claim is EUR 3 120 000.

Agreement No.2012-85-A - Subject of the pledge: All the property of the commercial pledgor as a joint property at the time of the pledge, as well as the subsequent components of the joint property. The maximum amount of the secured claim is EUR 832 380.01.

Agreement No.2012-84-A - Subject of the pledge: All the property of the commercial pledgor as a joint property at the time of the pledge, as well as the subsequent components of the joint property. The maximum amount of the secured claim is EUR 3,699,466.71.

Ovedraft and Guarantee Line Agreement No.2011-494-ODGA - Subject of the pledge: All property of the commercial pledgor as a joint property at the time of the pledge, as well as the subsequent components of the joint property. The maximum amount of the secured claim is EUR 1,820,137.62.

Ovedraft agreement No.2011-150-OD - Subject of the pledge: All the property of the commercial pledgor as a joint property at the time of the pledge, as well as the subsequent components of the joint property. The maximum amount of the secured claim is EUR 1,942,220.02.

The Company's liabilities to the credit institution are strengthened by a guarantee of a related company.

Loan repayment terms are until 31.05.2022.

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(28) Other borrowings	31.12.2019. EUR	31.12.2018. EUR
Non-current		
Other loans (from private individuals)	828 333	888 333
JSC Attīstības finanšu institūcija Altum	1 165 059	1 588 739
Liabilities according to the finance lease agreements	97 888	179 200
	<u>2 091 280</u>	<u>2 656 272</u>
Current		
Liabilities according to the factoring agreements	0	904 261
JSC Attīstības finanšu institūcija Altum	317 760	0
Liabilities according to the finance lease agreements	166 284	153 883
	<u>484 044</u>	<u>1 058 144</u>
<p>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. The amount of repayment of the AS Attīstības finanšu institūcijas Altum after 5 years is EUR 211 779.</p>		
Finance lease liabilities		
The future minimum finance lease payments are:	31.12.2019. EUR	31.12.2018. EUR
Payable within 1 year	171 258	161 649
Payable from 2 to 5 years	101 528	185 737
Finance lease gross liabilities	<u>272 786</u>	<u>347 386</u>
Future finance costs	(8 614)	(14 303)
Present value of finance lease liabilities	<u>264 172</u>	<u>333 083</u>
(29) Advances from customers	31.12.2019. EUR	31.12.2018. EUR
Current		
Advances of sawn timber	37 410	409
	<u>37 410</u>	<u>409</u>
(30) Trade payables	31.12.2019. EUR	31.12.2018. EUR
Current		
Payables for supplies of goods and services supplied	5 473 385	5 892 088
	<u>5 473 385</u>	<u>5 892 088</u>
(31) Payables to group companies	31.12.2019. EUR	31.12.2018. EUR
Current		
Payables for supplies of goods and services supplied	789 005	0
	<u>789 005</u>	<u>0</u>
(32) Taxes and social insurance payments	31.12.2019. EUR	31.12.2018. EUR
Current		
Personal income tax	107 329	112 749
State mandatory social insurance contributions	105 897	127 454
Real estate tax	438	0
Natural resources tax	1 269	1 203
Corporate income tax	5 067	6 806
	<u>220 000</u>	<u>248 212</u>
(33) Other creditors	31.12.2019.	31.12.2018.
Current		
Salaries	208 748	256 784
Other liabilities	3 163	3 295
	<u>211 911</u>	<u>260 079</u>

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(34) Deferred income	31.12.2019. EUR	31.12.2018. EUR
Non-current		
EU co-financing for the acquisition of assets - non-current portion	2 038 501	1 993 756
	<u>2 038 501</u>	<u>1 993 756</u>
Current		
EU co-financing for the acquisition of assets - current portion	284 180	261 880
	<u>284 180</u>	<u>261 880</u>

Revenues for the following periods include: 1. Financing of the program of the State Investment and Development Agency of the State Enterprise and Development after project identification No. APV / 2.1.2.4.0 / 13/03/030, Contract No. L-APV-14-0114, received in 2015 in the amount of EUR 462,735 for the acquisition and establishment of fixed assets; 2. V / A Latvian Investment and Development Agency program financing according to project identification No. APV / 2.1.2.4.0 / 09/01/034, Agreement No. L-APV-10-0015, received from 2010-2013. EUR 3 339 616 for the acquisition and creation of fixed assets; 3. Financing of the program of the Central Finance and Contracts Agency according to the project / contract on the implementation of the European Union fund project No. 4.1.1.0/17/A/007 " Provision of significant energy savings to JSC " PATA Saldus " ", received from 2018 in the amount of EUR 589,454 for the acquisition and establishment of fixed assets; 4. Financing of the program of the Central Finance and Contracts Agency according to the project / contract on the implementation of the European Union fund project No. 4.1.1.0/18/A/017 " Provision of significant energy savings for JSC " PATA Saldus " " 2nd round ", received from 2019 in the amount of EUR 334,500 for the purchase and establishment of fixed assets. Deferred income from LIAA financing is recognized as income in the income statement during the useful life of the acquired fixed assets, respectively during 10-15 years.

For 5 years since receipt of funding the Company 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.

(35) Accrued liabilities	31.12.2019. EUR	31.12.2018. EUR
Accrued trade payables	61 401	111 197
Accrued unused annual leave expenses	345 161	459 056
	<u>406 562</u>	<u>570 253</u>

(36) Fees paid to auditors	2019 EUR	2018 EUR
For the audit of financial statements	9 950	8 800
	<u>9 950</u>	<u>8 800</u>

(37) Average number of employees	2019	2018
Members of the Board	1	1
Members of the Council	0	1
Other employees	1	1
Average number of employees during the financial year	<u>236</u>	<u>238</u>
	<u>238</u>	<u>241</u>

(38) Remuneration to personnel	2019 EUR	2018 EUR
Remuneration for work	4 032 905	4 139 905
State mandatory social insurance contributions	1 086 730	1 065 803
Business risk state duty	1 028	1 038
	<u>5 120 663</u>	<u>5 206 746</u>

(39) Remuneration to the management	2019 EUR	2018 EUR
Remuneration for Chairman of the Board	2 063	18 629
State mandatory social insurance contributions for Chairman of the Board	497	4 488
	<u>2 560</u>	<u>23 117</u>

A member of the Board and a member of the Council perform their duties without compensation.

(40) Transactions with related parties

The main shareholder of the Company, who owns 67 % of shares of the Company, is Pata SIA (Latvia), reg.No.40003448619. The ultimate parent company is Pata SIA (Latvia)

In 2019, the Company had a transactions with the following group companies that are directly or indirectly subsidiaries of Pata SIA. The Company had also transactions with companies owned by its subsidiaries and with related entity Saldus Enerģija SIA (Latvia), that is not part of the Group. During the financial year the Company has not entered into transactions with the Management Board and Council members, with the exception of salaries paid for the job.

a) claims and liabilities

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

b) transactions

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

(41) Financial commitments

b) Operating lease commitments

The Company uses forestry industrial equipment, as well as cars for administration needs that have been received under operating lease agreements. Lease expenses recognized in financial statement are EUR 1 017 219.

The Company has the following non-cancellable lease liabilities:

	31.12.2019. EUR	31.12.2018. EUR
Payable within 1 year	958 389	908 137
Payable from 2 to 5 years	1 539 855	2 068 522
	<u>2 498 244</u>	<u>2 976 659</u>

(42) Off - balance sheet liabilities and pledged assets

The shares owned by the Company SIA "SILDUS ENERĢIJA" have been pledged in favor of Luminor Bank AS in accordance with the concluded loan agreement between SIA "SILDUS ENERĢIJA" and the credit institution. The maximum amount of the secured claim is EUR 6,968,140.

(43) Financial risk management

Financial risks related to the financial instruments of the Company are mainly the interest rate risk, the liquidity risk and the credit risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company does not use derivative financial instruments to hedge certain risk exposures.

Market risk - Interest rate risks

The Company is subject to the interest rate risk, mainly with respect to its variable interest rate borrowings. The management of the Company considers a possibility to apply risk hedging instruments in order to minimize the effect of variable interest rates / to switch over to a fixed interest rates.

Credit risk

The Company is subject to the credit risk with respect to the trade receivables, issued short-term loans, cash and cash equivalents. The Company manages its credit risk by constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also is constantly monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of cash and cash equivalents (and also by using the bank credit line facilities). See also Note 43 in respect of the use of going concern assumption.

(44) Use of going concern assumption

The Company has finished the financial year, which was closed on 31 December 2019, with losses of EUR 1 836 364. As of this date, the Company's current assets exceeded current liabilities by EUR 7 931 715, and total assets exceeded total liabilities by EUR 13 461 485.

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.

(45) Subsequent events

In March 2020, restrictions related to the spread of coronavirus came into force in the Republic of Latvia and many other countries, which significantly reduce the economic development in the country and in the world. It is not expected how the situation will develop in the future, so there is uncertainty about economic development. The company's management constantly evaluates the situation. Currently, the Company is reviewing its revenue and expense structure, streamlining the company's operations in the face of declining demand for logging, both in terms of service and production, re-evaluating ongoing investment projects, as well as reorienting to sawmill production in other markets. The Company's management believes that the Company will be able to overcome the emergency situation by means of the following compensatory measures - if necessary, by agreeing with creditors on extension of payment terms or granting a grace period, with debtors by agreeing on shorter payment terms for the delivered goods. However, this conclusion is based on the information available at the time of signing these financial statements and the impact of future events on the Company's future operations may differ from the management's assessment.

In the period between the last day of the reporting year and the date when the Management Board signs the financial statements, there have been no other significant or extraordinary circumstances that would significantly affect the annual result or the financial position of the Company.

Gatis Zommers
Chairman of the board

Inga Siliņa
Chief Accountant

Saldus, 29 April 2020

Jānis Mierkalns
board member
Ilze Bukulde
board member

The annual report has been approved by the general meeting of stockholders _____ 2019