

**JOINT STOCK COMPANY „PATA SALDUS”**

(UNIFIED REGISTRATION NUMBER 40003020121)

**FINANCIAL REPORT FOR THE 3 MONTHS PERIOD ENDED 30 JUNE 2018 (UNAUDITED)**

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

**Saldus, 2018**

## CONTENTS

<b>General Information</b>	<b>3</b>
<b>Management Report</b>	<b>5</b>
<b>Statement of Management Responsibility</b>	<b>6</b>
<b>Income Statement</b>	<b>7</b>
<b>Balance Sheet</b>	<b>8</b>
<b>Cash Flow Statement</b>	<b>10</b>
<b>Statement of Changes in Equity</b>	<b>11</b>
<b>Notes to the Financial Statements</b>	Kļūda! Grāmatzīme nav definēta.

## General Information

Name of the Company	<b>Joint Stock Company “PATA Saldus”</b>
Legal status of the Company	Joint Stock Company
Number, place and date of registration	40003020121, August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV-3801
Type of operations	Forestry, commercial timber preparation and related services; production of board lumber, etc. NACE 2.red. 1610 – sawmilling and planning of wood
Members of the Board	Andris Krastiņš - Chairman of the Board Jānis Mierkalns – Member of the Board Ilze Bukulde - Member of the Board Gatis Zommers - Member of the Board
Members of the Council	Uldis Mierkalns – Chairman of the Council Jānis Bertrāns - Deputy Chairman of the Council Inga Mierkalna - Member of the Council Ieva Sniedze - Member of the Council
Subsidiary enterprises	
1. Name of the Company	<i>SIA “PAKUĻU SPORTA BĀZE” (100%)</i>
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	48503009010, November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the Company	Other sports activities
Owner of the Company	JSC “PATA Saldus” – 100%
Reporting period	January 1 – June 30, 2018
2. Name of the Company	<i>ООО “Деревообрабатывающий комбинат № 3” (100%)</i>
Legal status of the Company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date and place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the Company	Woodworking, production of board lumber
Owner of the Company	JSC “PATA Saldus” – 100%
Reporting period	January 1 – June 30, 2018

Associated enterprise

1. Name of the Company	SIA “SALDUS ENERĢIJA” (20%)
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	40103265702, December 22, 2009
Address	Cēsu iela 14, Rīga, LV-1012
The main areas of activities of the Company	Production of electricity, activities of holding companies.
Owner of the Company	JSC “PATA Saldus” – 20%
Reporting period	January 1 - June 30, 2018

Parent Company

Name of the Company	SIA “PATA” (67%)
Legal status of the Company	Limited Liability Company
Number and date of registration in the commercial register	40003448619, June 10, 1999
Address	Miera iela 2, Incukalns, Inčukalna nov., LV-2141
The main areas of activities of the Company	Wholesale of wood, silviculture and other forestry activities
Owner of the Company	Uldis Mierkalns – 100%
Reporting period	January 1 – June 30, 2018

Name and address of the Auditor

SIA “Nexia Audit Advice”  
Certified Auditor's Licence No. 134  
Number of registration No. 40003858822  
Grēcinieku iela 9-3, Rīga,  
LV-1004, Latvia

Certified Auditor Marija Jansone  
LZRA Certificate No. 25

## Management Report

### *To Report of economic activity for the 6 month period of 2018*

#### **Type of operations**

Principal activities of the Company are forestry and primary wood processing – lumber production.

The Company complies with FSC, PEFC and all other environmental requirements. In order to comply with these requirements the Company takes appropriate monitoring and improvement actions on regular basis, however costs for these actions are relatively low with respect to overall production costs.

JSC „PATA Saldus” profit from operating activities for the 6 month period of 2018 are 2 930 014 EUR with the net turnover of 33 207 754 EUR, which represents earnings per share issued of 7.07 EUR.

The Company'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 Company and consolidated group. It is in interest of the Company to take care of their employees' social protection and well-being, because only then the development of the Company can be sustainable.

#### **Financial risk management**

Main financial instruments of the Company are loans, finance and operating leases, cash and cash equivalents. The purpose of these financial instruments is to provide the Company 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 Company 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 company on regular basis by setting a customised credit rating for the entity.

#### **Future prospects**

In 2018, the Company will continue to develop and expand environmentally friendly logging according to FSC and PEFC Forest Management and Wood Flow Certificate requirements.

In 2018, it is planned to expand its activities by installing additional timber drying plants with recuperation, where for heating renewable energy will be used.

The Company will continue to work on raising employee satisfaction and loyalty, which will improve the efficiency of work, increase productivity, increase customer satisfaction, thus leading to an improvement in the overall financial performance of the Company.

August 31, 2018

Board:

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

The Management confirms that, in preparing this report for the period ending on 30 June 2018, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation.

The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

August 31, 2018

Board:

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Andris Krastiņš  
Chairman 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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## Income Statement

	2018.06.30	2017.06.30
	EUR	EUR
Revenue	33 207 754	24 621 415
Costs of goods sold or services provided	-30 026 857	-23 509 752
<b>Gross profit or losses</b>	<b>3 180 897</b>	<b>1 111 663</b>
Distribution expenses	-4 420	-139
Administrative expenses	-194 908	-231 489
Other operating income	428 106	650 297
Other operating expenses	-321 200	-281 010
Interest and similar income, incl.	0	69
a) from other parties	0	69
Interest and similar expenses, incl.	-158 461	-165 962
a) for other parties	-158 461	-165 962
<b>Profit or loss before corporate income tax</b>	<b>2 930 014</b>	<b>1 083 429</b>
<b>Profit or loss after corporate income tax</b>	<b>2 930 014</b>	<b>1 083 429</b>
<b>Profit or loss for the period</b>	<b>2 930 014</b>	<b>1 083 429</b>
<b>Profit/loss on share (EUR)</b>	<b>7.07</b>	<b>2.62</b>

August 31, 2018

Board:

Andris Krastiņš  
 Chairman of the Board

Jānis Mierkalns  
 Member of the Board

Gatis Zommers  
 Member of the Board

Ilze Bukulde  
 Member of the Board

## Balance Sheet

### ASSETS

	2018.06.30	2017.12.31
	EUR	EUR
<b>NON-CURRENT ASSETS</b>		
<b>Intangible assets</b>		
Concessions, patents, licences, trademarks and similar rights	24 548	19 502
<b>Total intangible assets</b>	<b>24 548</b>	<b>19 502</b>
<b>Fixed assets</b>		
Immovable properties		
a) land plots, buildings and engineering structures	6 245 743	6 228 830
Fauna and flora		
b) biological assets	862 816	862 816
Technological equipment and machinery	13 192 817	11 766 742
Other fixed assets	83 708	70 983
Fixed assets under development and construction in progress	11 164	1 722 773
<b>Total fixed assets</b>	<b>20 396 248</b>	<b>20 652 144</b>
<b>Non-current financial investments</b>		
Investments in group companies	1 009 149	1 009 149
Receivables from group companies	698 127	696 250
Participation in capital of associates	8 540	8 540
Deffered tax assets	384 565	384 565
<b>Total non-current financial investments</b>	<b>2 100 381</b>	<b>2 098 504</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>22 521 177</b>	<b>22 770 150</b>
<b>CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw materials and consumables	3 463 382	2 069 681
Work in progress	1 573 080	1 603 943
Finished goods and goods for sale	1 147 937	1 077 796
Fauna and flora		
a) biological assets	1 049 910	1 085 082
Advances for inventories	50 857	51 004
<b>Total inventories</b>	<b>7 285 166</b>	<b>5 887 506</b>
<b>Account receivable</b>		
Trade receivables	349 270	177 087
Receivables from group companies	7 040 564	6 019 719
Receivables from associates	77 453	20 729
Other receivables	223 921	176 804
Deferred expenses	376 585	270 058
<b>Total receivables</b>	<b>8 067 793</b>	<b>6 664 397</b>
<b>Cash and cash equivalents</b>	39 219	114 483
<b>TOTAL CURRENT ASSETS</b>	<b>15 392 178</b>	<b>12 666 386</b>
<b>TOTAL ASSETS</b>	<b>37 913 355</b>	<b>35 436 536</b>

August 31, 2018

Board:

Andris Krastiņš Chairman 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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## Balance Sheet (continued)

### EQUITY AND LIABILITIES

EQUITY	2018.06.30 EUR	2017.12.31 EUR
Share capital	579 916	579 916
Share premium	2 828	2 828
Revaluation reserve of non-current investments	1 370 057	1 370 057
Reserves:		
f) other reserves	3 741 168	3 741 168
Retained earnings:		
a) retained earnings from the previous year	4 807 159	2 008 402
b) current year profit or losses	2 930 014	2 798 757
<b>TOTAL EQUITY</b>	<b>13 431 142</b>	<b>10 501 128</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans from credit institutions	11 795 074	12 526 539
Other loans	2 689 233	2 972 289
Deferred income	2 124 696	1 689 105
<b>Total non-current liabilities</b>	<b>16 609 003</b>	<b>17 187 933</b>
<b>Current liabilities</b>		
Loans from credit institutions	1 421 411	1 421 411
Other loans	991 805	1 158 353
Prepayments received from customers	675	980
Trade payables	4 052 047	3 902 548
Payables to group companies	0	155 467
Taxes and state social insurance payments	431 465	247 318
Other creditors	255 294	189 104
Deferred income	261 880	222 583
Accrued liabilities	458 633	449 711
<b>Total current liabilities</b>	<b>7 873 210</b>	<b>7 747 475</b>
<b>TOTAL LIABILITIES</b>	<b>24 482 213</b>	<b>24 935 408</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37 913 355</b>	<b>35 436 536</b>

August 31, 2018

Board:

Andris Krastiņš Chairman 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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## Cash Flow Statement

	6 Month of 2018	6 Month of 2017
	EUR	EUR
<b>Cash flow from operating activities</b>		
<b>Profit (+) or loss (-) before corporate income tax</b>	<b>2 930 014</b>	<b>1 083 429</b>
Adjustments for:		
Depreciation and impairment of fixed assets	957 364	942 718
Depreciation and impairment of intangible assets	6 624	10 058
Profit (-) or loss (+) from fluctuations of foreign currency rates	11 669	5 534
Impairment of non-current and current financial investments	-114 563	-111 292
Interest and similar expenses	158 461	165 412
<b>Profit or loss prior to changes in current assets and current liabilities</b>	<b>3 949 569</b>	<b>2 095 859</b>
Adjustments for:		
Increase (+) or decrease (-) of account receivable	-1 408 947	-661 758
Increase (+) or decrease (-) of inventory	-1 397 660	662 232
Increase (+) or decrease (-) of account payables and other liabilities	136 858	-404 630
<b>Gross cash flow from operating activities</b>	<b>1 279 820</b>	<b>1 691 703</b>
Interest payments	-161 273	-168 306
<b>Net cash flow generated from operating activities</b>	<b>1 118 547</b>	<b>1 523 397</b>
<b>Cash flow from investing activities</b>		
Income from selling fixed assets and intangible assets	0	1 065 926
Acquisition of fixed assets and intangible assets	-729 492	-87 714
Prepayments for fixed assets under development and construction in progress	-11 164	-1 070 099
Loans issued	-7 995	-17 971
<b>Net cash flow generated from investing activities</b>	<b>-748 651</b>	<b>-109 858</b>
<b>Cash flow from financing activities</b>		
Loans received	736 762	0
Received subsidies and grants	589 454	0
Repayment of loans	-1 304 941	-516 142
Finance lease payments	-93 149	-101 660
Changes of creditlines	-373 286	-599 319
<b>Net cash flow generated from financing activities</b>	<b>-445 160</b>	<b>-1 217 121</b>
<b>Net cash flow in the financial year</b>	<b>-75 264</b>	<b>196 418</b>
<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>114 483</b>	<b>311</b>
<b>Cash and cash equivalents at the end of the financial period</b>	<b>39 219</b>	<b>196 729</b>

Cash flow statement is prepared using the indirect method in accordance with Rules of The Cabinet of Ministers No. 775

August 31, 2018

Board:

Andris Krastiņš  
Chairman of the Board

Jānis Mierkalns  
Member of the Board

Gatis Zommers  
Member of the Board

Ilze Bukulde  
Member of the Board

## Statement of Changes in Equity

	Share capital	Share premium	Revaluation reserves of non-current investments	Other reserves	Retained earnings from the previous year	Current year profit or losses	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2016</b>	<b>579 916</b>	<b>2 828</b>	<b>1 570 057</b>	<b>3 741 168</b>	<b>1 234 618</b>	<b>773 784</b>	<b>7 902 371</b>
Distribution of profit of the year 2016	0	0	0	0	773 784	-773 784	0
Current year profit or losses	0	0	0	0	0	1 083 429	1 083 429
<b>June 30, 2017</b>	<b>579 916</b>	<b>2 828</b>	<b>1 570 057</b>	<b>3 741 168</b>	<b>2 008 402</b>	<b>1 083 429</b>	<b>8 985 800</b>
<b>December 31, 2017</b>	<b>579 916</b>	<b>2 828</b>	<b>1 370 057</b>	<b>3 741 168</b>	<b>2 008 402</b>	<b>2 798 757</b>	<b>10 501 128</b>
Distribution of profit of the year 2017	0	0	0	0	2 798 757	-2 798 757	0
Current year profit or losses	0	0	0	0	0	2 930 014	2 930 014
<b>June 30, 2018</b>	<b>579 916</b>	<b>2 828</b>	<b>1 370 057</b>	<b>3 741 168</b>	<b>4 807 159</b>	<b>2 930 014</b>	<b>13 431 142</b>

August 31, 2018

Board:

Andris Krastiņš Chairman 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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## Notes to the Financial Statements

### Summary of accounting policies

#### General principles

Financial report has been prepared in accordance with Latvian law "On Accounting" and Law of annual financial statements and annual consolidated financial statements (the Law), as well as in accordance with Cabinet of Ministers rules No. 775 " rules of annual financial statements and consolidated annual financial statements law application." Derogating from the principles of the Law of annual financial statements and annual consolidated financial statements, the Company recognizes, values, presents biological assets in the financial statements in accordance with International Accounting Standard No. 41 "Agriculture", deferred tax assets - No. 12 "Income Taxes".

The financial statements have been prepared according to the historical cost accounting principle. The income statement is prepared in accordance with the function of expense method. The cash flow statement has been prepared under indirect cash flow method. The financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

Accounting policy ensures that the financial statement provides information, that: 1. is sufficient and complete enough to allow user of financial statement to draw sound conclusions about the Company. 2. is reliable in a way that:\* revealed financial results and position of the Company is correct - not only legal form of the operations is revealed, but also their economical nature, are neutral in a way that the results are not subjectively biased and are precautionous;\* Are complete in all essential aspects.

#### General accounting principles

Financial statement items are valued according to the following accounting principles:

- a) it is assumed that the Company will continue its activities;
- b) unless specified separately, the same valuation methods are used as in the previous year;
- c) valuation is made with sufficient precaution, meaning that:
  - profit is recognized only if earned before the end of financial year;
  - all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
  - all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.
- d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment or day when invoice/receipt was issued. Expenses are reconciled with the revenues of the financial year.
- e) Sections related to Asset and Equity, Provision and Liability items are evaluated and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offset.
- f) Transactions in the financial statement are represented according to their economic substance and matter rather than according to their legal form.

#### Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia.

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	2018.06.30	2017.12.31
	EUR	EUR
1 USD	0.8578	0.8338
1 RUB	0.0137	0.0144

#### Income recognition and revenue

Revenue contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:

- Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
- Rendering of services - under the percentage of completion method;
- Income from fines and penalties - at the moment when payment is received;

Interest income - on an accrual basis;  
Dividends - at the moment of acquiring legal rights to receive them.

#### **Intangible investments and fixed assets**

Intangible investments and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements intangible and fixed assets are recognized at purchase cost or revalued amount less depreciation.

The difference arising from revaluation is recognized in equity under “Non-current investment revaluation reserve”, however value reduction is written-off from value increase that was recognised in reserve during prior years. Surplus is included in income statement.

In case of disposal or liquidation of fixed assets, the reserves are written-off to the Income statement in full amount.

Depreciation is calculated on a straight-line basis applying following rates of depreciation set by the management, which are based on the estimated useful life of fixed assets:

	<b>Depreciation % per annum</b>
Intangible assets	2-5
Buildings	10-20
Technological equipment	2-15
Other machinery and equipment, transport vehicles	2-10

The Company capitalizes its fixed assets valued over EUR 142 with useful life exceeding 1 year. 100% Depreciation is applied after commissioning for improvements and other low costs items with the value less than EUR 142 .

If sufficient evidence is acquired that the future economic benefit associated with subsequent repair or reconstruction costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. By capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they have incurred.

Net gains or losses from disposal of fixed assets is calculated as the difference between the carrying amount of fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal has incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, value of fixed or intangible asset is decreased to its recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell this asset or value in use.

#### **Biological assets**

The Company has decided, that forest stands should be considered as biological assets. Biological assets are accounted and evaluated in accordance with 41. SGS "Lauksaimniecība" requirements. 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.

#### **Capitalization of borrowing and other costs**

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during period with no active development of asset.

#### **Research and development costs**

Research costs are recognized in the income statement when incurred. Development costs that relate to development of asset intended for sale or own use, are capitalized and recognized as intangible assets and amortized on a straight-line basis starting from the beginning of commercial production of the respective product over the period when the return on this asset is expected.

#### **Investments in subsidiaries, associates and other entities**

Participation in capital of subsidiaries, associates and other entities, is recognized at their cost less impairment losses.

#### **Inventories**

Inventories are recognized at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses, that are directly related to production of particular item, are included in production cost of inventories. Selling expenses are not included in cost. Balance value of inventories is calculated by applying the FIFO method. If net realizable value of inventories is lower than its costs, then the difference is recognized as provisions for the decrease of value.

#### **Account receivable**

Trade receivables are recognized at invoiced amounts. After the initial recognition account receivables are measured at net amount less provisions for doubtful debts. Provisions for doubtful receivables are recognized when the management of the Company considers that it is probable that the total amount of receivables will not be collected in full.

#### **Prepaid expenses and deferred income**

Payments made before the balance sheet date, but relating to subsequent years, are shown under "Prepaid expenses". Payments received before the balance sheet date, but relating to the following year or subsequent years, are shown as deferred income.

#### **Borrowings and loans**

Loans and borrowings are initially recognized at their initial value, which is determined by adding to the fair value of the loan or borrowing amount the costs related to the receipt of the loan or deducting the costs related to the issue of the loan. Borrowings are recognized in the value of funds received, net of transaction costs incurred.

Subsequently, borrowings are stated at amortized costs using the actual interest method. Any difference between the original amount borrowed net of transaction costs and the redemption value is recognized gradually in the income statement during the loan use period or in accordance with accounting policy capitalized at the value of construction in progress.

#### **Provisions, contingent liabilities and assets**

Provisions are liabilities related to events from current or previous years and at the preparation of financial statements it is probable that an outflow of resources will be required to settle the obligations and their amounts can be reliably estimated. Provisions are valued at present value of expenditures expected to settle corresponding obligation.

Contingent liabilities are not recognized. These could be classified as liabilities only when a probability of resource outflow becomes sufficiently well-grounded. Similarly, contingent assets are not recognized until probability that the Company will gain economic benefits related to a transaction becomes virtually certain.

#### **Accrued liabilities**

Accrued liabilities recognize clearly known amounts of liabilities to suppliers and contractors for goods or services received during the reporting year for which for other reasons the corresponding source document (invoice) for payment has not yet been received at the balance sheet date.

#### **Accrued liabilities for unused annual leave**

Amount of accumulated unused annual leave is determined by multiplying average salary day rate of employees for last six months of financial year with amount of accrued but unused annual leave days at the end of reporting year.

#### **Grants and government assistance**

Grants received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in income statement on straight-line basis over the useful life of acquired assets. Other grants and financial support to cover the expenses are recognized as an income in the period when the respective funding has been received and all material conditions in respect to the grants received has been fulfilled (when the grants are received).

#### **Lease-to-buy (financial lease) - the Company is the lessee**

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, they are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or present value of minimum lease payments. Lease interest payments are included in income statement when incurred.

**Lease without redemption rights (operating lease) - the Company is the lessee**

In cases when assets are leased under conditions without redemption rights, lease payments and prepayment for lease are included in income statement when they arise. Lease classification whether it is financial or operating lease, is determined by substance and essence of the lease, rather than just legal form of lease. Lease is classified as a financial lease also if lease term covers majority of leased asset's useful life. This applies even if the ownership rights are not transferred to lessee at the end of the lease term or in case if the asset is so specific, that without a substantial modification it could not be used by other parties.

**Deferred tax**

In the context of the change in corporate tax regulations, the procedure for calculating corporate income tax has completely changed and the basis for calculating deferred tax assets has disappeared. In order to ensure compliance with the requirement of a true and fair view of the law, the impact of corporate income tax reform in the financial report is reflected by the company as follows:

- preparing an annual report for the reporting year in which it became known that in the next reporting year the new corporate income tax regulation as a result of the corporate income tax reform would continue to apply insofar as this would not be in conflict with the Company's annual report preparation rules and taking into account the new corporate income tax regulations the provisions for covering uncovered losses of previous years is gradually written off from the balance of deferred tax asset balances calculated on the basis of the provisions of the previous corporate income tax provisions for covering tax losses. The amounts of deferred tax assets excluded from the balance sheet are shown in the income statement line "Revenue or charges from changes in deferred tax assets or liabilities".

**Share premium**

If the new issued shares are sold at a value higher than their nominal value, the Company will receive a positive mark-up. If they are sold at a lower value, the Company shows the negative value in the same item with a minus sign.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

**Group companies**

Subsidiaries of the group or the parent company of the group, or other subsidiaries of the group, or subsidiaries of the subsidiaries of the group are regarded as the group companies.

**Associates**

An associated company is an entity within a significant influence of other company, which is provided by holding no less than 20% and no more than 50% of the voting rights.

**Related parties**

Related parties are considered Group companies, Board and Council members, their close family members and entities, in which the previously mentioned persons or companies have significant influence or control.