Baltic Dairy Board

SIA "BALTIC DAIRY BOARD"

(UNIFIED REGISTRATION NUMBER 43603036823)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED IN EU TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

BAUSKA, 2016

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General information

Name of the Company	BALTIC DAIRY BOARD
Legal status of the Company	Limited liability company
Unified registration number, place and date of registration	43603036823 Bauska, 21 July 2008
Address	Stacijas Street 1 Bauska, Latvia, LV-3901
The type of Actions (NACE)	Operation of dairies and cheese making (NACE 2.red.10.51)
Board Members names, surnames and positions	Kaspars Kazāks, Chairman of the Board Ilona Kazāka, Member of the Board
Council Members names, surnames and positions	Ivars Ķirsons, Chairman of the Council from 23.07.2015 Gatis Jurisons, Deputy Chairman of Council from 23.07.2015 Viesturs Neimanis, Member of the Council from 23.07.2015 Oskars Tretjuks, Member of the Council from 23.07.2015
Financial year	1 January 2015 - 31 December 2015
Previous financial year	1 January 2014 - 31 December 2014
Auditor's name and address	Natālija Zaiceva Sworn auditor (LZRA Certificate No. 138) SIA "Orients Audit & Finance" LZRA Licence Nr.28 Gunara Astras Street 8b Riga, LV-1082

SIA BALTIC DAIRY BOARD
REPORT OF THE MANAGEMENT
to 2015 ANNUAL REPORT

"Baltic Dairy Board" Ltd main type of activity is raw milk and other dairy side product processing. Manufactured raw materials are then being used for end products like butter, milk protein powder and yeast products. Main goal is to establish own drying facility by 2018 with capability to dry own liquids and offer drying services to other dairy companies.

1. Description of Business:

Year 2015 has been a tuff and difficult year in dairy industry. Dairy product price drop, which has started in April, 2014, has continued its downfall until end of 2015. By end of 2015 dairy product prices reached all time lowest prices and accordingly raw milk prices dramatically reduced as well. Price drop will continue in 2016 due to the fact that after quota cancelation a lot of main dairy producer countries has increased they raw milk production which makes raw milk oversupply in Europe.

Last year for our company was very tense. Our aim was to finish all the construction works and to start production as soon as possible. We managed to finish all planned construction works and equipment installing by end of 2015. Manufacturing started immediately after factory was put in to operation on January 2016.

In annual report Net turnover was 9 067 905 EUR, which is 23% less than it was in 2014. This drop was according to price drop for all dairy products and downfall in dairy industry itself.

The book value of year 2015 is 10 060 709 EUR which is 148% more than 2014. This big increase in book value is because we have invested our and attracted funds in to factories equipment and construction process.

In annual report Net loses are 551 827 EUR. Mentioned market situation in dairy industry and companies investments in designing, processing plant reconstruction, processing equipment purchases, recruitment of new staff and providing special training and factory tests before main production was started. Taking in to consideration mentioned loses are reasonable and understandable.

2. Key Events of 2015:

1. Research was continued in cooperation with Vides, Bioenergetikas un Biotehnologiju Kompetences Centrs SIA (Environmental, Bioenergetics and Biotechnological Competence Centre, a limited liability company).

2. Additional financing in amount of 1,7 million EUR for factory equipment was provided from Nordea Bank AB Latvia.

3. LIAA Europes co-financing project was approved for amount of 1,7 million EUR.

4. Additional financing provided from risk capital funds ZGI 3.

5. Discussions are held with potential investors for additional financing for drying tower, packing line and all equipment needed for full powder production.

6. The plant construction works were completed and equipment and machinery were installed and tested. On 22nd of December 2015 the plant was put into operation.

7. Changes in Company's equity participants register were held: on 16th of February 2015 the Equity of the Company was increased to 100 000 EUR, on 15th of May 2015 to 700 000 EUR and on 3rd of August 2015 to 777 778 EUR. The main reasons for the increase of Equity were participants investments of Ilona Kazaka and Kaspars Kazaks in proportion to their number of shares in Equity, new participants/investors, and as a result the Company's Equity was increased and the Company's structure of Equity participants was changed. As of 31.12.2015 register of equity participants is following: Kaspars Kazāks -51%, Ilona Kazāka - 20%, limited partnership "ZGI -3" – 10 %, Sergey Regukh – 9,5% and Anastasia Regukh - 9,5%.

8. On 23rd of July 2015 Kaspars Kazaks was appointed as the Company's Chairman of the Board.

9. On 23rd of July 2015 the Council of the Company was established and composed from Chairman of the Council - Ivars Ķirsons, Deputy Chairman of the Council - Gatis Jurisons, Members of the Council - Oskars Tretjuks, Viesturs Neimanis.

10. In 2015 were implemented 2 projects: Nr. ĀTA/2.3.1.1.1/15/78/017 and Nr. L-ĀTA/2.3.1.1/15/79/207 for participation in the program "Entrepreneurship and Innovation" under 2.3.1.1. activities "External Markets Acquisition" 2.3.1.1.2. sub-activities "External Markets Acquisition - sectoral strengthening the international competitiveness".

3. Future Development of the Company:

3. Future Development of the Company:

1. Main priority in year 2016 is to continue regular production and product export. In a meantime increasing production volumes that will decrease production costs.

2. Continue to work on quality management system and to get international quality certificates as ISO, Halal and others.

3. Continuously working on all areas regularly increased company's value, turnover and profit.

4. Attract additional financing for factories expansion. Start engineering process for protein drying plant.

4. Post-Balance-Sheet Events:

In a time from annual years last day and the day when board has signed annual report:
1. There has been continuous work in product export with our maximum possible current production volumes.
2. On 13th of January 2016 the License issued by The Food and veterinary Service No. PA 037133 for the start of production has been received.
3. On 19th of January 2016 the legal and actual addresses have been changed to one united address - Stacijas Street 1, Bauska, Bauskas nov., LV-3901.
4. On 1st of January 2016 the "KOSHER Certificate" for the Company's production has been received.

No other events have taken place during the period of time from the last day of the accounting year to the date of signature of the financial statements which would have a significant effect on the financial position of the Company.

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The following statement, which should be read in conjunction with the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the separate financial statements of SIA "Baltic Dairy Board" (the "Company").

Management is responsible for the preparation of the separate financial statements that present truly and fairly the financial position of the Company as of 31 December 2015, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by EU.

The Management Board confirms that the decisions adopted and the assessments made in the course of preparation of information contained on pp. 7-30 of the financial statements were conservative and prudent. The accounting policy compared to the preceding year has not changed. The Management Board confirms that the financial statements have been prepared on a going-concern basis.

The Management is responsible for keeping a proper accounting system, preservation of Company's assets, and for detection and prevention of fraud and other irregularities in the Company. The Management is also responsible for compliance with the requirements of Latvian law.

Kaspars Kazaks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 EUR	2014 EUR
Net sales	(1)	9 067 905	11 849 005
Cost of sales	(2)	(8 433 005)	(10 697 393)
Gross profit		**634 900**	**1 151 612**
Distribution expenses	(3)	(590 995)	(331 428)
Administrative expenses	(4)	(484 639)	(248 369)
Other income	(5)	63 410	72 363
Other expenses	(6)	(166 622)	(135 090)
Finance expenses	(8)	(87 876)	(45 491)
Profit (loss) before tax		**(631 822)**	**463 597**
Corporate income tax	(9)	79 995	(75 863)
Net profit		**(551 827)**	**387 734**

Notes on pages 11 to 30 are an integral part of these financial statements.

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2015. EUR	31.12.2014. EUR
ASSETS			
Non-current assets			
Intangible assets	(10)	178	0
Property, plant and equipment	(11)	9 031 798	2 536 030
Investment property	(12)	0	106 335
Deferred tax assets	(9)	69 965	0
Total non-current assets:		**9 101 941**	**2 642 365**
Current assets			
Inventories	(13)	7 164	65 422
Trade receivables	(14)	362 365	356 081
Corporate income tax receivable		132 132	48 788
Other current assets	(15)	355 753	332 515
Cash and cash equivalents	(16)	101 354	617 322
Total current assets:		**958 768**	**1 420 128**
Total assets		**10 060 709**	**4 062 493**
EQUITY AND LIABILITIES			
Equity			
Share capital	(17)	777 778	2 845
Share issue premium		421 557	
Retained earnings			
previous year's retained earnings		678 521	290 787
current years profit or losses		(551 827)	387 734
Total equity:		**1 326 029**	**681 366**
Liabilities			
Non-current liabilities			
Debenture loans	(18)	950 000	950 000
Deferred revenue	(19)	1 154 049	608 539
Loans from credit institutions	(21)	3 351 733	0
Other borrowings	(21)	500 665	0
Finance lease liabilities	(20)	69 592	37 489
Deferred income tax liabilities	(9)	0	10 030
Total non-current liabilities:		**6 026 039**	**1 606 058**
Current liabilities			
Deferred revenue	(19)	107 855	0
Finance lease liabilities	(20)	28 310	16 474
Loans from credit institutions	(21)	712 850	
Trade payables	(22)	1 559 346	1 653 926
Other liabilities	(23)	300 280	104 669
Total current liabilities:		**2 708 641**	**1 775 069**
Total liabilities:		**8 734 680**	**3 381 127**
Total equity and liabilities:		**10 060 709**	**4 062 493**

Notes on pages 11 to 30 are an integral part of these financial statements.

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
31.12.2013.	**2 845**		**1 181 449**	**1 184 294**
Total comprehensive income	-	-	387 734	387 734
Total income or losses	-	-		0
Dividends	-	-	(890 662)	(890 662)
31.12.2014.	**2 845**	**0**	**678 521**	**681 366**
Share capital increase	774 933	-	-	774 933
The new share sale above nominal value	-	421 557	-	421 557
Total comprehensive income	-	-	(551 827)	(551 827)
31.12.2015.	**777 778**	**421 557**	**126 694**	**1 326 029**

Notes on pages 11 to 30 are an integral part of these financial statements.

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

CASH FLOW STATEMENT

	Notes	2015 EUR	2014 EUR
Cash flow from operating activities	(24)	**1 989 767**	**1 615 488**
Interest paid		(87 864)	(8 161)
Income tax paid		(19 976)	(289 384)
Net cash flow from operating activities		**1 881 927**	**1 317 943**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(7 357 607)	(1 874 484)
Proceeds from sales of property, plant and equipment		125 000	43 958
Loans issued		0	(40 210)
Net cash flow from investing activities		(7 232 607)	(1 870 736)
Cash flow from financing activities			
Share capital increase		774 933	0
Income from share issue premium		421 557	0
Income from bonds issued		0	950 000
Proceeds from borrowings		3 083 876	300 000
Received advance from LIAA (part of the granted funding)		685 721	608 539
Expenses on the borrowing repayment		(110 000)	(300 000)
Dividends paid		0	(460 608)
Finance lease payments		(21 354)	(27 568)
Net cash flow from financing activities		4 834 733	1 070 363
Foreign currency fluctuations		(21)	**(4 185)**
Net increase / (decrease) in cash and cash equivalents		(515 968)	**513 385**
Cash and cash equivalents at the beginning of the financial year		617 322	**103 937**
Cash and Cash equivalents at the end of the financial year		101 354	**617 322**

Notes on pages 11 to 30 are an integral part of these financial statements.

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

SIA "Baltic Dairy Board" (the "Company") was established and started to operate in 2008. The company is engaged in the logistics of raw milk, the wholesale of milk and dairy products in the Baltic countries and the associated export / import transactions.

Substantially the Company is engaged in the logistics of the raw milk, collecting from farmers, mainly in the Dobele, Bauska and Jelgava regions, and delivery to the processors.

The industrial research project titled 'Feasibility Study of Whey (Dairy By-Product) Bioconversion into Ethanol and By-Product Processing', with the total costs of the project amounting to EUR 246 000, was implemented in collaboration with Vides, Bioenergetikas and Biotehnologiju kompetences centrs SIA (Environmental, Bioenergetics and Biotechnological Competence Centre) in 2014.

As a result of the research it was decided to focus on innovative processing techniques by using deep waste-free sweet and sour whey processing and of creating products with high added value.

On 19th December 2012 the Company has signed an agreement on the acquisition of real estate property of a former milk processing company, insolvent "Bauskas piena kombināts" JSC, with the total area of 63 175 m2, and the there existing building and equipment.

The Company's current financial year is from 1 January 2015 to 31 December 2015.

The Company's auditor is SIA Orients Audit & Finance.

II. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by European Union (IFRS).

The accounting policy that was applied in 2015, corresponds to the accounting policy that was used for the preparation of Annual report of a year 2014.
The financial statements are prepared in accordance with IFRS evaluation criteria set out for each individual asset, liability, revenue and costs. Information on evaluation criteria is provided in the following notes.
The financial statements are given in accordance with IAS. 1 "Preparation of Financial Statements". The Company's management Income statement and Statement of comprehensive income presents together.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are represented in note (22) to accounting policies.

The separate financial statements of the Company are presented in euro (EUR) which is the functional currency of the primary business as the Company is registered in Latvia and expenses related to the primary business are in euro.

(2) Foreign currencies

(a) Functional and presentation currency

Items are recognized in the financial statements of the Company as measured using the currency of the primary economic environment in which the Company operates (the functional currency).
Starting from 2014 the functional and presentation currency of the Company is euro (EUR).
Starting from the 1st January 2014 the national currency of the Latvian Republic is euro (EUR), as a result from this date the functional and presentation currency of the Company is euro.

Foreign currencies (continuation)

(b) Transactions and balances

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.

Exchange rates used at the year-end are as follows:

	31.12.2015. EUR	31.12.2014. EUR
1 USD	1.0926	1.2160
1 PLN	4.2400	3.4528

(3) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(4) Income recognition

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.
Main operation of the Company is logistics of raw milk, the wholesale of milk and dairy products in the Baltic countries and the associated export / import transactions. Revenue represent the total of goods and services sold during the year net of discounts and value added tax.

Sales of goods are recognised after significant ownership risk and rewards have been passed to the buyer. Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt. Income from provision of services is recognised based on the stage of completion method.
Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.

(5) Intangible assets

Intangible assets, in general, consist of licences and software and related implementation costs. Intangible assets are recognised at the cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	Years
Licences, software	3

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount exceeds the fair value of the relevant intangible asset less selling or use expenses.

(6) Property, plant and equipment

According with the cost model property, plant and equipment are recognized at cost value less accumulated depreciation. Historical cost includes expenditure that is directly related to the acquisition of the asset.

Subsequent costs are recognized in the asset's carrying amount or as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are recognized as an expense during the financial period when they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the fixed asset is put into operation or engaged in commercial activity. Each part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of fixed asset, it also depreciates separately.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

	Years
Buildings	10-25
Technological machinery and equipment	5-10
Other machinery and equipment	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease is reflected as the expenses.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the statement of comprehensive income for the relevant period.

(7) Investment property

Investment property is buildings, constructions and their parts, hold by a company (as owner or lessee under a finance lease) to get lease payment or to wait prices rising (increase in the value), but not to use for the production of goods, services, or for administrative purposes or to sell in the ordinary course of economic activity. For the evaluation of investment property the Company is using the cost model.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the separate statement of profit and loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, cost value is used, net of accumulated depreciation and accumulated impairment losses, if any. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(8) Impairment of tangible and intangible assets

All tangible and intangible assets of the Company excluding the land have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(9) The Company as a 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, are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at lower of fair value of the leased assets or the present value of the minimum lease payments. Lease interest payments are included in the statement of comprehensive income by method to produce a constant periodic rate of interest on the remaining balance of the liability. Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Operating lease payments are recognized in the income statement as incurred.

(10) The Company as a lessor

Assets that are leased to operating leases, are disclosed in tangible assets at purchase price, less depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate tangible asset, to write off the value of tangible asset until its estimated book value at the end of the period of useful life by using the rates specified for similar tangible assets of the Company.

(11) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable value. The Company regularly assesses whether the value of inventories has decreased due to storage or damage reasons. Impairment losses are recognized in the income statement.

(12) Financial assets

Initial recognition and measurement

The Company's financial assets include cash and cash equivalents, trade and other receivables and loans.

Financial assets of the Company have been classified as loans and receivables. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Regular purchases and sales of financial assets are recognised on the trade-date.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income for cash and cash equivalents and in other operating income for "Other loans and receivables". The losses arising from impairment are recognised in the separate statement of profit and loss in "Other operating expense".

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted using the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

(13) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset' s carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in impairment are recognised in the statement of comprehensive income.

(14) 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.

(15) Share capital and dividends

Shares are classified as share capital. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, when shareholders of the Company approve the dividends.

(16) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(17) Financial liabilities

Initial recognition and measurement

The Company's financial liabilities include trade and other payables. Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus in the case of a financial liability not at fair value through profit or loss directly attributable transaction costs.

Subsequent measurement

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate (EIR) method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the separate statement of profit and loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the separate statement of profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of financial year.

(18) Employee benefits

Short-term employee benefits, including salaries, social security contributions and bonuses are included in the statement of profit or loss on an accrual basis.

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included in the staff costs.

(19) Accrued liabilities for unused annual leave

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

(20) Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective legislation requires 15 % tax rate.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income, respectively and not in the separate statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Income tax (continuation)

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

(21) Value added tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the separate statement of financial position.

(22) Grants

Grants or subsidies received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and gradually recognized as an income in the statement of comprehensive income over the useful life of the assets acquired. Subsidies or grants to cover the expenses are recognized as an income in the same period when the respective expenses have arisen and all material conditions in respect of the grants received has been fulfilled.

(23) Related parties

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board, their close relatives and companies, in which they have a significant influence or control. Related parties are also the companies that have the ultimate control or significant influence.

(24) Critical accounting estimates and judgements

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgements applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the property, plant and equipment, determination of revaluating regularity, calculations and assumptions of the Management made estimating their useful lives as well as recoverable receivables and inventories as disclosed in the relevant notes.

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on the amount and structure of trade receivables is given in Note 30.

Critical accounting estimates and judgements (continuation)

Determination of the useful life of property, plant and equipment

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as aat the end of the year is EUR 9 031 798 (31.12.2014. - EUR 2 536 030).

Valuation of inventories

In valuation of inventories the management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered.

(25) Note of Annual report

Changes in Accounting policy and in Representation of information

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these separate financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The Company is not a party to any joint arrangements.

IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of these separate financial statements of the Company.

IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets (effective for annual periods beginning on or after 1 January 2016)

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Company's separate financial statements, as the Company does not apply revenue-based methods of amortisation/depreciation.

IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture (effective for annual periods beginning on or after 1 January 2016)

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

The Company does not expect that the amendments, when initially applied, will have material impact on these separate financial statements as the Company has no bearer plants.

IAS 19 - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2016)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Company does not expect the amendment to have any impact on the separate financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

Note of Annual report (continuation)

IAS 27 - Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The amendments allow an entity to use the equity method ¡n its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Company does not expect that the amendments, when initially applied, will have a material impact on these separate financial statements as the Company intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost in accordance with IAS 39.

Annual Improvements to IFRSS

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the separate financial statements of the Company.

At the moment of signing the Annual report there are no more new or improved Standards, or interpretations of them, that could have essential impact on Company.

III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

The Company is primarily involved in the logistics of raw milk, collection of milk from farmers and delivery thereof to the processors. Since the Company's business activities are mainly related to the logistics of raw milk, the wholesale of milk and dairy products in the Baltic countries and related export/import activities, the Company has only one operating segment to disclose. These financial statements reflect the information that is relevant to the primary business segment.

(b) Geographical markets

The Company is engaged in the wholesale of milk product and by-products.

The operations of the Company can be divided into two geographical segments, which are sales in Poland, Estonia, Latvia and Lithuania. Distribution of sales among these segments is as follows:

	2015 EUR	2014 EUR
Poland	6 505 606	11 227 701
Lithuania	496 722	621 304
Estonia	538 234	-
Latvia	1 527 343	-
	9 067 905	**11 849 005**

(c) Major customers

Revenue allocation between the largest customers in excess of 10% of net sales, were as follows:

Client No. 1	3 015 266	5 909 845
Client No. 2	2 099 673	4 886 525
Other customers	3 952 966	1 052 635
	9 067 905	**11 849 005**

(2) Cost of sales

The purchase of goods and delivery charges	7 736 190	10 155 476
Transportation costs	306 094	405 969
Salary expenses	88 449	43 140
Depreciation of fixed assets	235 032	41 965
Laboratory services (milk analysis)	26 560	31 552
Social insurance costs	20 458	10 711
Other costs	20 222	8 580
	8 433 005	**10 697 393**

OTHER NOTES (continuation)

(3) Distribution expenses

	2015	2014
	EUR	EUR
Transportation costs	587 808	330 690
Advertising expenses	3 187	738
	590 995	**331 428**

(4) Administrative expenses

Salary expenses	184 971	96 438
Social insurance costs	43 634	24 281
Office expenses	13 682	23 136
Cash turnover expenses	84 287	22 118
Transportation costs	31 568	17 987
Business trip expenses	29 335	12 963
Professional services costs	20 735	12 785
Costs associated with the issuance of bonds	-	10 000
Real estate tax	4 871	8 203
Communication expenses	5 189	4 448
Depreciation of fixed assets	17 395	-
Bonds servicing costs	3 704	-
Other administrative expenses	45 268	16 010
	484 639	**248 369**

(5) Other income

Income from equipment rental	-	48 833
Net income from the sale of fixed assets	-	13 208
Revenue from the leasing of investment property	-	5 584
Other income	31 054	4 738
Funds received from LIAA (part of the 2015 year's project)	32 356	-
	63 410	**72 363**

(6) Other expenses

Research expenses	59 381	76 570
Property maintenance, security and management costs	93 124	23 685
Representation costs	5 517	17 382
Maintenance, security and management costs of investmet property	-	5 635
Net loss from exchange rate fluctuations	21	4 186
Depreciation expenses of leased equipment	-	2 509
Net loss from sale of investmet property	1 973	-
Other expenses	6 606	5 123
	166 622	**135 090**

OTHER NOTES (continuation)

(7) Expenses by Nature

	2015 EUR	2014 EUR
The purchase of goods and delivery charges	7 736 190	10 155 476
Transportation costs	925 470	754 646
Salary expenses	273 420	139 578
Research expenses	59 381	76 570
Depreciation of fixed assets	252 427	41 965
Social insurance costs	64 092	34 992
Laboratory services (milk analysis)	26 560	31 552
Property maintenance, security and management costs	93 124	23 685
Office expenses	13 682	23 136
Cash turnover expenses	84 287	22 118
Representation costs	5 517	17 382
Business trip expenses	29 335	12 963
Professional services costs	20 735	12 785
Costs associated with the issuance of bonds	-	10 000
Real estate tax	4 871	8 203
Maintenance, security and management costs of investmet property	-	5 635
Communication expenses	5 189	4 448
Net loss from exchange rate fluctuations	21	4 186
Depreciation expenses of leased equipment	-	2 509
Other expenses	77 256	30 451
	9 671 557	**11 412 280**

(8) Finance expenses

Interest expenses on bonds	76 833	28 500
Interest expense on bank loans, factoring, overdraft	6 484	8 987
Finance charges on finance lease	2 291	2 149
Penalties paid	2 268	5 855
	87 876	**45 491**

(9) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	79 995	4 388
Corporate income tax according to the tax return	-	71 475
	79 995	75 863

b) Reconciliation of accounting profit to income tax charges

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

Profit before taxes	(631 822)	463 597
Theoretically calculated tax at 15% tax rate	(94 773)	69 540
Tax effects on:		
Non-deductible expenses for tax purposes	14 778	6 323
Total corporate income tax expenses	(79 995)	75 863

c) Movement and components of deferred tax	**2015 EUR**	**2014 EUR**
Deferred tax liabilities at the beginning of the financial year	10 030	5 642
Deferred tax charged to the income statement	(79 995)	4 388
Deferred tax asset at the end of the financial year	(69 965)	10 030

OTHER NOTES (continuation)

Corporate income tax (continuation)

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

Temporary difference on depreciation of fixed and intangible assets	542 937	11 871
Gross deferred tax liabilities	**81 441**	**11 871**
Temporary difference on accruals for annual leave	(30 680)	(1 840)
Gross deferred tax asset	(4 602)	(1 840)
Loss under the CIT returns	978 689	-
Gross deferred tax asset	146 803	-
Net deferred tax liability (assets)	(69 965)	10 030

The deferred tax asset is recognized to the extent that the benefit realization of the respective tax is possible through the future taxable profits. The Management has concluded, there is a reasonable assurance that deferred taxable profit will be sufficient to recover the tax asset recognized in full within the tax periods following the reporting year.

(10) Intangible assets

	Software and licences	Total
31.12.2014	EUR	EUR
Initial cost	0	0
Accumulated depreciation	0	0
Net book value	0	0
2015		
Acquired	194	194
Depreciation	(16)	(16)
Closing book value	178	178
31.12.2015		
Initial cost	194	194
Accumulated depreciation	(16)	(16)
Net book value	178	178

(11) Property, plant and equipment

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances paid for Property, plant and equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2013						
Initial cost	89 890	0	127 643	223 142	0	440 675
Accumulated depreciation	0	0	(46 817)	0	0	(46 817)
Net book value	**89 890**	**0**	**80 826**	**223 142**	**0**	**393 858**
2014						
Opening net book value	89 890	0	80 826	223 142	0	393 858
Acquired	106 197	53 566	60 321	937 410	1 081 038	2 238 532
Disposed	0	0	(37 917)	(38 165)	0	(76 082)
Depreciation	(158)	(5 357)	(14 763)	0	0	(20 278)
Closing book value	**195 929**	**48 209**	**88 467**	**1 122 387**	**1 081 038**	**2 536 030**
31.12.2014						
Initial cost	196 087	53 566	150 047	1 122 387	1 081 038	2 603 125
Accumulated depreciation	(158)	(5 357)	(61 580)	0	0	(67 095)
Net book value	**195 929**	**48 209**	**88 467**	**1 122 387**	**1 081 038**	**2 536 030**
2015						
Opening net book value	195 929	48 209	88 467	1 122 387	1 081 038	2 536 030
Acquired	1 901 925	4 319 566	199 577	6 475 170	3 016 939	15 913 177
Disposed	0	0	(3 038)	0	0	(3 038)
Reclassified from other balance sheet	119 949	0	0	(6 166 037)	(3 118 909)	0
Depreciation	(4 790)	(208 445)	(39 177)	0	0	(252 412)
Depreciation written-off	0	0	3 038	0	0	3 038
Closing book value	**2 213 013**	**4 159 330**	**248 867**	**1 431 520**	**979 068**	**18 196 795**
31.12.2015						
Initial cost	2 217 961	4 373 132	346 586	1 431 520	979 068	9 348 267
Accumulated depreciation	(4 948)	(213 802)	(97 719)	0	0	(316 469)
Net book value	**2 213 013**	**4 159 330**	**248 867**	**1 431 520**	**979 068**	**9 031 798**

OTHER NOTES (continuation)

Property, plant and equipment (continuation)

a) Costs of fixed assets

In preparing the first financial statements in accordance with IFRS standards, the Company has accounted the fixed assets by cost model, less accumulated depreciation and any accumulated impairment losses

b) Finance lease of fixed assets

The residual value of fixed assets bought in finance lease on 31 December 2015 was EUR 98 836 (31.12.2014 - EUR 54 936). The ownership of these fixed assets will move to the Company only after all lease liabilities fulfilment (see Note 20). Under a finance lease assets held the depreciation is EUR 25 788.

c) Pledge of fixed assets

Information on pledged fixed assets is disclosed in the Note 28 to the financial statements.

(12) Investment property

	Lands and buildings EUR	Total EUR
31.12.2013		
Initial cost	122 275	122 275
Accumulated depreciation	(13 160)	(13 160)
Net book value	**109 115**	**109 115**
2014		
Opening net book value	109 115	109 115
Acquired	6 620	6 620
Depreciation	(9 400)	(9 400)
Closing book value	**106 335**	**106 335**
31.12.2014		
Initial cost	128 899	128 899
Accumulated depreciation	(22 564)	(22 564)
Net book value	**106 335**	**106 335**
2015		
Opening net book value	106 335	106 335
Disposed	(106 335)	(106 335)
Closing book value	**0**	**0**
31.12.2015		
Initial cost	0	0
Accumulated depreciation	0	0
Net book value	**0**	**0**

(13) Inventories

	31.12.2015 EUR	31.12.2014 EUR
Finished goods and goods for sale	-	65 422
Materials and other	7 164	-
	7 164	**65 422**

(14) Trade receivables

Trade receivables in Latvia	21 522	121 402
Trade receivables in Poland, Lithuania	340 843	234 679
	362 365	**356 081**

OTHER NOTES (continuation)

(15) Other current assets

	31.12.2015 EUR	31.12.2014 EUR
VAT overpaid	193 457	150 953
Financing the project "Deep investigation of whey"	101 187	107 829
Loans to the Company's co-owners*	-	40 210
Advance payments for works and services	40 460	31 601
Other deferred expenses	1 492	1 116
Deferred insurance expenses	1 046	806
Deferred loans expenses	17 332	-
Settlement regarding requirements for personnel	69	-
Drošības nauda	710	-
	355 753	**332 515**

* In 2014 was granted an interest-free loan to the Company's co-owners as of 40 210 EUR with a maturity of 31 May 2015.

(16) Cash and cash equivalents

Cash at bank on current account*	-	608 539
Cash at bank on current accounts	101 354	8 783
	101 354	**617 322**

*At bank on current account are the funds, received as an advance payment from LIAA for project APV/2.1.2.4.0/14/04/016. The existent funds are pledged.

(17) Share capital

Changes in Company's share capital participants register were held: on 16th of February 2015 the share capital of the Company was increased to 100 000 EUR, on 22 April 2015 to 700 000 EUR and on 23 July 2015 to 777 778 EUR. The main reasons for the share capital increase were investments from Ilona Kazāka and Kaspars Kazāks in proportion to their number of shares in share capital, new participants/investors, and as a result the Company's share capital was increased and the Company's structure of participants in Equity has been changed. As of 31.12.2015 the register of equity participants is following: Kaspars Kazāks -51%, Ilona Kazāka - 20%, limited partnership "ZGI -3" – 10%, Sergey Regukh – 9,5% and Anastasia Regukh - 9,5%. All the shares are fully paid. All the shares give equal rights to receive dividends, liquidation quota and voting rights at shareholders' meetings.

(18) Debenture loans (long-term)

	The effective interest rate,%	Maturity of liabilities	31.12.2015 EUR	31.12.2014 EUR
Bonds nominal value	18	28.10.2024.	950 000	950 000
			950 000	**950 000**

In October 28, 2014 the Company registered a bond issue of 950 000 EUR in the Latvian Central Depository. A bond issue is carried out in order to attract additional capital to finance the development plan of the Issuer (to start a production of whey protein concentrate), as well as to increase the awareness in the regulated capital market and among the institutional investors. It was issued 950 bonds with a nominal value of 1 000 EUR each, with a fixed interest rate of 18% per annum. Coupon payments are made semi-annually - on October 28 and April 28. Bond maturity is October 28, 2024. The bond issue is not secured. On November 12, 2015 the Company has included these bonds on Nasdaq Baltic Bond list, where they are available for public trading.

OTHER NOTES (continuation)

(19) Deferred revenue

	31.12.2015 EUR	31.12.2014. EUR
Financing on LIAA project APV/2.1.2.4.0/14/04/016		
Long-term part	1 154 049	608 539
Shirt-term part	107 855	-
Total	**1 261 904**	**608 539**

On September 11, 2014 the Company signed an agreement with the Latvian Investment and Development Agency in connection with a project titled "Procurement of Innovative Equipment for Deep Processing of Whey". Implementation of the project was started on September 11, 2014 and completion of the project was on August, 2015. In the item "deferred income" is reflected the support payment received, which constitutes 87% of the aid funding.

(20) Finance lease liabilities

	31.12.2015 EUR	31.12.2014. EUR
Non-current		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	69 592	37 489
Liabilities according to the finance lease agreements, payable over 5 years	-	-
	69 592	**37 489**
Current		
Liabilities according to the finance lease agreements, payable within 1 year	28 310	16 474
	28 310	**16 474**

As referred to in Note 11, the Company has acquired fixed assets in financial leasing from SIA "Nordea Finance Latvia": cars. In the reporting year the Company has entered into two new agreements of finance leasing. Interest payments at the floating rate of 3 months Euribor + 3% per annum payable monthly. Financial leasing repayment term ranging from December 2010 to May 2020. The sublease does not surrender.

In the event of cancellation or termination of lease agreement, depending on the terms and conditions of the specific agreement, the Company may be required to make additional payments under the agreement.

	31.12.2015 EUR	31.12.2014 EUR
In accordance with the agreements the minimum finance lease payments are:		
Payable within 1 year	30 320	17 794
Payable from 2 to 5 years	71 989	39 301
Total finance lease gross liabilities	**102 309**	**57 095**
Future finance costs	(4 407)	(3 132)
Present value of finance lease liabilities	**97 902**	**53 963**

The carrying value of borrowings does not materially differ from their fair value.

At beginning of the year	53 963	49 749
Entered into finance lease obligations during the year	70 008	68 772
Repaid finance lease obligations during the year	(26 069)	(64 557)
At the end of the year	**97 902**	**53 964**

OTHER NOTES (continuation)

(21) Borrowings

		31.12.2015	31.12.2014.
		EUR	EUR
Non-current			
Nordea Bank AB Latvian branch - repayable in 2-5 years	a)	3 351 733	-
		3 351 733	-
Other borrowings - repayable in 2-5 years	b)	500 665	
		500 665	
Current			
Nordea Bank AB Latvian branch	b)	543 467	-
Nordea Bank AB Latvijas filiāle -overdrafts	c)	169 383	
		712 850	-
Total borrowings		**4 565 248**	-
At beginning of the year		-	
Borrowings received during the year		4 565 248	-
At the end of the year		**4 565 248**	-

a) Nordea Bank AB Latvian branch loan agreements

In 2015 the Company signed a loan agreement Nr.2015-70-A with Nordea Bank AB Latvian branch on the total amount of EUR 700 000,00. The loan is intended for the purchase of production equipment. The loan annual interest rate is 3.4% and plus the 3-month EURIBOR. The loan maturity is 31.03.2018. On 31.12.2015 outstanding loan amount - EUR 692 580.00. In the agreement stated financial indicators at the Report preparation date were not met.

In 2014 the Company signed a loan agreement Nr.2014-48-A with Nordea Bank AB Latvian branch on the total amount of EUR 3065000,00. In 2015 the amendments for the agreement were signed for an additional loan amount of EUR 1 680 000 for the project implementation. To amendment signing date an outstanding loan amount was EUR 2 456 460,63. The loan annual interest rate is 6% and plus the 3-month EURIBOR. The loan maturity is 28.02.2019. On 31.12.2015 the outstanding loan amount - EUR 3 202 620. Pledges are registred in the Register of commercial pledges of the Enterprise Register of the Republic of Latvia.

b) Borrowing from the ZGI 3 (limited partnership)

In 2015 the Company signed a loan agreement with the limited partnership "ZGI-3" alternative investment fund on the total amount of EUR 500 665. The loan has been issued for investments in fixed assets. The loan maturity is 10.07.2020. The loan annual interest rate is 15%. On 31.12.2015 the outstanding loan amount was EUR 500 665.

c) Nordea Bank AB Latvian branch overdraft

In 2015 the Company signed an overdraft agreement with Nordea Bank AB Latvian branch for the total overdraft limit of EUR 200000.00. The maturity is 28.02.2016. In 2016 to the report submission date of the contract has been extended until 28.02.2017.

(22) Trade payables

	31.12.2015	31.12.2014.
	EUR	EUR
Debts to farmers for milk - Latvia	204 997	674 730
Debt to the related Company	406 620	-
Debts to other suppliers for goods and services	947 729	509 596
Debt for supplied equipment (LIAA project)	-	469 600
	1 559 346	**1 653 926**

OTHER NOTES (continuation)

(23) Other liabilities

	31.12.2015 EUR	31.12.2014. EUR
Accrued liabilities for services	105 060	38 359
Accrued liabilities for interest on bonds	28 500	28 500
Accrued unused annual leave expenses	30 680	12 265
Salaries	24 090	9 391
VAT abroad	-	5 434
Personal income tax	11 320	5 078
Social insurance payments	11 202	4 756
Motor vehicle duty	1 406	882
Natural resource tax	22	-
Risk duty	-	4
Borrowings from co-owner*	88 000	-
	300 280	**104 669**

*In 2015 the Company received a loan from the co-owner with a maturity 31.12.2016. Interest-free loan, without collateral.

(24) Cash granted from operations

Cash flow from operating activities		
Income from sales of goods and services	10 055 501	12 669 463
Payments to suppliers, employees, other operating expenses	(8 085 720)	(11 105 222)
Other income or expenses from operating activities	19 986	51 247
Gross cash flow from operating activities	**1 989 767**	**1 615 488**

(25) Average number of employees

Average number of people employed during the financial year	17	12

(26) Remuneration to personnel

Salaries and mandatory State social insurance contributions for production personnel	332 654	437 521
Salaries and social insurance contributions for administration personnel	184 971	96 438
	517 625	**533 959**
Including Board members and key management		
salary expenses	37 729	25 188
mandatory State social insurance contributions	8 900	5 942

Council members did not receive any remuneration in 2015 the state social insurance contributions were not made.

(27) Transactions with related parties

a) claims and liabilities

	Notes	31.12.2015. Debitori EUR	31.12.2015. Kreditori EUR	31.12.2014. Debitori EUR	31.12.2014. Kreditori EUR
Related parties					
Company's Board and co-owners	(15)	-	88 000	40 210	-
Related Company			406 620		311 166
		0	**88 000**	**40 210**	-

The amount of goods and services purchased from related Company in 2015 was EUR 812 827, in 2014 - EUR 1 158 949,98. The amount of services sold in 2015 was EUR 4 125,75, in 2014 - EUR 17 908.

OTHER NOTES (continuation)

(28) Loans and guarantee issuance agreements, assets collateral

In 2014 the Company signed a loan agreement Nr.2014-48-A with Nordea Bank AB Latvian branch on the total amount of EUR 3065000,00. In 2015 the amendments for the agreement were signed for an additional loan amount of EUR 1 680 000 for the project implementation. To amendment signing date an outstanding loan amount was EUR 2 456 460,63. The loan annual interest rate is 6% and plus the 3-month EURIBOR. The loan maturity is 02.28.2019. On 31.12.2015 the outstanding loan amount - EUR 3 202 620.
In 2015 the Company signed a loan agreement Nr.2015-70-A with Nordea Bank AB Latvian branch on the total amount of EUR 700000,00. The loan is intended for the purchase of production equipment. The loan annual interest rate is 3.4% and plus the 3-month EURIBOR. The loan maturity is 03.31.2018. On 31.12.2015 outstanding loan amount - EUR 692 580.00.

The Company has pledged its real estate and all of its movable property as an aggregation of property existing at the time of pledging and any future components of the aggregation of property (including product storage tanks, technological line – a set of bioreactors, and a set of innovative equipment for deep whey processing) with Nordea Bank AB as collateral for any claims that may arise out of these loan and guarantee agreements made with Nordea Bank AB.
A pledge agreement has been made between Nordea Bank AB and an agricultural co-operative union "Sigilo", to provide additional security. According to the terms and conditions of the loan agreement, the agricultural co-operative union "Sigilo" has pledged its movable property with the Company as an aggregation of property existing at the time of pledging as well as any future components of the aggregation of property.
The maximum amount of claims secured by means of the mortgage and the commercial pledge in connection with the loan agreement is EUR 4 136 460.

(29) Financial and capital risk management

The Company's activity is exposed to various financial risks, including credit risk, liquidity risk and interest rate risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position.

(a) Interest rate risks

	31.12.2015 EUR	31.12.2014. EUR
Financial assets with variable interest rate, EUR	(4 162 485)	(53 964)
Open position, net	**(4 162 485)**	**(53 964)**

(b) Credit risk
Maximum exposure to credit risk

	31.12.2015	31.12.2014.
Trade receivables	362 365	356 081
Other claims	353 215	330 593
Cash	101 354	617 322
	816 934	**1 303 996**

The largest concentration of credit risk arises from cash and trade receivables. The Company manages its credit risk constantly, reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also is monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts.

Maturity analysis of trade receivables (non-related parties):

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	spited in: in due term	Past due < 90 days	Past due 90-180 days	Past due > 180 days
31.12.2015.	362 365	0	362 365	362 465	338 559	23 906	-
31.12.2014.	356 081	0	356 081	356 081	325 768	30 313	-

OTHER NOTES (continuation)

(c) Liquidity risk

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

On 31 December 2015	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Debenture loans	950 000	-	-	-	950 000
Borrowings from credit institutions	-	712 850	-	3 351 733	-
Other liabilities	500 665			500 665	-
Long-term financial lease liabilities	69 592	-	23 742	45 850	-
Short-term financial lease liabilities	28 310	28 310	-	-	-
Trade payables	1 559 346	1 559 346	-	-	-
Other liabilities	276 330	276 330	-	-	-
	3 384 243	**2 576 836**	**23 742**	**3 898 248**	**950 000**

On 31 December 2014	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Long-term financial lease liabilities	37 489	-	19 687	7 707	-
Short-term financial lease liabilities	16 474	16 474	-	-	-
Trade payables	1 653 926	1 653 926	-	-	-
Other liabilities	88 515	88 515	-	-	-
	1 796 404	**1 758 915**	**19 687**	**7 707**	**-**

(d) Capital Management

According to the Latvian Commercial Law requirements if the Company's losses exceed half of the Company's share capital, the Management is required to evaluate and to make a decision on Company's going concern. Share capital of the Company meets the Latvian legal requirements. Company's Management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Company's Management controls its liquidity risk, by providing an adequate financing, by using related parties debts, overdrafts and bonds. During the reporting year this figure has decreased in accordance with the financing received under the LIAA project up to -87% (2014: -83%). Equity to total assets at the end of the year is 13% (2014: 17%).

	31.12.2015.	**31.12.2014.**
	EUR	**EUR**
Long-term and short-term liabilities	7 472 876	2 772 588
Cash and its equivalents	(101 354)	(617 322)
Liabilities excess over cash and its equivalents	7 371 522	2 155 266
Equity	1 326 029	681 366
Total capital	8 697 551	2 836 632
Total assets	10 060 709	4 062 493
Equity ratio on total assets	13%	17%

OTHER NOTES (continuation)

(30) Subsequent events

1. In a time from annual years last day and the day when board has signed annual report, there has been continuous work in product export with our maximum possible current production volumes.
2. On 13th of January 2016 the License issued by The Food and veterinary Service No. PA 037133 for the start of production has been received.
3. On 19th of January 2016 the legal and actual addresses have been changed to one united address - Stacijas Street 1, Bauska, Bauskas nov., LV-3901.
4. On 1st of January 2016 the "KOSHER Certificate" for the Company's production has been received.

Except for the aforementioned, no other events have taken place during the period of time from the last day of the accounting year to the date of signature of the financial statements which would have a significant effect on the financial position of the Company as of 31 December 2015.

The Annual report for the year ended 31 December 2015 on pages 1 to 30 confirm:

Kaspars Kazāks
Chairman of the Board

Ilona Kazāka
Member of the Board

Bauska, 20 April 2016

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Baltic Dairy Board SIA

Report on the financial statements
We have audited the accompanying financial statements (page 7 to 30) of Baltic Dairy Board SIA, which comprise the balance sheet as at 31 December 2015, the income statement and statement of comprehensive income for the period from 01 January 2015 until 31 December 2015, statement of changes in equity, cash flow statement and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Baltic Dairy Board SIA as at 31 December 2015, and of its financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Accentuation of conditions
We draw attention to the financial reports note Nr.30, where the information on the Company's continued existence is provided. At December 31, 2015 the Company's current liabilities exceeded its current assets over 1 749 873 EUR. Given the Company's management actions taken and planned activities, as described in financial reports Note Nr.30, the financial statements are prepared based on the assumption that the Company will continue to operate. Our opinion given does not contain any objections on this issue.

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Report on the management report

We have read the management report as shown on pages from 4 to 5 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2015.

Managing Member of LTD Orients Audit & Finance
Company License No.28

Natalija Zaiceva
Sworn Auditor
Certificate No.138

Riga, Latvia
20 April 2016