

**JOINT STOCK COMPANY „PATA SALDUS”**

(UNIFIED REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE YEAR 2015**

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

**AND INDEPENDENT AUDITORS' STATEMENT**

**Saldus, 2016**

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## Information about the Company

|   |  |
|---|--|
| Name of the Company   | <b>PATA Saldus (PATA Saldus)</b>   |
| Legal status of the Company                                   | Joint Stock Company  |
| Registration number, place, and date                          | 40003020124 August 26, 1991, Riga  |
| Address   | Kuldīgas iela 86C, Saldus, Saldus novads, LV 3801  |
| The main areas of activities of the Company<br>NACE code      | Forestry, commercial timber preparation and related services; production of board lumber, etc.<br>022; 494; 521  |
| Members of the Board: name, surname,<br>position              | Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board ( is released on November 10, 2015)<br>Andris Krastiņš ( <i>Andris Krastiņš</i> )- Chancellor of the Board ( was appointed on November 11, 2015)<br>Janis Mierkalns ( <i>Jānis Mierkalns</i> ) – member of the Board<br>Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board ( is released on November 10, 2015)<br>Evija Birina ( <i>Evija Biriņa</i> ) - member of the Board ( was appointed on November 11, 2015)<br>Ilze Bukulde ( <i>Ilze Bukulde</i> ) - member of the Board ( was appointed on February 15, 2016)  |
| Members of the Council: name, surname,<br>position            | Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – Chairman of the Council<br>Janis Bertrāns ( <i>Jānis Bertrāns</i> ) - Deputy Chairman of the Board ( was appointed on February 15, 2016)<br>Lolita Burkovska ( <i>Lolita Burkovska</i> ) – Deputy Chairman of the Board ( is released on October 27, 2015)<br>Maris Elleris ( <i>Māris Elleris</i> ) – member of the Council ( is released February 15, 2016)<br>Janis Leimanis ( <i>Jānis Leimanis</i> ) – member of the Council ( is released February 15, 2016)<br>Martins Knipšis ( <i>Mārtiņš Knipšis</i> ) – member of the Council ( is released on July 20, 2015)<br>Inga Mierkalna ( <i>Inga Mierkalna</i> )- member of the Council ( was appointed on July 20, 2015)<br>Atis Kalnins ( <i>Atis Kalniņš</i> )- member of the Council ( was appointed on February 15, 2016)<br>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<br>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<br>(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, 2015  |
| 3. Name of the company  | Saldus ( <i>Салдус</i> ) (100%)  |
| Legal status of the company                                   | Limited Liability Company<br>(ООО - Общество с ограниченной ответственностью)  |
| Registration number, date, place                              | 1056000426371 21. December 2005  |
| Address   | Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А   |
| The main areas of activities of the company                   | Purchase of lumber   |
| Owner of the company  | PATA Saldus (PATA Saldus), JSC – 100%  |
| Reporting year  | January 1 – December 31, 2015  |

Associated enterprise

|   |  |
|---|--|
| 1. Name of the company  | Saldus enerģija ( <i>Saldus enerģija</i> ) (20%)                             |
| Legal status of the company                                   | Limited Liability Company  |
| NUMBER AND DATE OF REGISTRATION<br>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<br>IN THE COMMERCIAL REGISTER | 40003448619, June 10, 1999   |
| Address   | Miera iela 2( <i>Miera iela 2</i> ), Incukalns ( <i>Incūkalns</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”,<br>LZRA licence No 127<br>Svetlana Koļesņikova<br>Sworn Auditor<br>(Certificate of Latvian Sworn Auditor No.22) |
|---------------------------------|---|

**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 companies ( 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*)

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## Management announcement

### *To Report of economic activity for the 2015*

#### **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.

Loss of A/s „PATA Saldus” for the year 2015 are 1 499 155 EUR at the net turnover of 36 776 187 EUR, representing a loss per issued share 3.88 EUR.

The 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. There is true information included in the announcement. The Board proposes to cover the 2015 losses from retained earnings of previous periods.

#### **Forecasts for financial statements and operational plans of 2016**

Management of the company continues work on internal restructuring of the company aimed at adjusting to existing market situation and improvement of economic situation and financial indicators of the company. Management policy is not based on wide ranging economic activities, rather than on development of economic activities in two interrelated areas, by increasing production volumes, increasing productivity of work.

#### **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 economic 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.

April 29, 2016

Board:

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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.

April 29, 2016

Board:

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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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## Profit or loss calculation

|  | Note | 31.12.2015<br>EUR | 31.12.2014<br>EUR |
|--|------|-------------------|-------------------|
| Net turnover   | 4    | 36 776 187        | 51 224 851        |
| Production costs of the sold production                    | 5    | -37 316 305       | -49 047 843       |
| <b>Gross profit</b>  |      | <b>-540 118</b>   | <b>2 177 008</b>  |
| Selling costs  | 6    | -24 148           | -45 050           |
| General administration costs                               | 7    | -411 829          | -369 691          |
| Other income from company's economic activity              | 8    | 216 971           | 152 755           |
| Other expenditures from company's economic activity        | 8    | -344 584          | -629 331          |
| <b>Profit or loss from economic activity</b>               |      | <b>-1 103 708</b> | <b>1 285 691</b>  |
| Other interest income and the like income                  | 9    | 23 075            | 39 781            |
| Other interest payments and the like payments              | 9    | -399 214          | -566 909          |
| <b>Profit or loss before extraordinary items and taxes</b> |      | <b>-1 479 847</b> | <b>758 563</b>    |
| Company's income tax                                       |      | 0                 | 0                 |
| Company's deferred income tax                              | 10   | 0                 | -232 275          |
| Other taxes  | 11   | -20 485           | -20 315           |
| <b>Profit or (loss)</b>                                    |      | <b>-1 500 332</b> | <b>505 973</b>    |
| <br>   |      |                   |                   |
| <b>Profit/loss on share</b>                                |      | <b>-3.88</b>      | <b>1.31</b>       |
| EUR per share  |      |                   |                   |

The annex from 12 to 28 page is an integral part of this financial statement

April 29, 2016

Board:

|  |  |                                     |                                     |
|--|--|-------------------------------------|-------------------------------------|
| Andris Krastiņš<br>Chancellor of the Board | Jānis Mierkalns<br>member of the Board | Evija Biriņa<br>member of the Board | Ilze Bukulde<br>member of the Board |
|--|--|-------------------------------------|-------------------------------------|

## Balance sheet

### ASSETS

|   | Note | 31.12.2015<br>EUR | 31.12.2014<br>EUR |
|---|------|-------------------|-------------------|
| <b>LONG-TERM INVESTMENTS</b>                                  |      |                   |                   |
| <b>Intangible investments</b>                                 |      |                   |                   |
| Concessions, patents, licences, trademarks and the like items |      | 23 760            | 36 701            |
| TOTAL   | 12   | <b>23 760</b>     | <b>36 701</b>     |
| <b>Fixed assets</b>   |      |                   |                   |
| Land, premises and buildings                                  |      | 5 630 341         | 5 963 855         |
| Equipment and machinery                                       |      | 10 513 206        | 9 678 507         |
| Other fixed assets  |      | 59 338            | 77 498            |
| Unfinished constructions                                      |      | 4 282 165         | 2 596 177         |
| Advance payments for fixed assets                             |      | 29 227            | 0                 |
| TOTAL   | 13   | <b>20 514 277</b> | <b>18 316 037</b> |
| <b>Biological assets</b>                                      |      |                   |                   |
| <b>Long-term financial investments</b>                        |      |                   |                   |
| Participation in the capital of related companies             | 14   | 1 009 149         | 1 009 149         |
| Investment in associated companies                            | 15   | 8 540             | 8 540             |
| Loans to the related companies                                | 16   | 958 356           | 969 555           |
| Deferred tax assets   | 10   | 108 974           | 108 974           |
| TOTAL   |      | <b>2 085 019</b>  | <b>2 096 218</b>  |
| <b>TOTAL LONG-TERM INVESTMENTS</b>                            |      | <b>23 361 383</b> | <b>21 355 173</b> |
| <b>CURRENT ASSETS</b>   |      |                   |                   |
| <b>Stocks</b>   |      |                   |                   |
| Raw materials, direct materials, auxiliary materials          |      | 1 664 079         | 2 689 650         |
| Biological assets   |      | 524 588           | 555 511           |
| Unfinished production   |      | 605 683           | 1 678 795         |
| Finished production and goods for sale                        |      | 2 112 554         | 1 351 877         |
| Advance payments for goods                                    |      | 64 203            | 108 535           |
| TOATL   | 17   | <b>4 971 107</b>  | <b>6 384 368</b>  |
| <b>Noncurrent assets held for sale</b>                        |      |                   |                   |
| Fixed assets held for sale                                    |      | <b>306 288</b>    | <b>306 288</b>    |
| <b>Debtors</b>  |      |                   |                   |
| Debts of buyers and customers                                 | 18   | 197 319           | 4 618 803         |
| Debts of subsidiaries   | 18   | 3 210 498         | 361 065           |
| Other debtors   | 19   | 42 430            | 72 011            |
| Expenditures of the next periods                              | 20   | 43 261            | 49 112            |
| TOTAL   |      | <b>3 493 508</b>  | <b>5 100 991</b>  |
| <b>Money and its equivalents</b>                              |      |                   |                   |
|   | 21   | 4 925             | 4 086             |
| <b>TOTAL CURRENT ASSETS</b>                                   |      | <b>8 775 828</b>  | <b>11 795 733</b> |
| <b>TOTAL ASSETS</b>   |      | <b>32 137 211</b> | <b>33 150 906</b> |

The annex from 12 to 28 page is an integral part of this financial statement  
 April 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



## Balance sheet (continuation)

| LIABILITIES  |  | Note | 31.12.2015        | 31.12.2014        |
|--|--|------|-------------------|-------------------|
|  |  |      | EUR               | EUR               |
| <b>Shareholders'equity</b>                         |  |      |                   |                   |
| Share capital                                      |  | 22   | 541 990           | 541 990           |
| Increase of price of the issue of shares           |  |      | 2 828             | 2 828             |
| 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           |  |      | 2 772 876         | 2 266 903         |
| Retained earnings from the year of account         |  |      | -1 500 332        | 505 973           |
| <b>Total shareholders'equity</b>                   |  |      | <b>7 158 587</b>  | <b>8 658 919</b>  |
| <b>Accruals</b>                                    |  |      |                   |                   |
| Accruals for holiday                               |  | 28   | 213 657           | 244 479           |
| TOTAL  |  |      | <b>213 657</b>    | <b>244 479</b>    |
| <b>Long-term liabilities</b>                       |  |      |                   |                   |
| Long-term loans from credit institutions           |  | 23   | 13 992 559        | 14 822 296        |
| Other creditors                                    |  | 27   | 1 610 396         | 1 355 438         |
| Long-term part of incomes from next periods        |  | 30   | 2 082 857         | 1 566 885         |
| TOTAL  |  |      | <b>17 685 812</b> | <b>17 744 619</b> |
| <b>Short-term liabilities</b>                      |  |      |                   |                   |
| Short-term loans from credit institutions          |  | 23   | 2 456 871         | 1 583 645         |
| Short-term part of financial lease                 |  | 24   | 1 000 114         | 25 551            |
| Debts to suppliers and contractors                 |  | 25   | 2 629 812         | 4 098 362         |
| Debts to subsidiaries                              |  | 25   | 377 083           | 0                 |
| Advance payments received from buyers              |  | 29   | 115 682           | 107 650           |
| Taxes payable                                      |  | 26   | 135 899           | 85 413            |
| Other creditors                                    |  | 27   | 141 111           | 137 173           |
| Incomes from the next periods short-term part      |  | 30   | 222 583           | 465 095           |
| TOTAL  |  |      | <b>7 079 155</b>  | <b>6 502 889</b>  |
| <b>Total liabilities</b>                           |  |      | <b>24 764 967</b> | <b>24 247 508</b> |
| <b>Total shareholders'equity and liabilities</b>   |  |      | <b>32 137 211</b> | <b>33 150 906</b> |

The annex from 12 to 28 page is an integral part of this financial statement

April 29,2016

Board:

Andris Krastiņš  
 Chancellor of the Board

Jānis Mierkalns  
 member of the Board

Evija Biriņa  
 member of the Board

Ilze Bukulde  
 member of the Board

## Cash flow statement

|  | 2015              | 2014             |
|--|-------------------|------------------|
|  | EUR               | EUR              |
| <b>I. Cash flow from basic activity</b>  |                   |                  |
| <b>Profit (+) or loss (-) before extraordinary items and taxes:</b>  | <b>-1 479 847</b> | <b>758 563</b>   |
| Corrections:   |                   |                  |
| wear and tear of fixed assets and intangible investments (+)   | 1 451 647         | 2 320 114        |
| revaluation of long-term investments/biological assets   | -57 744           | 68 610           |
| revaluation of biological assets   | 198 812           | -234 041         |
| Accruals (except accruals for doubtful debts )   | -30 822           | 22 330           |
| profit (-) or loss (+) from fluctuations of exchange rate  | 11 249            | 0                |
| Income from finansation recognition  | -189 275          | -486 816         |
| Interest income  | -21 446           | -37 816          |
| Interest expenditure   | 287 447           | 426 351          |
| <b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b> | <b>170 020</b>    | <b>2 837 295</b> |
| Corrections:   |                   |                  |
| <b>increase (+) or decrease (-) of debtors debt</b>  | <b>1 640 929</b>  | <b>-470 389</b>  |
| increase (+) or decrease (-) of the reserves of accruals   | 1 382 339         | -2 385 578       |
| increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors               | -82 693           | 2 033 998        |
| Gross cash flow from basic activity  | 3 110 595         | 2 015 326        |
| <b>Expenditures to pay interest payments</b>   | <b>-286 951</b>   | <b>-424 333</b>  |
| Expenditures to pay property tax   | -20 485           | 0                |
| Net cash flow from basic activity  | 2 803 159         | 1 590 993        |
| <b>II. Cash flow from investments</b>  |                   |                  |
| Income from selling fixed assets and intangible investments  | 50 083            | 181 468          |
| Acquisition of fixed assets and intangible investments   | -1 479 409        | -215 044         |
| Expenditures for advance payments for fixed assets and unfinished  | -1 715 215        | -2 575 730       |
| Loans issued   | -50               | -180 027         |
| Net cash flow from investments   | -3 144 591        | -2 789 333       |
| <b>III. Cash flow from financing activities</b>  |                   |                  |
| Recieved loans   | 1 287 728         | 2 827 817        |
| Recieved subsidies and grants  | 462 735           | 0                |
| Expenditures for paying back loans   | -640 699          | -1 653 645       |
| Expenditures for the leased asset ransom   | -163 953          | 0                |
| Changes of credit lines  | -603 540          | 0                |
| Cash flow from financing activities  | 342 271           | 1 174 172        |
| <b>IV. Fluctuations of exchange rate</b>   | <b>0</b>          | <b>0</b>         |
| <b>V. Net cash flow of the year of account increase (+), decrease (-)</b>  | <b>839</b>        | <b>-24 168</b>   |
| <b>VI. Money and its equivalents balance at the beginning of the year of account</b>                                       | <b>4 086</b>      | <b>28 254</b>    |
| <b>VII. Money and its equivalents balance at the end of the year of account</b>  | <b>4 925</b>      | <b>4 086</b>     |

Cash flow statement is prepared according to indirect method in accordance with rules of The Cabinet of Ministers no. 481.  
 The annex from 12 to 28 page is an integral part of this financial statement

April 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 on the changes in own capital

|  | Share capital  | Share premium | Reserves from revaluation of long-term investments | Other reserves   | Previous years retained earnings | Retained profit/loss of the year of account | Total own capital |
|--|----------------|---------------|--|------------------|----------------------------------|---|-------------------|
|  | EUR            | EUR           | EUR  | EUR              | EUR                              | EUR   | EUR               |
| <b>December 31, 2013</b>                   | <b>550 845</b> | <b>2 827</b>  | <b>1 110 312</b>                                   | <b>3 732 314</b> | <b>2 161 133</b>                 | <b>105 762</b>                              | <b>7 663 193</b>  |
| Adjustments for the transition to the euro | 0              | 1             | 0  | -1               | 8                                | 0   | 8                 |
| Distribution of profit of the year 2013    | 0              | 0             | 0  | 0                | 105 762                          | -105 762                                    | 0                 |
| Investment revaluation reserve             | 0              | 0             | 489 745  | 0                | 0                                | 0   | 489 745           |
| Change in share capital                    | -8 855         | 0             | 0  | 8 855            | 0                                | 0   | 0                 |
| Profit of the year of account              | 0              | 0             | 0  | 0                | 0                                | 505 973                                     | 505 973           |
| <b>December 31, 2014</b>                   | <b>541 990</b> | <b>2 828</b>  | <b>1 600 057</b>                                   | <b>3 741 168</b> | <b>2 266 903</b>                 | <b>505 973</b>                              | <b>8 658 919</b>  |
| Distribution of profit of the year 2014    | 0              | 0             | 0  | 0                | 505 973                          | -505 973                                    | 0                 |
| Investment revaluation reserve             | 0              | 0             | 0  | 0                | 0                                | 0   | 0                 |
| Profit of the year of account              | 0              | 0             | 0  | 0                | 0                                | -1 500 332                                  | -1 500 332        |
| <b>December 31, 2015</b>                   | <b>541 990</b> | <b>2 828</b>  | <b>1 600 057</b>                                   | <b>3 741 168</b> | <b>2 772 876</b>                 | <b>-1 500 332</b>                           | <b>7 158 587</b>  |

The annex from 12 to 28 page is an integral part of this financial statement

April 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

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

The Company mainly engaged in logging and wood processing.

### 2. Important accounting principles

#### *Basis of preparation*

The financial statement reflects only the financial position of JSC „PATA Saldus” as a stand-alone entity; the financial position of companies belonging to the JSC „PATA Saldus” Group (i.e. JSC „PATA Saldus” and its subsidiaries) is presented in a separate set of consolidated financial statements.

The financial statements of JSC „ PATA Saldus” is prepared in accordance with the Law on Accounting and Law on Annual Reports of the Republic of Latvia.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is euro (EUR, the monetary unit of the Republic of Latvia). The financial statements cover the period 1 January 2015 through 31 December 2015.

#### *Use of calculations (continuation)*

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.

#### *Decrease of the value of assets*

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

#### *Currency unit and Foreign currency translation*

All amounts in these financial statements are expressed in the Latvian national currency – euro (EUR). On the last day of the reporting year all monetary assets and liabilities were translated into euro in accordance with the rates published on the European Central Bank’s website

|       | 31.12.2015 | 31.12.2014 |
|-------|------------|------------|
|       | EUR        | EUR        |
| 1 RUB | 0.0124     | 0.0144     |
| 1 USD | 0.9185     | 0.8224     |

#### *Intangible investment*

The intangible assets include software licenses used in the company and other intangible assets.

Intangible assets are stated at cost, which is being amortized over the useful life using the straight-line method. When events or changes in circumstances indicate that the carrying value of intangible assets may not be recoverable, the value of respective intangible assets are reviewed for impairment. Losses from impairment is recognized if the carrying value of intangible assets exceeds its recoverable amount.

Company software licenses are stated at cost less accumulated amortization.

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Amortization is calculated for the whole period of useful using the straight-line method. Costs associated with maintenance of the software are included as expenses in the income statement. See Paragraph 12 of the Annex.

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

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Land is not depreciated. Assets acquired value below 142 euros are included in the income statement.

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in profit or loss.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

Buildings, constructions 10-20 years

Machinery and equipment 2-15 years

Forestry machinery 3-5 years

Timber processing lines 3-15 years

Other fixed assets 2-10 years

Computing and data storage systems, software 2-5 years

In the reporting year the members of the Board took the decision to change the depreciation rates starting from 1 January 2015 for the following fixed assets groups:

- Machinery and equipment from 2-15 years (previously from 2-10 years);
- Timber processing lines from 3-15 years (previously from 3-10 years).

As a result of this activity in 2015 was reduced depreciation by EUR 927,589.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable value. As possible certified valuers have performed revaluation of the property, plant and equipment by applying the depreciated replacement cost model.

Construction in progress represents assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed 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 fair 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 Appraiser. In case of radical changes in the real estate market valuation may be ordered more frequently. Over the last assessment made Ltd. VGG group of experts calculating the market value on April 29, 2014.

Movement of company property, plant and equipment is shown in the Paragraph 13 of the Annex.

### ***Biological assets***

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic 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 2015 applying discount rate of 8%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2015. 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

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### **Investments in subsidiaries**

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

### **Reserves**

#### *Unfinished products*

Reserves are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, the cost of direct materials purchase costs and labor costs plus the indirect production costs, which consist of labor, energy, depreciation and other production-related expense calculated based on normal production volumes. Net selling value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

*Raw materials are accounted in their purchase costs.*

#### *Finished goods and goods for sale*

Reserves are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, the cost of direct materials purchase costs and labor costs plus the indirect production costs, which consist of labor, energy, depreciation and other production-related expense calculated based on normal production volumes. Net selling value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

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.

### **Cash and cash equivalents**

Cash and cash equivalents comprise balances of current account with banks and other highly liquid investments with original maturities up to 90 days.

### **Accruals**

Accruals are acknowledged if the Company 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 Company will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Company 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.

### **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.

### **Property revaluation surplus**

The revaluation surplus is included in other comprehensive income and accrued amount is reflected in equity under the heading "Investment revaluation reserve".

### **Deferred income**

Government grants related to assets, including non-monetary grants, are accounted for at fair value, presented as deferred income in the statement of financial position, which are recognised as income from the different exercises on a systematic and rational, over the life of the related assets.

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### **Lease**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income as interest payments.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term and are accounted in the income statement for the whole lease period according to straight-line basis.

More detailed information on this finance lease is available in Note 24.

### **Income recognition**

*Incomes are recognised in proportion to assurance that the Company 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:*

#### *Rendering of services*

Company income is mainly derived from rendering of transport services, and timber processing related services. Income from provision of services is accounted according to the volume of respective service rendered. Revenue is recognised in the period when the services are rendered.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is when the Company has delivered products to the buyer and the buyer has accepted products according to the contract provisions and satisfactory evidence is acquired as to receipt of debtors receivables.

#### *Interest*

Interest is recognised according to savings method.

#### *Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

#### *Income from lease*

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

### **Corporate income tax**

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% set in legislative acts of the Republic of Latvia on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as temporary difference in interest or securities in excess of set limits and tax losses carried forward for the subsequent five years. Asset of deferred corporate income tax is only reflected in the financial statements if sufficient evidence is acquired as to the planned recoverability of it.

### **Associated persons**

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

### **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 Company is pretty grounded.

### 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 registered shares. More detailed information on spread of share capital is given in the Note 22.

### Accruals and deferred liabilities

Accrual and deferred liabilities are accounted for cost and expense to be recognised at the moment of occurrence.

### 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 Company'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 Company activities

The Company 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   | 3 157 348      | 7 487 688      | 31 092 939        | 41 643 003       | 2 525 900         | 2 094 159         | 36 776 187        | 51 224 851       |
| Production costs of the sold production                    | -2 861 521     | -7 289 354     | -31 327 067       | -39 667 574      | -3 127 717        | -2 090 915        | -37 316 305       | -49 047 843      |
| Selling costs  | -4 551         | -5 123         | -670              | -34 441          | -18 927           | -5 486            | -24 148           | -45 050          |
| General administration costs                               | -18 869        | -7 099         | -24 988           | -16 955          | -367 972          | -345 636          | -411 829          | -369 691         |
| Other income/expenditures from company's economic activity | 33 741         | 36 579         | -178 288          | -149 505         | 16 934            | -363 649          | -127 613          | -476 576         |
| <b>Profit or loss from economic activity</b>               | <b>306 148</b> | <b>222 691</b> | <b>-438 074</b>   | <b>1 774 527</b> | <b>-971 782</b>   | <b>-711 527</b>   | <b>-1 103 708</b> | <b>1 285 691</b> |
| Other interest income/payments and the like income         | -11 563        | -7 482         | -81 485           | -191 428         | -283 091          | -328 218          | -376 139          | -527 128         |
| Company's deferred income tax                              | 0              | 0              | 0                 | 0                | -16 961           | -232 275          | 0                 | -232 275         |
| Other taxes  | 0              | 0              | -8 067            | -8 067           | -12 418           | -12 248           | -20 485           | -20 315          |
| Income from segments activities                            | -150 496       | 39 733         | -127 102          | -309 836         | 277 598           | 270 103           | 0                 | 0                |
| <b>Profit or (loss)</b>                                    | <b>144 089</b> | <b>254 942</b> | <b>-654 728</b>   | <b>1 265 196</b> | <b>-1 006 654</b> | <b>-1 014 165</b> | <b>-1 500 332</b> | <b>505 973</b>   |
| Segment assets   | 2 759 078      | 4 845 766      | 27 170 852        | 26 949 874       | 2 207 281         | 1 355 265         | 32 137 211        | 33 150 906       |
| Segment liabilities  | 2 464 373      | 4 926 795      | 26 979 214        | 26 810 884       | 2 693 624         | 1 413 227         | 32 137 211        | 33 150 906       |

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

The management of the Company 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*

Income in this segment mainly arises from the provision of transport services and collected fees for the company's real estate and other management-related revenues.

#### 4. Net turnover through geographical segments

Since the economic activity of the Company 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               |
| <b>Income from sales, int. Al.</b>                 | <b>33 145 035</b> | <b>48 096 323</b> |
| Latvia   | 33 145 035        | 48 096 323        |
| <b>Income from rendering of services, int. Al.</b> | <b>3 441 940</b>  | <b>2 641 712</b>  |
| Latvia   | 3 441 940         | 2 641 712         |
| <b>Financing of the EU structural funds</b>        | <b>189 212</b>    | <b>486 816</b>    |
|  | <b>36 776 187</b> | <b>51 224 851</b> |

#### 5. Production cost of products sold

|   | 2015              | 2014              |
|---|-------------------|-------------------|
|   | EUR               | EUR               |
| <u>Production cost of products sold</u>       |                   |                   |
| Salary of employees                           | 2 189 144         | 2 285 180         |
| Social insurance costs                        | 527 207           | 533 294           |
| Reserve for vacation pays                     | 29 227            | 15 440            |
| Depreciation of property, plant and equipment | 1 391 149         | 2 270 271         |
| Costs of purchase of materials                | 1 271 928         | 641 959           |
| Stem fee (purchase of cutting rights)         | 1 113 276         | 5 060 679         |
| Purchase costs of sawn timber                 | 25 429 052        | 32 309 462        |
| WIP inventory adjustment                      | -127 488          | -266 646          |
| Electricity and heating costs                 | 1 354 035         | 1 514 071         |
| Production related contractors expenses       | 1 473 284         | 2 044 536         |
| Production equipment maintenance costs        | 705 978           | 814 347           |
| Fuel costs                                    | 761 967           | 993 479           |
| Revaluation of biological assets              | 198 812           | -286 709          |
| Production equipment maintenance costs        | 978 410           | 1 066 868         |
| Other services received                       | 20 324            | 51 612            |
|   | <b>37 316 305</b> | <b>49 047 843</b> |

#### 6. Cost of sale

|   | 2015          | 2014          |
|---|---------------|---------------|
|   | EUR           | EUR           |
| Advertisement costs, market research, marketing | 5 111         | 10 655        |
| Transportation costs of goods                   | 18 503        | 21 862        |
| Other production costs                          | 534           | 12 533        |
|   | <b>24 148</b> | <b>45 050</b> |

## 7. General and administration costs

|   | 2015           | 2014           |
|---|----------------|----------------|
|   | EUR            | EUR            |
| Salaries to employees                                 | 108 075        | 90 815         |
| Social insurance costs                                | 26 256         | 21 468         |
| Unused vacation pay reserve                           | 1 595          | 1 883          |
| Depreciation of property, plant and equipment         | 60 498         | 49 843         |
| Expense associated with maintenance of administration | 46 027         | 49 885         |
| Office maintenance costs                              | 101 093        | 91 100         |
| Annual report audit expenses                          | 5 040          | 9 735          |
| Banking expenses                                      | 63 245         | 54 962         |
|   | <b>411 829</b> | <b>369 691</b> |

## 8. Other operating income and expense

|  | 2015           | 2014           |
|--|----------------|----------------|
|  | EUR            | EUR            |
| <u>Other income</u>                                |                |                |
| Net income from sale of fixed assets               | 57 744         | 404            |
| Income from lease of fixed assets                  | 145 023        | 133 844        |
| Financing of the EU structural funds and LAD       | 14 204         | 18 507         |
|  | <b>216 971</b> | <b>152 755</b> |
| <u>Other expense</u>                               |                |                |
| Dues paid for land plots used in production        | 10 647         | 10 972         |
| Security costs                                     | 70 556         | 94 556         |
| Employee training expenses                         | 4 450          | 31 160         |
| Provisions for doubtful accounts receivable        | 10 672         | 264 407        |
| Other expense for provision of economic activities | 248 259        | 228 236        |
|  | <b>344 584</b> | <b>629 331</b> |

## 9. Financial income/ (expense), net

|                                     | 2015           | 2014           |
|-------------------------------------|----------------|----------------|
|                                     | EUR            | EUR            |
| <u>Income</u>                       |                |                |
| Income from the interest due        | 21 446         | 37 816         |
| Other income                        | 1 629          | 1 965          |
|                                     | <b>23 075</b>  | <b>39 781</b>  |
| <u>Expense</u>                      |                |                |
| Currency exchange expenses          | 24 006         | 37 562         |
| Exchange rate fluctuations expenses | 17 911         | 153 145        |
| Fines paid                          | 32 302         | 24 905         |
| Other expense                       | 37 548         | 32 056         |
| Loan interest calculated            | 280 823        | 319 241        |
| Financial lease interest recognised | 6 624          | 0              |
|                                     | <b>399 214</b> | <b>566 909</b> |

#### 10. Deferred corporate income tax:

|  | 2015              | 2014            |
|--|-------------------|-----------------|
|  | EUR               | EUR             |
| <u>Liabilities of the deferred company income tax</u>  |                   |                 |
| The residual value of capital assets in accounting<br>(excluding the value of land, advance payments and<br>unfinished construction) | 14 277 070        | 13 813 119      |
| Residual value of capital assets needed for taxes  | 7 430 357         | 8 072 584       |
| Tax losses not covered   | 1 479 197         | 1 016 709       |
| Accruals for holidays  | 32 049            | 36 672          |
| Adjustment of biological asset   | -110 749          | -83 327         |
| Accruals of unfinished production  | 0                 | -39 997         |
| Temporary difference   | -6 846 713        | -5 740 535      |
| <b>Liabilities of deferred tax</b>   | <b>-1 027 007</b> | <b>-861 080</b> |
| <b>Assets of deferred tax</b>  | <b>373 490</b>    | <b>108 974</b>  |
| <b>Deferred tax 15%*</b>   | <b>-264 516</b>   | <b>-232 275</b> |

\*Unrecognised tax assets-in Profit or loss calculation are shown 0 EUR

#### 11. Other taxes

|                 | 2015          | 2014          |
|-----------------|---------------|---------------|
|                 | EUR           | EUR           |
| Real estate tax | 20 485        | 20 315        |
|                 | <b>20 485</b> | <b>20 315</b> |

#### 12. Intangible investment

|   |                               | Software       |
|---|-------------------------------|----------------|
|   |                               | EUR            |
| <b>As at 31.12.2014.</b>                |                               | <b>120 947</b> |
|   | Purchase                      | 638            |
| 2015                                    | Liquidity                     | 0              |
|   | Impairment                    | 0              |
| <b>As at 31.12.2015</b>                 |                               | <b>121 585</b> |
| <b>Amortisation accrued 31.12.2014.</b> |                               | <b>84 246</b>  |
|   | Amortisation                  | 13 579         |
| 2015                                    | Amortisation of liquid assets | 0              |
|   | Impairment                    | 0              |
| <b>Amortisation accrued 31.12.2015</b>  |                               | <b>97 825</b>  |
| <b>As at 31.12.2014</b>                 |                               | <b>36 701</b>  |
| <b>As at 31.12.2015</b>                 |                               | <b>23 760</b>  |
| Amortisation rate (by linear method)    |                               | 5 year         |

### 13. Capital assets

|   | Land,<br>buildings<br>and systems | Equipment<br>and<br>machinery | Other fixed<br>assets | Unfinished<br>fixed assets | Advance<br>payments<br>for fixed<br>assets | Total             |
|---|-----------------------------------|-------------------------------|-----------------------|----------------------------|--|-------------------|
|   | EUR                               | EUR                           | EUR                   | EUR                        | EUR  | EUR               |
| <b>Accounting value 31.12.2014</b>      | <b>7 973 492</b>                  | <b>17 293 339</b>             | <b>237 824</b>        | <b>2 596 177</b>           | <b>0</b>                                   | <b>28 100 832</b> |
| 2015                                    |                                   |                               |                       |                            |  |                   |
| Purchase                                | 6 134                             | 1 902 525                     | 16 773                | 1 685 988                  | 29 227                                     | 3 640 647         |
| Liquidity                               | 0                                 | -555 653                      | -11 234               | 0                          | 0  | -566 887          |
| Reconstruction                          | 0                                 | 0                             | 0                     | 0                          | 0  | 0                 |
| Regrouping                              | 0                                 | 0                             | 0                     | 0                          | 0  | 0                 |
| <b>Accounting value 31.12.2015</b>      | <b>7 979 626</b>                  | <b>18 640 211</b>             | <b>243 363</b>        | <b>4 282 165</b>           | <b>29 227</b>                              | <b>31 174 592</b> |
| <b>Accured wear and tear 31.12.2014</b> | <b>2 009 637</b>                  | <b>7 614 831</b>              | <b>160 326</b>        | <b>0</b>                   | <b>0</b>                                   | <b>9 784 794</b>  |
| 2015                                    |                                   |                               |                       |                            |  |                   |
| Depreciation                            | 339 648                           | 1 063 488                     | 34 932                | 0                          | 0  | 1 438 068         |
| Depreciation of liquid assets           | 0                                 | -551 314                      | -11 234               | 0                          | 0  | -562 548          |
| Regrouping                              | 0                                 | 0                             | 0                     | 0                          | 0  | 0                 |
| <b>Accured wear and tear 31.12.2015</b> | <b>2 349 285</b>                  | <b>8 127 005</b>              | <b>184 025</b>        | <b>0</b>                   | <b>0</b>                                   | <b>10 660 315</b> |
| <b>Residual value 31.12.2014</b>        | <b>5 963 855</b>                  | <b>9 678 507</b>              | <b>77 498</b>         | <b>2 596 177</b>           | <b>0</b>                                   | <b>18 316 037</b> |
| <b>Residual value 31.12.2015</b>        | <b>5 630 341</b>                  | <b>10 513 206</b>             | <b>59 338</b>         | <b>4 282 165</b>           | <b>29 227</b>                              | <b>20 514 277</b> |

Amortisation rate  
 (by linear method)

5-20 year      2-15 year      2-10 year

Cadastral value of lands and buildings of the company at the balance date amounts to 1 361 739 EUR.

### 14. Investment in related companies

|  | Shares<br>owned % | Investment<br>value | Additional<br>contribution/<br>Impairment | Accounting value of<br>investment as at<br>31.12.2015 |
|--|-------------------|---------------------|---|---|
|  |                   | EUR                 | EUR                                       | EUR   |
| SIA Pakuļu sporta bāze                   | 100               | 207 739             | -155 328                                  | 52 411  |
| ООО Салдус                               | 100               | 7 385               | 0   | 7 385   |
| ООО Деревообрабатывающий комбинат № 3    | 100               | 530 899             | 418 454                                   | 949 353   |
| <b>total loans to related companies:</b> |                   | <b>746 023</b>      | <b>263 126</b>                            | <b>1 009 149</b>                                      |

Certified evaluator has made an assessment to subsidiar companies real estate on 28.04.2014 in total value EUR 1 728 899.

### 15. Investment in associated companies

|  | Shares<br>owned % | Investment<br>value | Depreciation<br>of value | Accounting value of<br>investment as at<br>31.12.2015 |
|--|-------------------|---------------------|--------------------------|---|
|  |                   | EUR                 | EUR                      | EUR   |
| SIA Saldus enerģija                              | 20                | 8 540               | 0                        | 8 540   |
| <b>total investment in associated companies:</b> |                   | <b>8 540</b>        | <b>0</b>                 | <b>8 540</b>  |

Associated companies equity of subsidiary enterprise at 31.12.2015 907 740 EUR.

Subsidiary enterprise loss of the account year 67 469 EUR.

## 16. Loans in related companies

|  | 2015           | 2014           |
|--|----------------|----------------|
|  | EUR            | EUR            |
| SIA Pakuļu sporta bāze                   | 306 267        | 306 217        |
| ООО «Салдус»                             | 13 821         | 16 129         |
| ООО «Деревообрабатывающий комбинат № 3»  | 638 268        | 647 209        |
| <b>total loans to related companies:</b> | <b>958 356</b> | <b>969 555</b> |

|   | 2015           | 2014             |
|---|----------------|------------------|
|   | EUR            | EUR              |
| <b>Accounting value as at 31.12.2014</b>        | <b>969 555</b> | <b>1 012 392</b> |
| Amounts lended in 2015 (+)                      | 50             | 180 028          |
| Deleted loan in 2015(-)                         | 0              | -180 840         |
| Exchange rate fluctuations change               | -11 249        | -42 025          |
| <b>Outstanding loan amount as at 31.12.2015</b> | <b>958 356</b> | <b>969 555</b>   |

Shareholder's equity of subsidiary enterprise at 31.12.2015 (862 294) EUR.

Subsidiary enterprise loss of the account year 190 956 EUR.

## 17. Inventories

|  | 2015             | 2014             |
|--|------------------|------------------|
|  | EUR              | EUR              |
| Materials, spare parts, inventory                  | 88 261           | 104 192          |
| Raw materials (round timber in forest and in mill) | 1 575 818        | 2 585 458        |
| <b>Total raw materials:</b>                        | <b>1 664 079</b> | <b>2 689 650</b> |
| Biological assets                                  | <b>524 588</b>   | <b>555 511</b>   |
| Unfinished goods (in forest)                       | 50 483           | 52 308           |
| Timber in production                               | 555 200          | 1 626 487        |
| <b>Total unfinished goods:</b>                     | <b>605 683</b>   | <b>1 678 795</b> |
| Ready sawn materials products                      | 2 112 554        | 1 351 877        |
| <b>Total ready products and goods for sale</b>     | <b>2 112 554</b> | <b>1 351 877</b> |
| Advance payments for goods                         | <b>64 203</b>    | <b>108 535</b>   |

No non-marketable stock was recorded as per inventory performed at 31.12.2015.

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## 18. Trade receivables

|                                       | 2015      | 2014      |
|---------------------------------------|-----------|-----------|
|                                       | EUR       | EUR       |
| Accounting value of trade receivables | 197 319   | 4 618 803 |
| Debts of associated companies         | 3 210 498 | 361 065   |
| Spread by currencies:                 |           |           |
| EUR                                   | 3 317 761 |           |
| RUB                                   | 7 265 151 |           |

Balance of trade receivables is reflected in the balance sheet in their net value. At the beginning of the reporting period, the balance of the provision for bad debts is EUR 273 608. In 2015 provisions for doubtful debts are made in amount of EUR 10 672. Provision for doubtful debts on 31.12.2015. is EUR 284 280. Bad debt provisions have been made based on assessment of financial status and operational activities of clients considering repayment of debts in accordance with agreements signed and potential for recovery of debt. Provisions are made for debtors which for duration of 2 years do not reply to verification notes and cannot be found at given addresses, which have not made any payments within a year, as well as debtors regarding which insolvency procedure has been started

## 19. Other debtors

|                               | 2015          | 2014          |
|-------------------------------|---------------|---------------|
|                               | EUR           | EUR           |
| Surplus VAT payment           | 38 193        | 67 733        |
| Guarantee payments made       | 4 237         | 4 237         |
| Other debtors                 | 0             | 41            |
| <b>In total other debtors</b> | <b>42 430</b> | <b>72 011</b> |

## 20. Expenditures of the next periods

|   | 2015          | 2014          |
|---|---------------|---------------|
|   | EUR           | EUR           |
| Insurance                                       | 18 453        | 14 976        |
| Licence fees                                    | 304           | 1 455         |
| Other   | 24 504        | 32 681        |
| <b>In total expenditure of the next periods</b> | <b>43 261</b> | <b>49 112</b> |

## 21. Money and its equivalents

|                    | 2015         | 2014         |
|--------------------|--------------|--------------|
|                    | EUR          | EUR          |
| Money in accounts  | 4 925        | 4 086        |
| <b>Money total</b> | <b>4 925</b> | <b>4 086</b> |

| Currency division | 2015     |              | 2014     |              |
|-------------------|----------|--------------|----------|--------------|
|                   | Currency | EUR          | Currency | EUR          |
|                   | EUR      | 4925         |          | 3822         |
|                   | USD      | 0            |          | 320          |
|                   |          | <b>4 925</b> |          | <b>4 086</b> |

## 22. Share capital, reserves and profit per share

Changes in share capital and distribution of shares among shareholders are shown in the following way:

|                                    | %     | 2015<br>EUR    | 2014<br>EUR    |
|------------------------------------|-------|----------------|----------------|
| <b>Shares of closed issue</b>      |       |                |                |
| SIA Saldus mežrūpniecības uzņēmums | 44.39 | 171 833        | 171 833        |
| SIA Juridiskais birojs Merkants    | 0.00  | 0              | 105 327        |
| SIA Pienjāņi                       | 0.00  | 0              | 46 928         |
| SIA JL Index                       | 0.00  | 0              | 19 357         |
| SIA Kubīt                          | 27.21 | 105 327        | 0              |
| SIA PATA                           | 20.88 | 80 842         | 0              |
| stockholders (each below 5%)       | 8.00  | 29 134         | 43 691         |
| Shares of public offering *        |       | 387 136        | 61 167         |
| <b>Total:</b>                      |       | <b>387 136</b> | <b>387 136</b> |

|            | Number of<br>shares | The value of<br>the shares |
|------------|---------------------|----------------------------|
| 31.12.2014 | 387 136             | 541 990                    |
| 31.12.2015 | 387 136             | 541 990                    |

\*Shares of public offering consist of 387136 shares the holder and controller of which is the joint-stock company Latvian Central Depository, consequently these shares are available in the market.

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account is divided with the weighted-average number of shares in circulation in the period of account which is 387 136.

A nominal value of each share is 1.40 euro.

In compliance with the statutes, the profit which remains after dividends are paid and included in undividable reserves is included in other reserves and used for the further development of the company.

|  | 2015<br>EUR  | 2014<br>EUR |
|--|--------------|-------------|
| Profit of the period of account        | -1 500 332   | 505 973     |
| Number of shares 31.12.2015            | 387 136      | 387 136     |
| <b>Basic profit per share per year</b> | <b>-3.88</b> | <b>1.31</b> |

### 23. Loans from credit institutions

|   | % rate in force      | The repayment term | 2015<br>EUR       | 2014<br>EUR       |
|---|----------------------|--------------------|-------------------|-------------------|
| <b>Long-term:</b>                                 |                      |                    |                   |                   |
| Nordea Bank AB Latv. Fil creditline((2013-104-OD) | EONIA + 2.5%         | 20.05.2017         | 7 828 991         | 7 829 915         |
| Nordea Bank AB Latv. Fil creditline(2011-150-OD)  | EONIA + 2.4%         | 31.12.2016         | 0                 | 1 498 556         |
| Nordea Bank AB Latv. Fil creditline9(2011-150-OD) | EONIA + 2.4%         | 30.11.2016         | 688 911           | 748 650           |
| Nordea Bank AB Latv. Fil (2012-85-A)              | EURIBOR (12m) + 2.4% | 31.07.2017         | 432 108           | 454 976           |
| Nordea Bank AB Latv. Fil ((2012-84-A)             | EURIBOR (12m) + 2.4% | 31.07.2017         | 1 439 959         | 1 579 130         |
| Nordea Bank AB Latv. Fil (2006/202/A              | EURIBOR (3m) + 2.4%  | 28.02.2018         | 238 916           | 279 583           |
| Nordea Bank AB Latv. Fil (2006-147-A)             | EURIBOR (3m) + 2.4%  | 05.03.2018         | 124 447           | 145 613           |
| Nordea Bank AB Latv. Fil (2014-169-A)             | EURIBOR (1m) +1.5%   | 10.08.2019         | 1 783 321         | 1 375 410         |
| JSC development financial institution Altum       | EURIBOR (1m) +1.5%   | 26.08.2024         | 1 455 907         | 910 463           |
|   |                      |                    | <b>13 992 559</b> | <b>14 822 296</b> |
| <b>Short-term:</b>                                |                      |                    |                   |                   |
| Nordea Bank AB Latv. Fil creditline(2010-139-OD)  | EONIA + 2.4%         | up to 12 mon.      | 1 580 671         | 499 992           |
| Nordea Bank AB Latv. Fil creditline(2011-150-OD)  | EONIA + 2.4%         | up to 12 mon.      | 125 000           | 250 000           |
| Nordea Bank AB Latv. Fil (2012-85-A)              | EURIBOR (12m) + 2.4% | up to 12 mon.      | 45 735            | 91 470            |
| Nordea Bank AB Latv. Fil (2012-84-A)              | EURIBOR (12m) + 2.4% | up to 12 mon.      | 278 342           | 556 683           |
| Nordea Bank AB Latv. Fil (2006/202/A              | EURIBOR (3m) + 2.4%  | up to 12 mon.      | 61 000            | 122 000           |
| Nordea Bank AB Latv. Fil (2006-147-A)             | EURIBOR (3m) + 2.4%  | up to 12 mon.      | 31 750            | 63 500            |
| Nordea Bank AB Latv. Fil (2014-169-A)             | EURIBOR (1m) +1.5%   | up to 12 mon.      | 334 373           | 0                 |
|   |                      |                    | <b>2 456 871</b>  | <b>1 583 645</b>  |
| <b>Total</b>                                      |                      |                    | <b>16 449 430</b> | <b>16 405 941</b> |

As the collateral for the claims raised due to the loan agreement signed the Company has mortgaged real estate

### 24. Liabilities of financial lease and other loans

|                            | % rate in force     | 2015<br>EUR      | 2014<br>EUR   |
|----------------------------|---------------------|------------------|---------------|
| <b>Short-term:</b>         |                     |                  |               |
| Nordea finance Latvija SIA | EURIBOR (12m) + 2%  | 862 120          | 0             |
| Nordea finance Latvija SIA | EURIBOR (3m) + 2.4% | 137 994          | 25 551        |
|                            |                     | <b>1 000 114</b> | <b>25 551</b> |

### 25. Debts to suppliers and contractors

|                                    | 2015<br>EUR      | 2014<br>EUR      |
|------------------------------------|------------------|------------------|
| Debts to suppliers and contractors | 2 629 812        | 4 098 362        |
| Debts to subsidiaries              | 377 083          | 0                |
|                                    | <b>3 006 895</b> | <b>4 098 362</b> |



## 26. Taxes payable

|  | 31.12.2014      | Paid in 2015   | Calculated in 2015 | Fine         | transferred to account | Taxes recognized as other taxes | 31.12.2015      |
|--|-----------------|----------------|--------------------|--------------|------------------------|---------------------------------|-----------------|
|  | EUR             | EUR            | EUR                | EUR          |                        | EUR                             | EUR             |
| Value Added Tax                                | 67 733          | 27 800         | -529 161           | 50           | -4 077                 | -582 374                        | 38 193          |
| Personal Income Tax                            | -66 005         | 329 441        | 443 423            | 7 431        | 0                      | 117 567                         | -69 850         |
| State Social Insurance Mandatory Contributions | -19 266         | 289 100        | 799 813            | 651          | 0                      | 464 790                         | -65 838         |
| Natural Resources Tax                          | -142            | 144            | 142                | 0            | 0                      | -2                              | -142            |
| Real Estate Tax                                | 2               | 20 499         | 20 501             | 0            | 0                      | 0                               | 0               |
| Risk duty                                      | 38              | 700            | 823                | 1            | 0                      | 17                              | -69             |
| <b>Total</b>                                   | <b>-17 640</b>  | <b>667 684</b> | <b>735 541</b>     | <b>8 133</b> | <b>-4 077</b>          | <b>-2</b>                       | <b>-97 706</b>  |
| <b>Debt on taxes</b>                           | <b>-119 887</b> | <b>0</b>       | <b>0</b>           | <b>0</b>     | <b>0</b>               | <b>0</b>                        | <b>-135 899</b> |
| <b>Overpayd taxes</b>                          | <b>31 428</b>   | <b>0</b>       | <b>0</b>           | <b>0</b>     | <b>0</b>               | <b>0</b>                        | <b>38 193</b>   |

## 27. Other liabilities

|  | 2015             | 2014             |
|--|------------------|------------------|
|  | EUR              | EUR              |
| <u>Short-term</u>                      |                  |                  |
| Salary payments                        | 136 290          | 132 310          |
| Contributions to private pension funds | 3 042            | 3 042            |
| Payments for deductions from wages     | 1 045            | 1 230            |
| Advances                               | 475              | 0                |
| Advance payments to employees          | 259              | 116              |
|  | <b>141 111</b>   | <b>137 173</b>   |
| <u>Long-term:</u>                      |                  |                  |
| Nordea Finance Latvia SIA              | 363 729          | 108 771          |
| Other creditors                        | 1 246 667        | 1 246 667        |
|  | <b>1 610 396</b> | <b>1 355 438</b> |

## 28. Accrued for holidays

|                      | 2015           | 2014           |
|----------------------|----------------|----------------|
|                      | EUR            | EUR            |
| Accrued for holidays | 213 657        | 244 479        |
|                      | <b>213 657</b> | <b>244 479</b> |

## 29. Accrued liabilities

|                     | 2015           | 2014           |
|---------------------|----------------|----------------|
|                     | EUR            | EUR            |
| Accrued liabilities | 115 682        | 107 650        |
|                     | <b>115 682</b> | <b>107 650</b> |

### 30. Incomes from the next periods.

|                          | 2015             | 2014             |
|--------------------------|------------------|------------------|
|                          | EUR              | EUR              |
| <b>Long-term:</b>        |                  |                  |
| Project No. APV-14-0014  | 422 837          | 0                |
| Project No.L-APV-10-0015 | 1 660 020        | 1 566 885        |
|                          | <b>2 082 857</b> | <b>1 566 886</b> |
| <b>Short-term</b>        |                  |                  |
| Project No. APV-14-0014  | 36 829           | 1 316            |
| Project No.L-APV-10-0015 | 185 754          | 463 717          |
| Other income             | 0                | 62               |
|                          | <b>222 583</b>   | <b>465 094</b>   |

### 31. Personnel costs

|  | 2015             | 2014             |
|--|------------------|------------------|
|  | EUR              | EUR              |
| <b>Average number of employees</b>               | <b>182</b>       | <b>198</b>       |
| <b>Total personnel costs</b>                     |                  |                  |
| Wages  | 2 327 501        | 2 317 848        |
| Social tax                                       | 553 463          | 538 546          |
| Unemployment risk due                            | 823              | 877              |
|  | <b>2 881 787</b> | <b>2 857 271</b> |
| including:                                       |                  |                  |
| wages of production workers                      |                  |                  |
| wages  | 2 217 831        | 2 247 283        |
| social tax                                       | 527 207          | 522 299          |
| unemployment risk due                            | 792              | 851              |
|  | <b>2 745 830</b> | <b>2 770 433</b> |
| administration wages                             |                  |                  |
| wages  | 87 844           | 70 565           |
| social tax                                       | 21 107           | 16 247           |
| Unemployment risk due                            | 27               | 26               |
|  | <b>108 978</b>   | <b>86 838</b>    |
| incl. remuneration to company management - board |                  |                  |
| wages  | 21 826           | 75 470           |
| Social tax                                       | 5 149            | 16 216           |
| Unemployment risk due                            | 4                | 9                |
|  | <b>26 979</b>    | <b>91 695</b>    |

### 32. Transactions with associated persons

| Subsidiary             | Type of transaction                |             | Income from subsidiaries | Debts of subsidiaries | Credits to subsidiaries |
|------------------------|------------------------------------|-------------|--------------------------|-----------------------|-------------------------|
|                        |                                    |             | EUR                      | EUR                   | EUR                     |
| OOO Saldus             | debt and sales of ready production | 2014        | 671                      | 107 010               | 0                       |
|                        |                                    | 2015        | 45 269                   | 92 261                | 0                       |
| OOO DOK Nr.3           | debt and sales of ready production | 2014        | 23 065                   | 917 392               | 0                       |
|                        |                                    | 2015        | 20 885                   | 927 292               | 0                       |
| SIA Pakuļu sporta bāze | debt and sales of ready production | 2014        | 14 080                   | 330 905               | 0                       |
|                        |                                    | 2015        | 0                        | 306 267               | 0                       |
| SIA Pata               | debt and sales of ready production | 2014        | 48 470 811               | 4 018 726             | 235 815                 |
|                        |                                    | 2015        | 35 079 861               | 2 843 034             | 377 083                 |
| SIA PATA Kokmateriāli  | debt and sales of ready production | 2014        | 19270                    | 1 757                 | 0                       |
|                        |                                    | 2015        | 23700                    | 4 008                 | 0                       |
| SIA Saldus Energija    | debt and sales of ready production | 2014        | 1 021 514                | 371 147               | 0                       |
|                        |                                    | 2015        | 1 189 621                | 0                     | 28 381                  |
| Managent               | loan                               | 2014        | 0                        | 0                     | 588 333                 |
|                        |                                    | 2015        | 0                        | 0                     | 588 333                 |
|                        |                                    | <b>2014</b> | <b>49 549 411</b>        | <b>5 746 937</b>      | <b>824 148</b>          |
|                        |                                    | <b>2015</b> | <b>36 359 336</b>        | <b>4 172 861</b>      | <b>993 797</b>          |

### 33. Expenditures due to the environment protection

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

### 34. Financial instruments

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

#### Financial risks

The main financial risks related to the Company's financial instruments are: credit risk, currency risk, interest risk and liquidity risk.

#### Credit risk

The parent company of the Comapny and the Comapny itself is subjected to credit risks which arise from the debts of buyers and customers, short and long-term loans.

The Company controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts.

#### Foreign currency risk

To the financial assets which are under foreign currency risk belong money and its equivalents, debts of buyers and customers, advance payments for construction work, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The Comapny does not use any financial instruments to administrate currency fluctuations risks.

***Interest risk***

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

The management of the Company think that the financial assets and liabilities of the Company on December 31, 2015 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

***Liquidity risk***

The Company is controlling its liquidity risk by securing relevant financing, by using credit lines.

***Real value***

All financial assets and liabilities of the Company which are not shown in their real value- money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and the balance value of other debts correspond with their real value.

**35. Events after the year of account**

Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.

## **Auditor's statement**