

**JOINT STOCK COMPANY „PATA SALDUS” AND ITS SUBSIDIARY COMPANIES**

(UNIFIED REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF 2016 (UNAUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

**Saldus, 2016**

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Address: Kuldīgas iela 86c, Saldus LV-3801,  
Saldus District., Republic of Latvia  
Single registration number: 40003020121

## 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 rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
NACE code	022; 494; 521
Members of the Board: name, surname, position	Andris Krastiņš( <i>Andris Krastiņš</i> )- Chancellor of the Board Janis Mierkalns ( <i>Jānis Mierkalns</i> ) – member of the Board Evija Birina ( <i>Evija Bīriņa</i> ) - member of the Board 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) 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) Inga Mierkalna ( <i>Inga Mierkalna</i> )- member of the Council 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 – March 31, 2016
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 –March 31, 2016
3. Name of the company	Saldus ( <i>Салдус</i> ) (100%) (is reorganised on March 11, 2016)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
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 – March 31, 2016

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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 – March 31, 2016

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 – March 31, 2016

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)
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**Changes in a commercial company that is made during 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 Kalnins (*Atis Kalniņš*), Ieva Sniedze (*Ieva Sniedze*)
- Released members of the Council – Maris Elleris (*Māris Elleris*), Janis Leimanis (*Jānis Leimanis*)

According to the Register of Enterprises of the Russian Federation’s decision No 2166027097476 of 11.03.2016 the limited company « Салдус » has been reorganised and added to the limited company « Деревобработывающий комбинат № 3 ».

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## Management announcement

### *To Consolidated report of economic activity for the 3 month of 2016*

#### **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 3 month of 2016 from economic activities is 263 149 EUR, whereby Net turnover is 10 437 278 EUR, which comprise loss per emitted share 0.68 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.

May 31, 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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## 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 March 2016, 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.

May 31, 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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## Consolidated income statement

	31.03.2016 EUR	31.12.2015 EUR
Net turnover	10 437 278	36 790 873
Production costs of the sold production	-10 466 038	-37 320 427
<b>Gross profit</b>	<b>-28 760</b>	<b>-529 554</b>
Selling costs	-5 539	-47 232
General administration costs	-141 266	-440 412
Other income from company's economic activity	99 398	217 361
Other expenditures from company's economic activity	-132 837	-383 067
<b>Profit or loss from economic activity</b>	<b>-209 004</b>	<b>-1 182 904</b>
Other interest income and the like income	39 634	2 190
Other interest payments and the like payments	-85 856	-532 622
<b>Profit or loss before extraordinary items and taxes</b>	<b>-255 226</b>	<b>-1 713 336</b>
Other taxes	-7 923	-23 794
<b>Profit or (loss)</b>	<b>-263 149</b>	<b>-1 737 130</b>
<b>Profit/loss on share</b>	<b>-0.68</b>	<b>-4.49</b>
lats per share/EUR per share		

The annex is an integral part of this financial statement

May 31, 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

	31.03.2016 EUR	31.12.2015 EUR
<b>LONG-TERM INVESTMENTS</b>		
<b>Intangible investments</b>		
Concessions, patents, licences, trademarks and the like items	20 741	23 760
TOTAL	<b>20 741</b>	<b>23 760</b>
<b>Fixed assets</b>		
Land, premises and buildings	5 934 593	6 005 374
Equipment and machinery	10 708 782	10 588 664
Other fixed assets	55 429	59 338
Unfinished constructions	4 787 864	4 547 859
	0	29 227
TOTAL	<b>21 486 668</b>	<b>21 230 462</b>
<b>Biological assets</b>		
	<b>738 327</b>	<b>738 327</b>
<b>Long-term financial investments</b>		
Investment in associated companies	8 540	8 540
Deferred tax assets	108 974	108 974
TOTAL	<b>117 514</b>	<b>117 514</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>22 363 250</b>	<b>22 110 063</b>
<b>CURRENT ASSETS</b>		
<b>Stocks</b>		
Raw materials, direct materials, auxiliary materials	2 456 295	1 758 639
Biological assets	524 588	524 588
Unfinished production	713 749	605 683
Finished production and goods for sale	1 593 629	2 150 984
Advance payments for goods	73 216	64 203
TOTAL	<b>5 361 477</b>	<b>5 104 097</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	449 238	212 410
Debts of subsidiaries	3 539 731	0
Other debtors	205 375	45 495
Expenditures of the next periods	124 863	43 261
TOTAL	<b>4 319 207</b>	<b>3 144 200</b>
<b>Money and its equivalents</b>		
	76 584	5 522
<b>TOTAL CURRENT ASSETS</b>	<b>10 063 556</b>	<b>8 560 107</b>
<b>TOTAL ASSETS</b>	<b>32 426 806</b>	<b>30 670 170</b>

The annex is an integral part of this financial statement

May 31, 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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## Consolidate balance sheet (continuation)

### LIABILITIES

	31.03.2015	31.12.2015
<b>Shareholders' equity</b>	<b>EUR</b>	<b>EUR</b>
Share capital	541 990	541 990
Increase of price of the issue of shares	2 828	2 828
Fluctation of exchange rate	-360 373	-353 525
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	-198 935	1 549 507
Retained earnings from the year of account	-263 149	-1 737 130
<b>Total shareholders' equity</b>	<b>5 063 586</b>	<b>5 344 895</b>

### CREDITORS

#### Long-term liabilities

Long-term loans from credit institutions	14 221 429	13 992 559
Other creditors	1 973 678	1 649 040
Accrued liabilities	233 873	213 657
Long-term part of incomes from next periods	2 078 625	2 082 857
TOTAL	<b>18 507 605</b>	<b>17 938 113</b>

#### Short-term liabilities

Short-term loans from credit institutions	2 453 742	2 456 871
Debts to suppliers and contractors	4 517 114	2 930 937
Other loans	1 138 401	1 000 114
Debts to subsidiaries	0	377 083
Advance payments received from buyers	169 957	115 682
Taxes payable	184 534	141 989
Other creditors	169 284	141 903
Incomes from the next periods short-term part	222 583	222 583
TOTAL	<b>8 855 615</b>	<b>7 387 162</b>

<b>Total liabilities</b>	<b>27 363 220</b>	<b>25 325 275</b>
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<b>Total shareholders' equity and liabilities</b>	<b>32 426 806</b>	<b>30 670 170</b>
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The annex is an integral part of this financial statement

May 31, 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 cash flow statement

	2016	2015
	EUR	EUR
<b>I. Cash flow from basic activity</b>		
<b>Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>-255 226</b>	<b>-1 713 336</b>
wear and tear of fixed assets and intangible investments (+)	403 138	1 716 136
revaluation of long-term investments	36 500	-57 744
revaluation of biological assets	0	198 812
Accruals (except accruals for doubtful debts )	20 216	-30 822
profit (-) or loss (+) from fluctuations of exchange rate	-42 750	4 374
Interest income	0	-2 190
Income from finansation recognition	-55 646	-189 275
Interest expenditure	85 817	287 447
<b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>192 049</b>	<b>213 402</b>
increase (+) or decrease (-) of debtors debt	-1 188 486	1 582 866
increase (+) or decrease (-) of the reserves of accruals	-249 244	1 431 633
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	1 446 453	-97 480
<b>Gross cash flow from basic activity</b>	<b>200 772</b>	<b>3 130 421</b>
Expenditures to pay interest payments	-85 817	-286 951
Expenditures to pay company's property tax	-7 923	-23 794
<b>Net cash flow from basic activity</b>	<b>107 032</b>	<b>2 819 676</b>
<b>II. Cash flow from investments</b>		
Income from selling fixed assets and intangible investments	0	50 083
Acquisition of fixed assets and intangible investments	-52 870	-1 494 885
Expenditures for advance payments for fixed assets and unfinished	-239 595	-1 715 853
Loans issued	0	-50
<b>Net cash flow from investments</b>	<b>-292 465</b>	<b>-3 160 705</b>
<b>III. Cash flow from financing activities</b>		
Recieved loans	229 607	1 287 728
	462 735	462 735
Expenditures for paying back loans	-3 866	-1 244 239
Expenditures for redemption of asset that was hired	-20 660	-163 953
<b>Cash flow from financing activities</b>	<b>256 495</b>	<b>342 271</b>
<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>71 062</b>	<b>1 242</b>
<b>VI. Money and its equivalents balance at the beginning of the year of account</b>	<b>5 522</b>	<b>4 280</b>
<b>VII. Money and its equivalents balance at the end of the year of account</b>	<b>76 584</b>	<b>5 522</b>

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

May 31, 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
<b>December 31, 2014</b>	<b>541 990</b>	<b>1 600 057</b>	<b>-340 573</b>	<b>2 828</b>	<b>3 741 168</b>	<b>1 443 846</b>	<b>-2 606</b>	<b>6 986 710</b>
Fluctuation of exchange rate	0	0	-12 951	0	0	108 267	0	95 316
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	-1 737 130	-1 737 130
<b>December 31, 2015</b>	<b>541 990</b>	<b>1 600 057</b>	<b>-353 525</b>	<b>2 828</b>	<b>3 741 168</b>	<b>1 549 507</b>	<b>-1 737 130</b>	<b>5 344 895</b>
Fluctuation of exchange rate	0	0	-6 847	0	0	-11 312	0	-18 159
Distribution of profit of the year 2015	0	0	0	0	0	-1 737 130	1 737 130	0
Profit of the year of account	0	0	0	0	0	0	-263 149	-263 149
<b>March 31, 2016</b>	<b>541 990</b>	<b>1 600 057</b>	<b>-360 373</b>	<b>2 828</b>	<b>3 741 168</b>	<b>-198 935</b>	<b>-263 149</b>	<b>5 063 586</b>

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May 31, 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**

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

Joint stock company „PATA Saldus” (hereinafter - the Parent 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.

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

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

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

### **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 April 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 PATA Saldus and its subsidiary companies Pakuļi Sports Centre Ltd., ооо ДЕРЕВООБРАБАТЫВАЮЩИЙ КОМБИНАТ № 3. 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 PATA Saldus 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 PATA Saldus 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:**

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**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 (EUR) 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

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«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 exchange rate of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	31.03.2016	31.12.2015
	EUR	EUR
1 RUB	0.0131	0.0124
1 USD	0.8831	0.9185

### **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 amortisation.

amortisation is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are includes as expenditures in the profit/loss statement.

### **Capital assets**

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

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

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

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.

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### **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 accounting policies for forest stands, complying with IAS 41 Agriculture. According to the new accounting policy the forest stands are evaluated as biological 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 biological assets at 2016 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 2016. 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. Biological 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 received by 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*

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.

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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.

#### ***FinventorDebts 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. More detailed information on spread of share capital is given in the Note 21.

#### ***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.



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*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.

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### 3. Segments of the Holding activities

The Holding shows information through particular segments.

	Logging		Timber processing		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	1 086 739	3 162 597	8 706 569	31 102 376	643 970	2 525 900	10 437 278	36 790 873
Production costs of the sold production	-1 028 886	-2 865 643	-8 677 184	-31 327 067	-774 760	-3 127 717	-10 480 830	-37 320 427
Selling costs	0	-8 995	-5 539	-19 310	0	-18 927	-5 539	-47 232
General administration costs	-2 653	-22 468	-15 053	-49 892	-108 768	-368 052	-126 474	-440 412
Other income/expenditures from company's economic activity	34 597	10 197	-65 241	-193 188	-2 795	17 284	-33 438	-165 706
<b>Profit or loss from economic activity</b>	<b>89 797</b>	<b>275 688</b>	<b>-56 448</b>	<b>-487 081</b>	<b>-242 353</b>	<b>-971 512</b>	<b>-209 004</b>	<b>-1 182 904</b>
Other interset income/payments and the like income	-3 717	-12 118	9 532	-207 170	-52 037	-283 091	-46 222	-502 379
Company's deferred income tax	0	0	0	0	0	0	0	0
Other taxes	0	0	-2 016	-11 011	-5 907	-12 073	-7 923	-23 794
Income from segments activities	-42 125	-150 496	-253 811	-127 102	295 936	277 598	0	0
<b>Profit or (loss)</b>	<b>43 955</b>	<b>113 074</b>	<b>-302 743</b>	<b>-832 364</b>	<b>-4 361</b>	<b>-989 078</b>	<b>-263 149</b>	<b>-1 709 077</b>
Segment assets	3 376 309	4 654 167	27 049 794	25 932 243	2 000 703	1 253 725	32 426 806	30 670 170
Segment liabilities	3 183 287	5 101 573	26 846 477	25 399 718	2 397 042	1 338 843	32 426 806	30 670 170

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.

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#### 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.

	2016	2015
	EUR	EUR
<b>Income from sales, int. Al.</b>	<b>9 550 093</b>	<b>33 154 472</b>
Latvia	9 546 187	33 145 035
Other countries	3 906	9 437
<b>Income from rendering of services, int. Al.</b>	<b>831 539</b>	<b>3 447 189</b>
Latvia	831 539	3 441 940
Other countries	0	5 249
<b>Financing of the EU structural funds</b>	<b>55 646</b>	<b>189 212</b>
	<b>10 437 278</b>	<b>36 790 873</b>