

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

(REGISTRATION NUMBER 40003020121)

**CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2016**

**DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS  
ADOPTED BY THE EUROPEAN UNION**

**AND INDEPENDENT AUDITORS' STATEMENT**

**Saldus, 2017**

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## Information about the Group

Name of the Group	<b>PATA Saldus(PATA Saldus)</b>
Legal status of the Group	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 Group	Forestry, commercial timber preparation and related services; production of board lumber, etc.
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 (is released September 6, 2016) Ilze Bukulde ( <i>Ilze Bukulde</i> ) - member of the Board (was appointed on February 15, 2016) Gatis Zommers ( <i>Gatis Zommers</i> ) - member of the Board (was appointed on November 21, 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 Kalnins ( <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 Group	<i>Pakuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the Group	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 Group	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2016
2. Name of the Group	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (100%)
Legal status of the Group	Limited Liability Company ( <i>ООО - Общество с ограниченной ответственностью</i> )
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the Group	Woodworking, production of board lumber
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 –December 31, 2016
3. Name of the Group	Saldus ( <i>Салдус</i> ) (100%)
Legal status of the Group	Limited Liability Company ( <i>ООО - Общество с ограниченной ответственностью</i> )
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А Purchase of lumber
The main areas of activities of the Group	
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 100%
Reporting year	January 1 – December 31, 2016

Associated enterprise

Name of the Group	Saldus enerģija ( <i>Saldus enerģija</i> ) (20%)
Legal status of the Group	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 Group	Production of electricity, activities of holding companies.
Owner of the Group	PATA Saldus (PATA Saldus), JSC – 20%
Reporting year	January 1 – December 31, 2016

Parent Group

Name of the Group	PATA ( <i>PATA</i> ) (65.%)*
Legal status of the Group	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 Group	Wholesale of wood, silviculture and other forestry activities
Owner of the Group	Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – 100%
Reporting year	January 1 – December 31, 2016

\*Direct participation. Previously (period of 2015, 3months of 2016) reported control

Name and address of the Auditor	Certified Auditor Svetlana Koļesņikova, Certificate No. 22 Self-employed persons reg.No. 0058404 Liepājas iela 2-29A Rīga, LV-1004 Latvia
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**Changes of the commercial Group and its subsidiaries that are made during the reporting period**

According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12 / 5132/2 of 15.02.2016. JSC Saldus PATA has recorded the following changes in the Board:

- 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 Republic of Latvia decision Nr.6-12 / 155093/1 from 06.09.2016. JSC Saldus PATA has recorded the following changes in the Board:

- Released member of the Board – Evija Birina (*Evija Bīriņa*)
- Change the subscribed share capital from EUR 541 990.40 to EUR 579 916.40
- Change the paid-up share capital of EUR 541 990.40 to EUR 579 916.40

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 « Деревообрабатывающий комбинат № 3 ».

According to the Register of Enterprises of the Republic of Latvia decision Nr.6-12 / 202705 of 21.11.2016 JSC Saldus PATA has recorded the following changes in the Board:

- Appointed Member of the Board: Gatis Zommers (*Gatis Zommers*)

## Management announcement

### *To Consolidated report of economic activity for 2016*

#### Type of operations

Principal activities of the Group are forestry and primary wood processing - lumber production. The Group complies with FSC and all other environmental requirements. In order to comply with these requirements the Group takes appropriate monitoring and improvement actions on regular basis.

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

JSC PATA Saldus profit from operating activities in 2016 was EUR 851 625 with a net turnover of EUR 42 609 997, which represents earnings per share issued of 2.06 EUR. The Group's financial statements have been prepared based on the information available to board, existing laws and regulations, that gives a true and fair view of assets, liabilities, financial position and profit or loss that is generated by the Group and consolidated group. It is in interest of the Group to take care of their employees' social protection and well-being, because only then the development of the Group can be sustainable.

#### Financial risk management

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

The policy of financial risk management of the Group is described in Note 33 of this financial statement.

#### Subsequent events

In the time period between the last day of the financial year and the date of signing the financial statements there have been no significant events that would significantly effect financial results for the year or the financial position of the Group.

#### Future prospects

In 2017 the Group will continue to develop and expand environmentally friendly forestry business in accordance with the FSC forest management and wood flows certificate requirements.

Wood processing Group has initiated a certification process of the Energy Management System (LVS EN ISO 50001: 2012), also until March 2018 it is planned to expand business by installing additional timber drying plants with recuperation, where for hearing renewable energy will be used.

The Group will continue to work on employee satisfaction and loyalty-development, which will allow to rise work efficiency, increase productivity, promote customer satisfaction, thus leading to the Group's overall financial performance improvements.

April 30, 2017

Board:

Andris Krastiņš  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

Ilze Bukulde  
member of the Board

## Statement of Management Responsibility

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

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

April 30, 2017

Board:

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Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## Consolidated income statement

	Note	2016.12.31 EUR	2015.12.31 EUR
Net turnover	4	42 609 997	36 272 667
Production costs of the sold production	5	-41 631 333	-37 338 720
<b>Gross profit</b>		<b>978 664</b>	<b>-1 066 053</b>
Selling costs	6	-32 656	-47 232
General administration costs	7	-585 351	-442 606
Other income from Group's economic activity	8	968 613	737 088
Other expenditures from Groups economic activity	8	-508 195	-630 946
<b>Profit or loss from economic activity</b>		<b>821 075</b>	<b>-1 449 749</b>
Other interest income and the like income	9	85	671
Other interest payments and the like payments	9	-341 217	-288 002
<b>Profit or loss before extraordinary items and taxes</b>		<b>479 943</b>	<b>-1 737 080</b>
Income from Group's deferred income tax	10	371 732	0
Group's income tax	10	-50	-50
<b>Profit or (loss)</b>		<b>851 625</b>	<b>-1 737 130</b>
<b>Profit/loss on share</b>		<b>2,06</b>	<b>-4,49</b>
EUR per share			
<b>Profit or loss</b>		<b>851 625</b>	<b>-1 737 130</b>
Income from long-term reserves reduction		30 000	0
Difference of consolidated foreign currency conversion		-115 144	95 315
Other comprehensive income for the period		-85 144	95 315
<b>Total comprehensive income for the period</b>		<b>766 481</b>	<b>-1 641 815</b>

The annex from 12 to 37 page is an integral part of this financial statement

April 30, 2017

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers member of the Board	Ilze Bukulde member of the Board
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## Consolidated balance sheet

### ASSETS

	Note	2016.12.31 EUR	2015.12.31 EUR
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible investments</b>			
Concessions, patents, licences, trademarks and the like items	12	19 125	23 760
TOTAL		<b>19 125</b>	<b>23 760</b>
<b>Fixed assets</b>			
Land, premises and buildings		7 026 277	6 005 374
Equipment and machinery		13 130 454	10 588 664
Other fixed assets		55 817	59 338
Unfinished constructions		307 767	4 547 859
TOTAL	13	<b>20 520 315</b>	<b>21 230 462</b>
<b>Biological assets</b>			
<b>Long-term financial investments</b>			
Investment in associated companies		8 540	8 540
Deferred tax assets	10	480 706	108 974
TOTAL		<b>489 246</b>	<b>117 514</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>21 794 522</b>	<b>22 110 063</b>
<b>CURRENT ASSETS</b>			
<b>Stocks</b>			
Raw materials, direct materials, auxiliary materials		1 949 655	1 758 639
Biological assets		635 755	524 588
Unfinished production		1 824 568	605 683
Finished production and goods for sale		1 324 268	2 150 984
Advance payments for goods		63 991	64 203
TOTAL	14	<b>5 798 237</b>	<b>5 104 097</b>
<b>Noncurrent assets held for sale</b>			
Fixed assets held for sale		<b>274 997</b>	<b>306 288</b>
<b>Debtors</b>			
Debts of buyers and customers	15	154 906	184 029
Debts of subsidiaries		3 388 545	2 843 034
Debts of associated companies		184 482	28 381
Other debtors	16	253 906	45 495
Expenditures of the next periods	17	165 165	43 261
TOTAL		<b>4 147 004</b>	<b>3 144 200</b>
<b>Money and its equivalents</b>			
TOTAL CURRENT ASSETS	18	<b>10 220 697</b>	<b>8 560 107</b>
<b>TOTAL ASSETS</b>		<b>32 015 219</b>	<b>30 670 170</b>

The annex from 12 to 37 page is an integral part of this financial statement

April 30, 2017

Board:

Andris Krastiņš  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

Ilze Bukulde  
member of the Board

## Consolidate balance sheet (continuation)

### LIABILITIES

	Note	2016.12.31	2015.12.31
		EUR	EUR
<b>Shareholders'equity</b>			
Share capital	19	579 916	541 990
Increase of price of the issue of shares		2 828	2 828
Fluctation of exchange rate		-262 768	-353 525
Reserves from revaluation of long-term investments		1 570 057	1 600 057
Other reserves		3 741 168	3 741 168
Retained earnings from the previos year		-401 450	1 549 507
Retained earnings from the year of account		851 625	-1 737 130
<b>Total shareholders'equity</b>		<b>6 081 376</b>	<b>5 344 895</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Long-term loans from credit institutions	20	12 488 093	12 536 652
Other loans	21	3 319 379	3 104 947
Long-term part of incomes from next periods	27	1 911 689	2 082 857
TOTAL		<b>17 719 161</b>	<b>17 724 456</b>
<b>Short-term liabilities</b>			
Short-term loans from credit institutions	20	1 545 858	2 456 871
Other loans	21	1 202 928	1 000 114
Debts to suppliers and contractors		4 200 881	2 930 937
Debts to subsidiaries		153 726	377 083
Accured liabilities	26	415 783	329 339
Taxes payable	24	292 478	141 989
Other creditors	25	180 445	141 903
Incomes from the next periods short-term part	27	222 583	222 583
TOTAL		<b>8 214 682</b>	<b>7 600 819</b>
<b>Total liabilities</b>		<b>25 933 843</b>	<b>25 325 275</b>
<b>Total shareholders'equity and liabilities</b>		<b>32 015 219</b>	<b>30 670 170</b>

The annex from 12 to 37 page is an integral part of this financial statement

April 30, 2017

Board:

Andris Krastiņš  
 Chancellor of the Board

Jānis Mierkalns  
 member of the Board

Gatis Zommers  
 member of the Board

Ilze Bukulde  
 member of the Board

## Consolidated cash flow statement

	2016	2015
	EUR	EUR
<b>I. Operating cash flow</b>		
<b>Profit or loss before extraordinary items and taxes</b>	<b>479943</b>	<b>-1737080</b>
Adjustments:		
Depreciation of fixed assets and intangible assets	1 794 251	1 480 125
Gain / loss on disposal or sale of fixed / biological assets	-34 621	-57 744
Revaluation of biological assets	-138 676	198 812
Accruals (excluding accruals for doubtful debts)	-213 657	-30 822
Gains or losses on foreign currency exchange rate fluctuations	-227 055	188 496
income from recognition of financing	-222 583	-189 275
Interest and similar income	-85	0
Interest and similar charges	341 217	287 447
<b>Profit or loss before current assets and short-term liability movement adjustments</b>	<b>1 778 734</b>	<b>139 959</b>
Adjustments:		
Receivables balance increase or decrease	-1 005 086	1 632 515
Increase or Decrease Inventories balance	-581 682	1 431 633
Increase or decrease in payables to suppliers and contractors	1 739 040	-97 480
<b>Gross operating cash flow</b>	<b>1 931 006</b>	<b>3 106 627</b>
Interest payment	-339 507	-286 951
Expenditure on income tax payments	-50	-50
<b>Pamatdarbības neto naudas plūsma</b>	<b>1 591 449</b>	<b>2 819 626</b>
<b>II. Cash flow from investing activities</b>		
Income from sales of fixed assets, intangible assets, biological assets	41 500	50 083
Purchase of plant and equipment and intangible assets	-577 228	-1 494 885
Advance payments for construction in progress assets and intangible assets	0	-1 715 853
<b>Net cash flow from investing activities</b>	<b>-535 728</b>	<b>-3 160 665</b>
<b>III. Cash flow form financing activities</b>		
Loans received	333 436	1 287 728
Subsidies received	51 415	462 735
Repayment of borrowings	- 1 160 176	- 1 244 239
Expenditure on a leased fixed asset	-285 459	-163 953
<b>Net cash flow form financing activities</b>	<b>-1 060 784</b>	<b>342 271</b>
<b>IV. Foreign exchange rate fluctuations</b>	<b>0</b>	<b>0</b>
<b>V. Net cash flow for accounting year</b>	<b>-5 063</b>	<b>1 242</b>
<b>VI. Cash and cash equivalents at the beginning of the year</b>	<b>5 522</b>	<b>4 280</b>
<b>VII. Cash and cash equivalents at the end of the year</b>	<b>459</b>	<b>5 522</b>

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

The annex from 12 to 37 page is an integral part of this financial statement

April 30, 2016

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers 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	90 758	0	0	-205 901	0	-115 144
Distribution of profit of the year 2015	0	0	0	0	0	-1 737 130	1 737 130	0
Investment revaluation reserve	0	-30 000	0	0	0	30 000	0	0
Previous years retained earnings	37 926	0	0	0	0	-37 926	0	0
Profit of the year of account	0	0	0	0	0	0	851 625	851 625
<b>December 31, 2016</b>	<b>579 916</b>	<b>1 570 057</b>	<b>-262 768</b>	<b>2 828</b>	<b>3 741 168</b>	<b>-401 450</b>	<b>851 625</b>	<b>6 081 376</b>

The annex from 12 to 37 page is an integral part of this financial statement

April 30, 2017

Board:

Andris Krastiņš Chancellor of the Board	Jānis Mierkalns member of the Board	Gatis Zommers 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 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

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

The Group carried out a revaluation of its land at the end of 2015 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.

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 and ооо Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company 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**

### **Standards and Interpretations effective in the current period**

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

**Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

□ **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** -

Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Bearer Plants- adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015), **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

**Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

**Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies or financial statements.

### **Standards and Interpretations issued and adopted in the EU but not yet effective**

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

**IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

**IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Group has decided not to apply the above standards, amendments and interpretations before their effective date. The Group is in the process of assessment impact of the above standards, amendments and interpretations on the Group's financial statements and is not able to present the final evaluation at this stage.

### **Standards and Interpretations issued but not yet adopted by the EU**

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

**IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

**IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),

**Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

**Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),

**Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

**Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

**Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

**Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

**Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

**Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

□ **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

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

### **Transactions in foreign currencies**

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

All transactions in foreign currencies have been re-estimated in Euros 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 ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
1 RUB	0.0156	0.0124
1 USD	0.9488	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 wear and tear.

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

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

**Capital assets**

Capital assets are accounted in their initial value except for their 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.

**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. The Group recognizes revenue for any subsequent increase in fair value less costs of asset sale, but not exceeding the accumulated impairment losses recognized in previous periods. Long-term investments are considered as assets held for sale, if they are prepared for immediate sale, the Group's management has decided to sell these assets and have started active implementation of this decision. Fixed assets held for sale are valued at fair value, less costs of sale.

**Biological assets**

The Group considers that forest stands should be classified as biological assets, that are valued according to State Forest Service data. Forest stands initially are recognised in their cost value, however after primary developments remaining part is recognised in its fair value. Fair value is determined by expressing net present value of biological asset as at 2016 by applying 8% discount rate. Average price for purchased felling site m3 in 2016 was calculated by taking into consideration cost of felling site m3 and costs associated to purchase it. Difference between carrying value and value set after revaluation is recognised as income or expenses depending whether value of asset is increased or decreased after revaluation. Result is disclosed in profit or loss statement under cost of goods sold. Biological assets that can't be developed within a year are disclosed in balance sheet under Fixed asset in separate position, that is called Biological assets. Biological assets that are predicted to be developed within a year are disclosed under Inventories in separate position, that is called Biological assets.

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

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

### **Loan costs**

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

### **Lease**

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

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

### **Inventories**

#### *Unfinished products*

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

*Raw materials are accounted in their purchase costs.*

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

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

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

### **Debts of buyers and customers**

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

### **Money and its equivalents**

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

### **Share capital**

The Group is a joint stock company. The share capital is EUR 579 916. All shares have nominal value of EUR 1,40 (one euro 40 euro cents). 387 136 shares are public bearer shares and are dematerialized, but 27 090 shares are staff, registered shares.

### **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.

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Further loans will be shown in their depreciation value.

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

### **Accruals**

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

### **Accruals and deferred liabilities**

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

### **Income recognition**

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

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

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

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

#### *Sale of goods*

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

#### *Interest*

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

#### *Dividends*

Incomes are recognized when shareholders have rights to receive them.

#### *Income from lease*

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

### **Taxes**

#### *Company income tax*

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

#### *Deferred company income tax*

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

### **Possible liabilities and assets**

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

### ***Allowances***

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

### ***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.

### ***Critical accounting assumptions and judgments***

In order to prepare financial statement in accordance with IFRS it is necessary to make essential accounting assumptions. Also, preparation of the statements requires management to make assumptions and judgments that are in line with accounting policies of the group.

Preparation of financial statements in compliance with IFRS requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the financial statements at the date of the reporting period of recognized income and expenses. Actual results may differ from these estimates. Areas that can be affected the most by assumptions are revaluation of fixed assets, determination of revaluation frequency, management assumptions and estimates in determining periods of useful life, as described in corresponding annexes.

### ***Capital management***

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

### Reclassification of items

Total effect of the reclassification of items is indicated below

<b>31.12.2015</b>					
<b>Balance</b>	<b>Note</b>	<b>Before corrections</b>	<b>Effect from changes of account politic</b>	<b>Correction of reclassification</b>	<b>After correction</b>
		EUR	EUR	EUR	EUR
Current assets – Debts of buyers and customers - Debts of buyers and customers	15	212 410		(28 381)	184 029
Current assets – Debts of buyers and customers - Debts of associated companies	15	0		28 381	28 381
<b>Effect on total assets</b>			<b>0</b>	<b>0</b>	
Longtimes creditors – loans from credit institutions	20	13 992 559		(1 455 907)	12 536 652
Longtime creditors- accrued liabilities		213 657		(213 657)	0
Short-term liabilities- accrued liabilities		0		213 657	213 657
Longtime creditors – other creditors		1 649 040		1 455 907	3 104 947
<b>Effect on total liabilities</b>			<b>0</b>	<b>0</b>	
<b>2015</b>					
<b>Profit and loss position i</b>	<b>Note</b>	<b>Before corrections</b>	<b>Effect from changes of account politic</b>	<b>Correction of reclassification</b>	<b>After correction</b>
		EUR	EUR	EUR	EUR
Income		36 790 873		(518 206)	36 272 667
Production costs of the sold production		(37 320 427)	(18 293)		(37 338 720)
Selling costs		(47 232)			(47 232)
Administration costs		(440 412)	(2 194)		(442 606)
Other income		217 361		519 727	737 088
Other costs		(383 067)	(207 072)	(40 807)	(630 946)
Other interest income		2 190		(1 519)	671
Other interest payments		(532 622)	207 072	37 548	(288 002)
Profit or loss before corporate income tax		<b>(1 713 336)</b>	<b>(20 487)</b>	<b>(3 257)</b>	<b>(1 737 080)</b>
Corporate income tax		0	(50)		(50)
Income or expenses from changes in deferred tax asset balance		0			0
Other taxes		(23 794)	20 537	3 257	0
<b>Effect on net profit</b>		<b>(23 794)</b>	<b>0</b>	<b>0</b>	<b>(1 737 130)</b>

Reclasification of Operating cash flow for the year 2015	Before corrections	Reclasification corrections	After corrections
	EUR	EUR	EUR
Profit or loss before income tax	(1 713 336)	(23 794)	(1 737 130)
Real estate tax paid	(23 794)	23 794	0
<b>Total</b>	<b>(1 737 130)</b>	<b>0</b>	<b>(1 737 130)</b>

### 3. Segments of the Holding activities

The Holding shows information through particular segments.

	Logging		Timber processing		Other		Transport		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 889 143	3 128 966	37 086 820	30 707 549	394 894	1 460 221	1 239 140	1 494 137	42 609 997	36 790 873
Production costs of the sold production	-3 551 252	-2 865 643	-35 839 274	-31 327 067	-1 012 786	-1 633 791	-1 228 021	-1 493 926	-41 631 333	-37 320 427
Selling costs	0	-8 995	-20 374	-19 310	-12 282	-18 927	0	0	-32 656	-47 232
General administration costs	-9 713	-22 468	-55 467	-49 892	-520 171	-368 052	0	0	-585 351	-440 412
Other income/expenditures from Group's economic activity	42 908	11 513	119 694	-16 303	304 321	-173 495	-6 505	-11 165	460 418	-189 450
<b>Profit or loss from economic activity</b>	<b>371 086</b>	<b>243 373</b>	<b>1 291 399</b>	<b>-705 023</b>	<b>-846 024</b>	<b>-734 044</b>	<b>4 614</b>	<b>-10 954</b>	<b>821 075</b>	<b>-1 206 648</b>
Other interset income/payments and the like income	-14 299	-12 118	-95 476	-235 223	-231 442	-283 201	85	110	-341 132	-530 432
Company's deferred income tax	0	0	0	0	371 732	0	0	0	371 732	0
Other taxes	0	0	0	0	-50	-50	0	0	-50	-50
Income from segments activities	-217 149	-150 496	-958 454	-127 102	1 175 603	277 598	0	0	0	0
<b>Profit or (loss)</b>	<b>139 638</b>	<b>80 759</b>	<b>237 469</b>	<b>-1 067 348</b>	<b>469 819</b>	<b>-739 697</b>	<b>4 699</b>	<b>-10 844</b>	<b>851 625</b>	<b>-1 737 130</b>
Segment assets	3 889 143	2 608 416	37 086 820	25 598 896	394 894	1 217 292	1 239 140	1 245 565	42 609 997	30 670 170
Segment liabilities	3 634 734	2 355 004	36 681 779	25 744 788	1 036 594	1 342 660	1 256 889	1 227 718	42 609 997	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.

#### Transport

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

#### Other

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

#### 4. 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.

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Income from sales, Latvia	<b>42 586 848</b>	<b>36 257 981</b>
Income from sales Lithuania	3 860	0
Income from sales Estonia	8 945	0
Income from sales Russia	10 344	14 686
	<b>42 609 997</b>	<b>36 272 667</b>

#### 5. Production costs of sold products

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Material purchasing costs	1 294 432	1 276 050
Felling rights	1 688 077	1 113 276
Sawlogs purchasing costs	28 517 849	25 429 052
Correction for inventory from unfinished production	(56 707)	(127 488)
With production-related contractors services	1 236 826	1 473 284
Woodworking equipment maintenance costs	737 448	705 978
Woodworking and forestry equipment maintenance costs	695 202	978 410
Fuel costs	757 765	761 967
Revaluation of biological assets	(138 675)	198 812
Electricity and heating costs	1 508 330	1 354 035
Wages	2 766 169	2 189 144
State mandatory social security contributions	646 135	527 207
Accruals for unused vacations	48 851	29 227
Depreciation of plant and equipment and intangible assets	1 693 463	1 391 149
Real estate tax*	19 108	18 293
Lease payments for wood processing, forestry machinery and equipment	185 332	0
Other services received	31 728	20 324
	<b>41 631 333</b>	<b>37 338 720</b>

## 6. Selling costs

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Adevrtisement, market research and marketing costs	360	5 111
Costs for transportation of goods	12 282	18 503
Other production costs	20 014	23 618
	<b>32 656</b>	<b>47 232</b>

## 7. General and administration costs

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Wages	206 922	117 007
State mandatory social security contributions	48 813	26 256
Accruals for unused vacations	4 012	1 595
Office maintenance costs	105 710	103 149
Bank services	56 160	63 245
Depreciation of plant and equipment and intangible assets	57 606	75 584
Real estate tax *	2 188	2 194
Audit costs for annual report	7 300	5 040
Vehicle costs for administration*	29 280	0
Other administration costs	67 360	48 536
	<b>585 351</b>	<b>442 606</b>

## 8. Other income/ expenses from economic activity

### Other income from economic activity

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Income from disposal of intangible assets and fixed assets	55 858	297 943
Intangible assets and fixed assets carrying value when disposed	(21 237)	(240 199)
Net income from disposal of intangible assets and fixed assets	34 621	57 744
Income from rents	114 237	145 025
Deferred revenue write-downs	222 583	189 212
Co – financing form Rural Support Service and EU structural funds	28 490	14 204
Net income from currency exchange rate fluctuations	223 718	0
Other income	344 964	330 903
	<b>968 613</b>	<b>737 088</b>

**Other expenses from economic activity**

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Provisions for bad and doubtful debts	11 206	10 672
Rent on real estate	13 802	10 647
Net loss on foreign currency sales	0	24 006
Net loss from currency exchange rate fluctuations	0	150 764
Security service costs	72 156	70 556
Utilities and maintenance costs	196 947	163 459
Insurance payments	33 647	29 897
Employee training expenses	23 343	4 450
Health Insurance	35 942	36 232
Penalties paid	39 119	32 302
Other costs	82 033	97 961
	<b>508 195</b>	<b>630 946</b>

**9. Financial income/ expenses**

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Other interest income	85	671
	<b>85</b>	<b>671</b>
Interest expense	341 217	288 002
	<b>341 217</b>	<b>288 002</b>

**10. Corporate income tax**

Company (JSC Pata Saldus and Pakuji Sports Center Ltd.) calculates its corporate income tax in accordance with Republic of Latvia legislation

**a) Components of corporate income tax**

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Corporate income tax according to the tax return	50	50
Change in deferred tax	(371 732)	0
	<b>(371 682)</b>	<b>50</b>

Calculated corporate income tax expense, according to tax returns and deferred tax change differs from the theoretically calculated tax amount as follows:

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Profit or loss before income tax	479 893	(1 737 080)
Theoretically calculated tax at 15% tax rate	<b>71 984</b>	<b>0</b>
The tax effect of:		
Expenditure which should not reduce the taxable income	35 208	38 034
Non-taxable income	(52 850)	(7 696)
Prior period unrecognized deferred tax assets	(426 024)	(30 288)
	<b>(371 682)</b>	<b>50</b>

**b) Deferred tax movement and components**

	<b>2016</b> EUR	<b>2015</b> EUR
A deferred tax liability (asset) at the beginning of financial period	108 974	108 974
Deferred tax changes included in profit or loss statement	371 732	0
<b>A deferred tax liability (asset) at the end of the year</b>	<b>480 706</b>	<b>108 974</b>

Deferred income tax is calculated from the following temporary differences between assets and liabilities and their values for corporate income tax purposes (tax effect 15% from temporary differences):

	<b>2016</b> EUR	<b>2015</b> EUR
Temporary difference from depreciation of plant and equipment and intangible assets	(7 729 438)	(1 027 007)
<b>Gross deferred tax liabilities</b>	<b>(1 159 416)</b>	<b>(1 027 007)</b>
Temporary difference of vacation accruals	0	32 049
Revaluation of biological assets	(210 239)	(110 749)
Loss carried forward to next taxation periods for tax purposes	1 850 360	1 479 197
<b>Gross deferred tax asset</b>	<b>1 640 121</b>	<b>1 400 497</b>
<b>Unrecognized deferred tax assets</b>	<b>0</b>	<b>264 517</b>
<b>Net deferred tax liability (asset)</b>	<b>480 706</b>	<b>108 974</b>

**11. Staff costs**

	<b>2016</b> EUR	<b>2015</b> EUR
Remuneration for work	3 029 638	2 327 501
State mandatory social security contributions	645 298	553 463
Business risk state duty	837	823
	<b>3 675 773</b>	<b>2 881 787</b>

## 12. Intangible investments

		Software	
		EUR	Total
<b>As at 31.12.2015.</b>		<b>121 585</b>	<b>121 585</b>
	Purchase	9 730	9 730
2016	Liquidity	0	0
	Impairment	-74 178	-74 178
<b>As at 31.12.2016</b>		<b>57 137</b>	<b>57 137</b>
<b>Amortisation accrued 31.12.2015.</b>		<b>97 825</b>	<b>97 825</b>
	Amortisation	14 365	14 365
2015	Amortisation of liquid assets	-74 178	-74 178
	Impairment	0	0
<b>Amortisation accrued 31.12.2016</b>		<b>38 012</b>	<b>38 012</b>
<b>As at 31.12.2015</b>		<b>23 760</b>	<b>23 760</b>
<b>As at 31.12.2016</b>		<b>19 125</b>	<b>19 125</b>
Amortisation rate (by linear method)		5 year	

### 13. Fixed assets

	Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished fixed assets	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Accounting value 31.12.2015</b>	<b>8 455 469</b>	<b>18 868 875</b>	<b>246 350</b>	<b>4 547 859</b>	<b>29 227</b>	<b>32 147 780</b>
2016 Purchase	1 332 177	3 895 513	29 768	63 891		5 321 349
2016 Disposals	-3 682	-287 053	-14 488	-4 343 056	-29 227	-4 677 506
2016 Reconstruction	0	0	0	0	0	0
2016 Currency fluctuations	79 550	17 733	5 555	39 073	0	141 911
<b>Accounting value 31.12.2016</b>	<b>9 863 514</b>	<b>22 495 068</b>	<b>267 185</b>	<b>307 767</b>	<b>0</b>	<b>32 933 534</b>
<b>Accured wear and tear 31.12.2015</b>	<b>2 450 095</b>	<b>8 280 211</b>	<b>187 012</b>	<b>0</b>	<b>0</b>	<b>10 917 318</b>
2016 Depreciation	390 825	1 350 274	38 788	0	0	1 779 887
2016 Disposals	-3 683	-265 871	-14 432	0	0	-283 986
<b>Accured wear and tear 31.12.2016</b>	<b>2 837 237</b>	<b>9 364 614</b>	<b>211 368</b>	<b>0</b>	<b>0</b>	<b>12 413 219</b>
<b>Residual value 31.12.2015</b>	<b>6 005 374</b>	<b>10 588 664</b>	<b>59 338</b>	<b>4 547 859</b>	<b>29 227</b>	<b>21 230 462</b>
<b>Residual value 31.12.2016</b>	<b>7 026 277</b>	<b>13 130 454</b>	<b>55 817</b>	<b>307 767</b>	<b>0</b>	<b>20 520 315</b>

Rate of wear and tear (linear method)      5-20 years      2-15 years      2-10 years

#### a) Capitalized interest from borrowings

Capitalized interest from borrowings for 2016 is included under fixed asset position "Land, premises and buildings " in amount of EUR 18 478 (2015 - EUR 16 452).

#### b) Cadastral value of fixed assets

Cadastral value of fixed assets on December 31, 2016 ir EUR 1 411 294.

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

	Revaluation reserve 31.12.2015	Reduction correction of evaluation reserve	Revaluation reserve 31.12.2016
	EUR	EUR	EUR
Real Estate:			
a) Land, premises and buildings	1 370 057	0	1 370 057
b) investment properties			0
Long-term investments held for sale	230 000	(30 000)	200 000
Other fixed assets and inventory			0
<b>Total</b>	<b>1 600 057</b>	<b>(30 000)</b>	<b>1 570 057</b>

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

	2016 EUR	2015 EUR
Initial value	1 706 995	1 689 830
Accumulated depreciation	0	0
<b>Residual value</b>	<b>1 706 995</b>	<b>1 689 830</b>

#### Participation in the capital of associated companies

Name	Address	Participation share		Share capital		Profit	
		31.12.2015. %	31.12.2016. %	31.12.2015. EUR	31.12.2016. EUR	2015 EUR	2016 EUR
SIA Saldus enerģija	Mūkusalas iela 41B-8, Rīga, LV-1004	20	20	905 411	319 431	-69 798	-508 214

Purchase value of associated company shares is – EUR 8540

#### 14. Inventories

	<b>2016</b>	<b>2015</b>
<b>Raw materials and consumables</b>	EUR	EUR
Materials, spare parts, inventory	241 100	88 265
Raw material (logs in the forest and sawmill)	1 708 555	1 670 374
<b>Total raw materials and consumables:</b>	<b>1 949 655</b>	<b>1 758 639</b>
	<b>2016</b>	<b>2015</b>
	EUR	EUR
<b>Biological assets</b>	<b>635 755</b>	<b>524 588</b>
	<b>2016</b>	<b>2015</b>
<b>Work in progress and customer orders</b>	EUR	EUR
Unfinished products (logs in the forest and sawmill)	81 585	50 483
Sawn timber in production	1 742 983	555 200
<b>Total unfinished production:</b>	<b>1 824 568</b>	<b>605 683</b>
	<b>2016</b>	<b>2015</b>
<b>Finished goods and goods for sale</b>	EUR	EUR
Finished goods	1 324 268	2 150 984
<b>Total finished goods and goods for sale</b>	<b>1 324 268</b>	<b>2 150 984</b>

In the Holding on 31.12.2016. was carried out inventory and non-marketable stocks were not established.

## 15. Trade receivables

	2016	2015
	EUR	EUR
Trade receivables at their carrying amount	201 033	222 863
(Provisions for bad and doubtful debts)	(46 127)	(38 834)
	<b>154 906</b>	<b>184 029</b>

For doubtful receivables, special provisions in amount of 100% of their principal amount is made.

### Receivables from group companies

#### Shoet - term part

	2016	2015
	EUR	EUR
Receivables from group companies for supply of goods and services provided	3 388 545	2 843 034
	<b>3 388 545</b>	<b>2 843 034</b>

### Receivables from associated companies

#### Short - term part

	2016	2015
	EUR	EUR
Receivables from asociated companies for supply of goods and services provided	184 482	28 381
	<b>184 482</b>	<b>28 381</b>

## 16. Other debtors

	2016	2015
	EUR	EUR
VAT overpayment	164 767	38 193
Paid guarantee fees	57 037	4 237
Advances paid for services	27 620	0
Accepted VAT	0	0
Payroll	423	0
Other receivables	4 059	3 065
	<b>253 906</b>	<b>45 495</b>

### 17. Deferred expenses

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Insurance payments	12 004	18 453
Subscription fees	417	304
Employee health insurance payments	5 615	5 624
1st. lease installment	42 654	0
Other expenses	104 475	18 880
	<b>165 165</b>	<b>43 261</b>

### 18. Cash and its equivalents

	<b>2016</b>	<b>2015</b>
	EUR	EUR
Cash in checking accounts	459	5522
<b>Cash (total)</b>	<b>459</b>	<b>5522</b>

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

The Group is a joint stock company. The share capital of the Group is EUR 579 916. Par value per share is EUR 1.40 (one euro 40 euro cents). 387 136 shares are public bearer shares and are dematerialized, however 27 090 of shares are staff registered staff shares.

During the financial year, the share capital was increased by EUR 37 926 by reducing retained earnings. The parent of the Group is SIA PATA with the legal address Miera iela 2, Inčukalna, Inčukalna pagasts, Inčukalna novads LV-2141. Consolidated annual report of the Group is prepared by SIA PATA. A copy of the consolidated annual report is available at the Register of Enterprises of the Republic of Latvia.

## 20. Loans from credit institutions

	2016	2015
	EUR	EUR
<b>Long-term:</b>		
Nordea Bank AB Latv. Fil creditline((2013-104-OD)	7 826 256	7 828 990
Nordea Bank AB Latv. Fil creditline(2011-150-OD)	806 646	0
Nordea Bank AB Latv. Fil creditline9(2011-150-OD)	686 702	688 911
Nordea Bank AB Latv. Fil (2012-85-A)	346 017	432 108
Nordea Bank AB Latv. Fil ((2012-84-A)	1 169 587	1 439 959
Nordea Bank AB Latv. Fil (2006/202/A	180 406	238 916
Nordea Bank AB Latv. Fil (2006-147-A)	0	124 447
Nordea Bank AB Latv. Fil (2014-169-A)	1 472 479	1 783 321
	<b>12 488 093</b>	<b>12 536 652</b>
<b>Short-term:</b>		
Nordea Bank AB Latv. Fil creditline(2010-139-OD)	504 000	1 580 671
Nordea Bank AB Latv. Fil creditline(2011-150-OD)	0	125 000
Nordea Bank AB Latv. Fil (2012-85-A)	86 504	45 735
Nordea Bank AB Latv. Fil (2012-84-A)	292 397	278 342
Nordea Bank AB Latv. Fil (2006/202/A	58 510	61 000
Nordea Bank AB Latv. Fil (2006-147-A)	124 447	31 750
Nordea Bank AB Latv. Fil (2014-169-A)	480 000	334 373
	<b>1 545 858</b>	<b>2 456 871</b>

As a collateral in case of claims that may arise from the signed loan agreement, the Company has pledged all its assets as an aggregate of things at the moment of pledge, as well as future components of this aggregate. Loan repayment periods up to 31.12.2021.

## 21. Other loans and payables

	2016	2015
	EUR	EUR
<b>Long – term part</b>		
Other loans	1 280 089	1 285 311
JSC Attīstības finanšu institūcija Altum*	1 588 739	1 455 907
Obligations under finance leases	450 551	363 729
	<b>3 319 379</b>	<b>3 104 947</b>
<b>Short –term part</b>		
Obligations under the factoring agreements	998 393	862 120
Obligations under finance leases	204 535	137 994
	<b>1 202 928</b>	<b>1 000 114</b>

### Finance lease liabilities

As disclosed in Note 21, the Group has acquired fixed assets under finance lease. Total finance lease liabilities as at December 31, 2016 is EUR 655 086.

The future minimum finance lease payments are:

	2016	2015
	EUR	EUR
Payable within 1 year	218 425	148 380
Payable from 2 to 5 years	467 625	378 072
Finance lease gross liabilities	<b>686 050</b>	<b>526 452</b>
Future finance costs	(30 964)	(24 729)
Present value of finance lease liabilities	<b>655 086</b>	<b>501 723</b>

### 22. Trade payables

	2016	2015
	EUR	EUR
<b>Short – term part</b>		
Payables for supplies of goods and services provided	4 200 880	2 930 937
	<b>4 200 880</b>	<b>2 930 937</b>

### 23. Payables to group companies

	2016	2015
	EUR	EUR
<b>Short – term part</b>		
Payables for supplies of goods and services provided	153 726	377 083
	<b>153 726</b>	<b>377 083</b>

### 24. Taxes payable

	2016	2015
	EUR	EUR
Personal income tax	118 036	69 850
State mandatory social insurance contributions	171 177	65 838
Corporate income tax	48	50
Real estate tax	0	340
Environment resource tax	142	142
Business risk state duty	0	69
Other legislative duties	3 075	5 700
	<b>292 478</b>	<b>141 989</b>

## 25. Other liabilities

	2016	2015
	EUR	EUR
Wage payables	176 125	136 793
Other creditors	4 320	5 110
	<b>180 445</b>	<b>141 903</b>

## 26. Accrued liabilities

	Other accruals	Total
	EUR	EUR
31.12.2015.	<b>329 339</b>	<b>329 339</b>
Increase	86 444	86 444
Decrease	0	0
31.12.2016.	<b>415 783</b>	<b>415 783</b>

## 27. Deferred income

	2016	2015
	EUR	EUR
<b>Long – term part:</b>		
EU co-financing for acquisition of assets - long-term part	1 911 689	2 082 857
	<b>1 911 689</b>	<b>2 082 857</b>
<b>Short – term part:</b>		
EU co-financing for acquisition of assets - short-term part	222 583	222 583
Other grants received		
	<b>222 583</b>	<b>222 583</b>

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

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

### 28. Remuneration to the auditor

	2016	2015
	EUR	EUR
Other auditing services	300	0
Financial statement audit expenses	7 300	5 040
	<b>7 600</b>	<b>5 040</b>

### 29. Average number of employees

The average number of employees during the reporting year was 203 (191 for 2015)

### 30. Remuneration to the management

	2016	2015
	EUR	EUR
Remuneration to the Chairman of the Board	52 855	21 826
State mandatory social insurance contributions to the Chairman of the Board	1 269	5 153
	<b>65 324</b>	<b>26 979</b>

### 31. Expenditures due to the environment protection

The basic economic activity of the Holding 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 Holding 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.

### 32. Financial instruments

The main financial instruments of the Holding 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 Holding's economic activity. Also, the holding 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.

### 33. *Financial risk management*

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

#### **Credit risk**

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

The Holding 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 Group 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 holding does not use any financial instruments to administrate currency fluctuations risks.

**Interest risk**

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

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2013 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 Holding is controlling its liquidity risk by securing relevant financing, by using credit lines and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analyzing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Holding's budget is very useful and helpful in the process of management and control of liquidity risks.

**Real value**

All financial assets and liabilities of the Holding 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.

**34. 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.

### 35. Related party transactions

The main shareholder of the Group, who owns 65 % of shares of the Group, is Pata SIA (Latvia), reg.No.40003448619. The ultimate parent company is Pata SIA (Latvia)

In 2016, the Group had transactions with the following group companies that are directly or indirectly subsidiaries of Pata. The Group had also transactions with companies owned by its subsidiaries and with related entity Saldus Energija SIA (Latvia), that is not part of the Group.

During the financial year the Group has not entered into transactions with the Management Board and Council members, with the exception of salaries paid for the job.

	31.12.2016.		31.12.2015.	
	Debtors EUR	Creditors EUR	Debtors EUR	Creditors EUR
<b>Related parties</b>				
Parent company	3 388 544	153 726	2 843 034	377 083
Subsidiaries	1 382 670	0	1 325 820	0
Sister companies	93 453	1 641	65 260	3 597
	<b>4 864 667</b>	<b>155 367</b>	<b>4 234 114</b>	<b>380 680</b>
<b>Other related parties</b>				
Associated companies	184 482	0	28 381	0
Board and Council members	0	588 333	0	588 333
	<b>184 482</b>	<b>588 333</b>	<b>28 381</b>	<b>588 333</b>
	<b>5 049 148</b>	<b>743 700</b>	<b>4 262 495</b>	<b>969 013</b>
	<b>Sales to related parties</b>		<b>Purchase from related parties</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Goods and services for sale	39 856 909	32 872 426	7 974 016	9 972 085
	<b>39 856 909</b>	<b>32 872 426</b>	<b>7 974 016</b>	<b>9 972 085</b>
<b>Other related parties</b>				
Goods and services for sale	1 111 790	1 189 621	530 321	671 580
	<b>1 111 790</b>	<b>1 189 621</b>	<b>530 321</b>	<b>671 580</b>
	<b>40 968 699</b>	<b>34 062 046</b>	<b>8 504 337</b>	<b>10 643 665</b>

### 36. Next period payment commitments

- a) Capital commitments
- b) Operating lease commitments

The Group exploits forestry industrial equipment, as well as cars for administration needs that have been received under operating lease agreements. Lease expenses recognized in financial statement are EUR 44 306.

The Group has the following non-cancellable lease liabilities:

	2016	2015
	EUR	EUR
Payable within 1 year	151 480	0
Payable from 2 to 5 years	637 536	0
	<b>789 017</b>	<b>0</b>

### 37. Application of going concern concept

The Group has finished the financial year, which was closed on 31 December 2016, with profit of EUR 766 481. As of this date, Group's current assets exceeded current liabilities by EUR 2 006 015, and total assets exceeded total liabilities by EUR 6 081 376.

Financial results of 2016 are in accordance with going concern assumption, as well as a going concern is dependent of financial results in next periods.

### 38. Subsequent events

Since the last date of the financial year until the date of signing of financial statements, there haven't been any subsequent events, which would have a significant effect on the financial position of the Group as at 31 December 2016.

## **Independent Auditor's assessment**