

## Independent Auditor's Report

### To the shareholders of AS "PATA Saldus"

#### *Our Qualified Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of AS "PATA Saldus" and its subsidiaries ("the Concern") set out on pages 7 to 37 of the accompanying annual report, which comprise:

- the consolidated balance sheet as at 31 December 2016,
- the consolidated profit and loss statement for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AS "PATA Saldus" and its subsidiaries as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

#### *Basis for Qualified Opinion*

The Concern has revalued land parcels in an amount of EUR 1 570 057, that are disclosed as Long-term investment revaluation reserves. The Concern has not calculated deferred tax liabilities from this revaluation reserves in an amount of EUR 235 509, as required by IAS No.12 "Income Taxes". IAS No.12 states to perform registration of deferred tax liabilities even if the management does not intend to sell this asset. Accounting value of the asset will be recovered by selling the asset and that will create taxable profit in future periods. Accounting data of the Concern show that if the management would have created deferred tax liabilities from long-term investment revaluation reserves, in the balance sheet as at 31 December 2016 Deferred tax assets, Long-term investment revaluation reserves and accordingly Equity capital would be reduced by EUR 235 509.

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Concern in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the financial statements as well as in forming our opinion on these financial statements, therefore we do not provide separate opinion on these matters.

In addition to the matters described in the section *Basis for Qualified Opinion* we have identified the following matters as the key matters on which information must be provided in our report.

<p><i>Key audit matter-</i></p> <p><b>Valuation of inventories</b></p>	<p><i>How we addressed the key audit matter</i></p>
<p>Inventories of the Concern amount to EUR 5 798 237 as at 31 December 2016. Inventories constitute 18,11% of the Concern's total assets at this date.</p> <p>The cost calculation of the inventory is a complex process due to specifics of forestry, primary wood processing-sawn timber production industry. The process requires significant management assumptions regarding allocation of the production overhead costs. Significant Concern's management judgement is also required in determining the need for net realizable value adjustments.</p> <p>Due to the above circumstances, we consider that valuation of inventories is one of the key audit matters.</p>	<p>We have gained an understanding of the production process by discussing the process with the Concern's management and testing related controls. We have identified, discussed and assessed the Concern's management assumptions used in allocation of the production overhead costs and compared the assumptions with those used in the previous periods.</p> <p>We also performed analytical and detailed procedures, comparing cost components and costs of inventory items with prior periods and also between different products.</p> <p>Furthermore, we have reviewed the calculations of inventories net realizable value, which was performed by the Concern's management based on review of subsequent sales after the year-end.</p> <p>We have also analyzed data on natural wastage of inventories, standards developed on natural wastage of inventories in the Concern, we compared actually performed write-off of natural wastage of inventories with write-off made in previous periods and their impact on calculation of Enterprise income tax for the year.</p> <p>Finally, we have assessed the adequacy of disclosures and accounting policies included in the notes to the consolidated financial statements.</p>

#### *Reporting on Other Information*

The Concern management is responsible for the other information. The other information comprises:

- the Consolidated Management Report, as set out on page 5 of the accompanying consolidated Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying consolidated Annual Report,
- the Statement of Corporate Governance, set out in separate statement provided by the Concern's management and available on the Concern's website:  
<http://www.nasdaqbaltic.com/market/?instrument=LV0000100154&list=3&pg=details&tab=reports>

Our opinion on the consolidated financial statements does not cover the other information included in the Consolidated Annual Report, and we do not express any form of assurance conclusion thereon, except as

described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Concern and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Consolidated Management Report, our responsibility is to consider whether the Consolidated Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the corporate governance report includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Concern's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Concern or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Concern's financial reporting process.

#### *Auditor's Responsibility for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Concern's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Concern's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Concern to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The responsible certified auditor on the audit resulting in this independent auditors' report is Svetlana Koļesņikova.

Svetlana Koļesņikova  
Latvian Certified Auditor  
Certificate No 22,  
Riga



Riga, 30 April 2017