

JOINT-STOCK COMPANY „PATA SALDUS” AND ITS SUBSIDIARY COMPANIES
(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2015 (UNAUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2016

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Information about the Company

Name of the Company	PATA Saldus(PATA Saldus)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board (is released on November 10, 2015) Andris Krastiņš (<i>Andris Krastiņš</i>)- Chancellor of the Board (was appointed on November 11, 2015) Janis Mierkalns (<i>Jānis Mierkalns</i>) – member of the Board Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board (is released on November 10, 2015) Evija Birina (<i>Evija Bīriņa</i>) - member of the Board (was appointed on November 11, 2015) Ilze Bukulde (<i>Ilze Bukulde</i>) - member of the Board (was appointed on February 15, 2016)
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 (was appointed on February 15, 2016) Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board(is released on October 27, 2015) Maris Elleris (<i>Māris Elleris</i>) – member of the Council (is released February 15, 2016) Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council (is released February 15, 2016) Martins Knipšis (<i>Mārtiņš Knipšis</i>) – member of the Council (is released on July 20, 2015) Inga Mierkalna (<i>Inga Mierkalna</i>)- member of the Council (was appointed on July 20, 2015) Atis Kalniņš (<i>Atis Kalniņš</i>)- member of the Council (was appointed on February 15, 2016) Ieva Sniedze (<i>Ieva Sniedze</i>)- member of the Council (was appointed on February 15, 2016)
Subsidiary enterprise	
1. Name of the company	<i>Pakuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
Number and date of registration in the commercial register	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2015
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (<i>ООО - Общество с ограниченной ответственностью</i>)
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, 2015
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (<i>ООО - Общество с ограниченной ответственностью</i>)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А Purchase of lumber
The main areas of activities of the company	
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2015

Joint-stock company „PATA Saldus” and its subsidiary companies

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

Saldus District., Republic of Latvia

Single registration number: 40003020121

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(Unaudited)

Associated enterprise

Name of the company	Saldus enerģija (<i>Saldus enerģija</i>) (20%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	40103265702 December 22, 2009
Address	Mukusalas iela(<i>Mūkusalas iela</i>) 41B-8, Rīga (<i>Rīga</i>), LV-1004
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%
Reporting year	January 1 – December 31, 2015

Parent company

Name of the company	PATA (<i>PATA</i>) (87%)
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	40003448619, June 10, 1999
Address	Miera iela 2(<i>Miera iela 2</i>), Incukalns (<i>Inčukalns</i>), LV-1004
The main areas of activities of the company	Wholesale of wood, silviculture and other forestry activities
Owner of the company	Uldis Mierkalns (<i>Uldis Mierkalns</i>) – 100%
Reporting year	January 1 – December 31, 2015

Name and address of the Auditor

LTD „Sworn auditor S. Koļesņikovas office”, LZRA licence No 127
Svetlana Koļesņikova
Sworn Auditor
(Certificate of Latvian Sworn Auditor No.22)

Management announcement

To Consolidated report of economic activity for 2015

Changes in a commercial company that is made during the reporting period

On 14 October, 2015, Joint Stock Company “PATA Saldus” received decision No. 6-12 /42647/1(02.10.2015) of the Register of Enterprises of the Republic of Latvia. From 02 October 2015, the company 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 July, 20, 2015.

On 27 October 2015, Lolita Burkovska is released from the position of member of the council.

JSC "PATA Saldus" announces that on 11 November 2015, Jānis Bertrāns and Gatis Zommers is released from the position of member of the Board.

On July 20, 2015 the Council took a decision to appointed Andris Krastiņš as a member of the Management board. On November 11, 2015, Andris Krastiņš was appointed as Chairman of the Management Board. On November 11, 2015, the Board added a new member of the Management Board Evija Bīriņa.

From 19 February 2015, LTD PATA has acquired control of JSC PATA Saldus shares, as a result, LTD PATA is the parent company of JSC PATA Saldus. Given that JSC PATA Saldus equity instruments are traded in a public market, the Company also continues to prepare consolidated financial statements, although JSC PATA Saldus is other company LTD PATA subsidiary company

Changes in a commercial company that is made after the reporting period

In accordance with the decision No. 6-12 /5132/2(15.02.2016) of the Register of Enterprises of the Republic of Latvia are tracked the following changes;

- Appointed member of the board – Ilze Bukulde (*Ilze Bukulde*)
- Appointed members of the Council – Atis Kalniņš (*Atis Kalniņš*), Ieva Sniedze (*Ieva Sniedze*)
- Released members of the Council – Maris Elleris (*Māris Elleris*), Janis Leimanis (*Jānis Leimanis*)

Business description in the framework of report period

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

The consolidated loss of the holding JSC „PATA Saldus” for the 2015 from economic activities is 1 742 664EUR, whereby Net turnover is 36 791 026, which comprise loss per emitted share 4.50 EUR.

The consolidated companies financial report is prepared on the base of information that is at share company board’s disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company and of its consolidation group. There is true information included in the announcement.

Forecasts for financial indicators and plans for economic activities in 2016

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

Business and financial risk management policy

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and by searching for new markets and analyzing client’s solvency. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economical activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

February 29, 2016

Board:

Andris Krastiņš
Chancellor of the Board

Jānis Mierkalns
member of the Board

Evija Bīriņa
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 company's financial position at the end of the year of account, as well as results of operations and cash flows for the period.

The Management confirms that, in preparing this report for the period ending on 31 December 2015, 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 company's resources conservation as well as fraud prevention and prevention of other irregularities.

February 29, 2016

Board:

Andris Krastiņš
Chancellor of the Board

Jānis Mierkalns
member of the Board

Evija Bīriņa
member of the Board

Ilze Bukulde
member of the Board

Consolidated income statement

	31.12.2015 EUR	31.12.2014 EUR
Net turnover	36 791 026	51 961 462
Production costs of the sold production	-37 319 293	-49 725 783
Gross profit	-528 267	2 235 679
Selling costs	-47 473	-91 514
General administration costs	-443 906	-415 058
Other income from company's economic activity	457 520	216 081
Other expenditures from company's economic activity	-620 443	-844 091
Profit or loss from economic activity	-1 182 569	1 101 097
Other interest income and the like income	23 075	13 682
Write-off of long-term financial investments	0	-293 172
Other interest payments and the like payments	-542 384	-570 847
Profit or loss before extraordinary items and taxes	-1 701 878	250 760
Company's deferred income tax	-16 961	-232 275
Other taxes	-23 825	-21 091
Profit or (loss)	-1 742 664	-2 606
Profit or loss	-1 742 664	-2 606
Other comprehensive income for the period	-37 691	76 465
Total comprehensive income for the period	-1 780 355	73 859

The annex is an integral part of this financial statement

February 29, 2016

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Evija Bīriņa member of the Board	Ilze Bukulde member of the Board
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Consolidated balance sheet

ASSETS

	31.12.2015 EUR	31.12.2014 EUR
LONG-TERM INVESTMENTS		
Intangible investments		
Concessions, patents, licences, trademarks and the like items	23 760	36 701
TOTAL	23 760	36 701
Fixed assets		
Land, premises and buildings	6 005 374	6 407 475
Equipment and machinery	10 588 664	9 765 305
Other fixed assets	59 338	77 498
Unfinished constructions	4 547 859	2 887 489
Advance payments for fixed assets	29 227	0
TOTAL	21 230 462	19 137 767
Biological assets		
	708 701	906 217
Long-term financial investments		
Investment in associated companies	8 540	8 540
Deferred tax assets	92 013	108 974
TOTAL	100 553	117 514
TOTAL LONG-TERM INVESTMENTS	22 063 476	20 198 199
CURRENT ASSETS		
Stocks		
Raw materials, direct materials, auxiliary materials	1 758 639	2 823 030
Biological assets	555 392	555 511
Unfinished production	605 683	1 678 795
Finished production and goods for sale	2 150 984	1 400 781
Advance payments for goods	64 203	108 535
TOTAL	5 134 901	6 566 652
Noncurrent assets held for sale		
Fixed assets held for sale	306 288	306 288
Debtors		
Debts of buyers and customers	212 410	4 640 586
Debts of subsidiaries	2 843 034	0
Other debtors	45 495	75 016
Expenditures of the next periods	44 695	49 113
TOTAL	3 145 634	4 764 715
Money and its equivalents		
	5 522	4 280
TOTAL CURRENT ASSETS	8 592 345	11 641 935
TOTAL ASSETS	30 655 821	31 840 134

The annex is an integral part of this financial statement

February 29, 2016

Board:

Andris Krastiņš
Chancellor of the Board

Jānis Mierkalns
member of the Board

Evija Bīriņa
member of the Board

Ilze Bukulde
member of the Board

Consolidate balance sheet (continuation)

LIABILITIES

	31.12.2015	31.12.2014
	EUR	EUR
Shareholders'equity		
Share capital	541 990	541 990
Increase of price of the issue of shares	2 828	2 828
Fluctation of exchange rate	-507 110	-340 573
Reserves from revaluation of long-term investments	1 600 057	1 600 057
Other reserves	3 741 168	3 741 168
Retained earnings from the previous year	1 694 941	1 443 846
Retained earnings from the year of account	-1 742 664	-2 606
Total shareholders'equity	5 331 210	6 986 710
CREDITORS		
Long-term liabilities		
Long-term loans from credit institutions	13 992 559	14 822 296
Other creditors	1 649 040	1 395 328
Accrued liabilities	213 657	244 479
Long-term part of incomes from next periods	2 082 857	1 566 885
TOTAL	17 938 113	18 028 988
Short-term liabilities		
Short-term loans from credit institutions	2 456 871	1 583 645
Debts to suppliers and contractors	3 931 052	4 409 495
Debts to subsidiaries	377 083	0
Advance payments received from buyers	115 017	107 650
Taxes payable	141 989	94 124
Other creditors	141 903	164 427
Incomes from the next periods short-term part	222 583	465 095
TOTAL	7 386 498	6 824 436
Total liabilities	25 324 611	24 853 424
Total shareholders'equity and liabilities	30 655 821	31 840 134

The annex is an integral part of this financial statement

February 29, 2016

Board:

Andris Krastiņš
Chancellor of the Board

Jānis Mierkalns
member of the Board

Evija Bīriņa
member of the Board

Ilze Bukulde
member of the Board

Consolidated cash flow statement

	2015	2014
	EUR	EUR
I. Cash flow from basic activity		
Profit (+) or loss (-) before extraordinary items and taxes:	-1 701 878	250 760
Corrections:		
wear and tear of fixed assets and intangible investments (+)	1 480 796	2 457 049
revaluation of long-term investments	-57 744	68 610
revaluation of biological assets	197 635	-234 041
Accruals (except accruals for doubtful debts)	-30 822	22 330
profit (-) or loss (+) from fluctuations of exchange rate	115 654	259 418
Interest income	-23 075	0
Income from finansation recognition	-189 212	-486 815
Interest expenditure	542 385	589 875
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	333 739	2 927 186
Corrections:		
increase (+) or decrease (-) of debtors debt	1 635 523	-459 156
increase (+) or decrease (-) of the reserves of accruals	1 405 559	-2 185 909
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	4 519	1 901 019
Gross cash flow from basic activity	3 379 340	2 183 140
Expenditures to pay interest payments	-542 385	-587 857
Net cash flow from basic activity	2 836 955	1 595 283
II. Cash flow from investments		
Income from selling fixed assets and intangible investments	0	181 467
Acquisition of fixed assets and intangible investments	-1 993 796	-223 424
Expenditures for advance payments for fixed assets and unfinished	-1 715 542	-2 575 730
Net cash flow from investments	-3 709 338	-2 617 687
III. Cash flow from financing activities		
Recieved loans	1 798 664	2 827 817
Received LIAA financing	462 735	0
Expenditures for paying back loans	-1 325 941	0
Expenditures for redemption of asset that was hired	-61 833	0
Cash flow from financing activities	873 625	998 345
IV. Fluctuations of exchange rate		
V. Net cash flow of the year of account increase (+), decrease (-)	1 242	-24 059
VI. Money and its equivalents balance at the beginning of the year of account	4 280	28 339
VII. Money and its equivalents balance at the end of the year of account	5 522	4 280

Cash flow statement is prepared according to indirect method in accordance with SGS Nr.7.

The annex is an integral part of this financial statement

February 29, 2016

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Evija Bīriņa member of the Board	Ilze Bukulde member of the Board
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Statement on the changes in own capital

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2013	550 845	1 110 312	-4 784	2 827	3 732 314	1 292 413	-260 821	6 423 106
Fluctuation of exchange rate	0	0	-335 790	1	0	412 254	0	76 465
Distribution of profit of the year 2013	0	0	0	0	0	-260 821	260 821	0
Investment revaluation reserve	0	489 745	0	0	0	0	0	489 745
Change in share capital	-8 855	0	0	0	8 855	0	0	0
Profit of the year of account	0	0	0	0	0	0	-2 606	-2 606
December 31, 2014	541 990	1 600 057	-340 574	2 828	3 741 169	1 443 846	-2 606	6 986 710
Fluctuation of exchange rate	0	0	-166 536	0	0	253 701	-37 691	49 474
Distribution of profit of the year 2014	0	0	0	0	0	-2 606	2 606	0
Profit of the year of account	0	0	0	0	0	0	-1 704 973	-1 742 664
December 31, 2015	541 990	1 600 057	-507 110	2 828	3 741 168	1 694 941	-1 742 664	5 331 210

The annex is an integral part of this financial statement

February 29, 2016

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Evija Bīriņa member of the Board	Ilze Bukulde member of the Board
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Annex to the financial statement

1. Corporative information

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC “PATA Saldus” established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC “PATA Saldus” purchased 100% shares of “Pakuļi Sports Centre” Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.

As the result of the above mentioned activities JSC “PATA Saldus” has prepared of year 2015 consolidated report, hereinafter Holding company.

2. Important accounting principles

In preparation of the holding company's financial statement, there were used the following accounting principles:

Principles of preparing the financial statement

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU). Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are presented in this note as they may have impact on financial statements of the Company in the following periods if endorsed.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those.

The Group carried out a revaluation of its land at the end of 2014 and concluded that their market value exceeded their carrying value at the date of revaluation and at the beginning and end of previous reporting period

Currency and items used in the preparation of the financial statement

In financial statements as a monetary unit is used Euro (EUR)- the monetary unit of the Republic of Latvia.

Consolidation

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., ооо Деревообрабатывающий комбинат № 3 and ооо Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net actives obtained by the Holding is accounted as an intangible value.

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding'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 Holding.

Changes in accounting policy and disclosures

The following new and amended IFRS and interpretations come and apply to the Company's operations, but have no impact on these financial statements apart from certain new disclosure requirements:

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU);

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). These amendments include changes that affect 7 standards:

- IFRS 2 "Share-based payment"
- IFRS 3 "Business Combinations"
- IFRS 8 "Operating segments"
- IFRS 13 "Fair value measurement"
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets"
- Consequential amendments to IFRS 9 "Financial instruments"
- IAS 37 "Provisions, contingent liabilities and contingent assets", and
- IAS 39 "Financial instruments - Recognition and measurement"

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 1 "First time adoption"
- IFRS 3 "Business combinations"
- IFRS 13 "Fair value measurement" and
- IAS 40 "Investment property"

Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation

(effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" regarding **bearerplants** (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortization (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS S "Non-current assets held for sale and discontinued operations"
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1
- IAS 19 "Employee benefits"
- IAS 34 "Interim financial reporting"

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Bookkeeping and accounting principles has not changed compared to the previous reporting period.

Use of calculations

When preparing financial statements, the management have to base on certain calculations and assumptions, which influence the remainders of the balance and the profit or loss posts shown in particular statements as well as the amount of possible liabilities. Future events may have an impact on assumptions which were taken into consideration when separate calculations were made. Any influence of calculations is shown in the financial statement at the moment of their determination.

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the OOO «Салдус» and OOO «Деревообрабатывающий комбинат № 3» where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the OOO «Салдус» and OOO «Деревообрабатывающий комбинат № 3» into the currency used in the Holding 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 of own capital.

	31.12.2015	31.12.2014
	EUR	EUR
1 RUB	0.0123	0.0144
1 USD	0.9185	0.8224

Intangible investments

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 Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear 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.

Capital assets

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear 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

In the reporting year the management made the decision to change the depreciation rates for the fixed assets groups:

- Plant and machinery from the 2-15 years (from 2-10 years);

- woodworking line from the 3-15 years (from 3-10 years)

If the depreciation rates would not be changed depreciation for the current period depreciation would be EUR 2 379 236 (after changes rates EUR 1 451 647)

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear 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 not 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 can not 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. Wear and tear 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 SGS Nr.16 requirement.

Noncurrent assets held for sales

An entity should classify a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition – subject only to terms that are usual and customary for sales of such assets.

An entity should recognize a gain for any subsequent increase in fair value less costs to sell of an asset but not in excess of the cumulative impairment loss that has been previously recognized.

Biological assets

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2014 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2014. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Decrease of the value of assets

At the end of each year the Holding audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Holding has to carry out the annual audit of the decrease of the value of assets, the Holding 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.

Loan costs

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle IAS 23.

Lease

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

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

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

Money and its equivalents

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

Share capital

Company is a joint stock company. Company share capital is EUR 541 990. And consist of 387 136 public bearer shares . All shares are denominated and are dematerialised..

Profit per share

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

Credits and loans

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

Accruals

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

Income recognition

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

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

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

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

Sale of goods

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

Company income tax

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

Deferred company income tax

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

Possible liabilities and assets

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

Allowances

Parent and subsidiary companies of the Holding 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. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

Associated persons

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

Events after the end of the year of account

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.

3. Segments of the Holding activities

The Holding shows information through particular segments.

	Logging		Timber processing		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 162 652	7 487 688	31 102 474	41 720 153	2 525 900	2 017 010	36 791 026	51 224 851
Production costs of the sold production	-2 869 731	-7 967 294	-31 289 337	-39 667 575	-3 160 225	-2 090 915	-37 319 293	-49 725 784
Selling costs	-9 041	-22 700	-19 505	-63 328	-18 927	-5 486	-47 473	-91 514
General administration costs	-22 505	-18 800	-50 152	-50 622	-371 249	-345 636	-443 906	-415 058
Other income/expenditures from company's economic activity	9 911	34 535	-193 350	-539 397	20 516	-123 149	-162 923	-628 011
Profit or loss from economic activity	271 286	-486 571	-449 870	1 399 231	-1 003 985	-548 176	-1 182 569	364 484
Other interest income/payments and the like income	-11 746	-8 338	-224 936	90 580	-282 628	-195 966	-519 309	-113 724
Company's deferred income tax	0	0	0	0	-16 961	-232 275	-16 961	-232 275
Other taxes	0	0	-11 042	-8 067	-12 783	-13 024	-23 825	-21 091
Income from segments activities	-150 496	39 733	-127 102	-309 836	277 598	270 103	0	0
Profit or (loss)	109 044	-455 176	-812 950	1 171 908	-1 038 759	-719 338	-1 742 664	-2 606
Segment assets	2 635 254	4 654 167	25 915 882	25 932 243	2 104 685	1 253 725	30 655 821	31 840 134
Segment liabilities	2 357 332	5 101 573	25 702 532	25 399 718	2 595 957	1 338 843	29 843 369	31 840 134

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

The management of the Holding 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.

Other

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

4. Net turnover through geographical segments

Since the economic activity of the Holding 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.

2015

2014

	EUR	EUR
Income from sales, int. Al.	33 154 570	48 821 548
Latvia	33 145 035	48 096 324
Other countries	9 535	725 224
Income from rendering of services, int. Al.	3 447 244	2 653 098
Latvia	3 441 940	2 641 711
Other countries	5 304	11 387
Financing of the EU structural funds	189 212	486 816
	36 791 026	51 961 642