

SIA "BALTIC DAIRY BOARD"

(UNIFIED REGISTRATION NUMBER 43603036823)

ANNUAL REPORT

for the year ended 31 December 2016

**PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS AS ADOPTED IN EU**

BAUSKA, 2017

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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, Chairmen 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 Ivo Lidums, Member of the Council from 17.06.2016
Financial year	1 January 2016 - 31 December 2016
Previous financial year	1 January 2015 - 31 December 2015
Auditor's name and address	Natālija Zaiceva Sworn auditor (LZRA Certificate No. 138) SIA "Oriens Audit & Finance" LZRA Licence Nr.28 Gunara Astras Street 8b Riga, LV-1082

SIA BALTIC DAIRY BOARD
REPORT OF THE MANAGEMENT
to 2016 ANNUAL PERIOD

The line of business of SIA "Baltic Dairy Board" is processing of raw milk and milk by-products. The Company produces ingredients for production of butter, cheese, milk protein powder and whey protein. Company goal for the year 2018 is to start planning the production of milk protein powder in Bauska by using its own drying and packaging equipment.

1. Description of Business:

In the first six months of 2016, a mild recession of the farm gate milk prices and milk products continued in the milk industry. The recession of the milk products and farm gate milk prices that started already in April 2014 continued the entire 2015. In the end of 2015, most of the industrial milk product prices reached the lowest point and this was the reason of decrease of the farm gate milk prices. The downturn continued also in the first half of 2016.

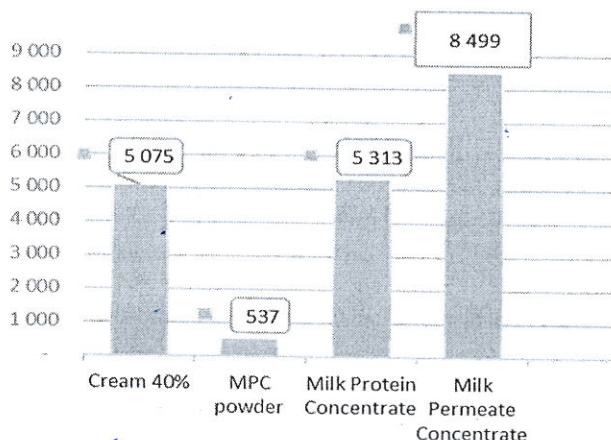
In the second half of 2016 the milk industry was experiencing relatively rapid improvement. Industrial prices for dairy products, especially cream price, started to rise in European markets. Cream price temporarily reached historically the highest point, and it was also the main reason for a sharp increase in prices of raw milk in the Baltic countries. Such situation continued until mid-December. In the second half of December and in the beginning of 2017 cream price started to fall rapidly, as well as other industrial product prices decreased moderately. Naturally, starting from February 2017, prices to milk producers started to moderately decline again; it was psychologically difficult for manufacturers to be accept it because, after such a rapid increase in milk prices, there was a certain degree of euphoric feeling and a belief that milk price will continue to rise.

Our company financial results in the second half of 2016 were incomparably better than the first half-year results. Compared to the first half of 2016, when the company's net sales amounted to EUR 7 304 889, the company's net sales in the second half of the year amounted to EUR 11 299 060, which is by 64% higher than in the first half of the year. In the first half of the year the company worked with EUR 1 112 340 loss, while in the second half of the year - with a profit of EUR 739 743, which is by 165% better result than in the first half of the year. The net loss in 2016 was EUR 372 597.

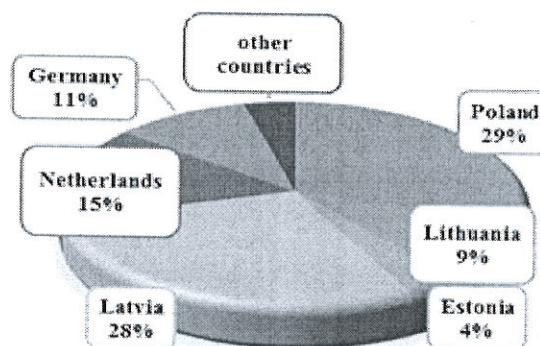
The losses were incurred in the first four months of production. This can be explained by several reasons which are logical at the beginning of production:

1. Starting milk processing in the Latvian market as a new market player requires purchase of additional ingredients in this stage. The process was successful; however, the Company had to pay a higher price for milk than other processors paid on average.
 2. This is closely connected to the first aspect. The lower processing capacity is, the higher expenses for each processed ton are. Every month, with the amount of milk increasing the expenses for each processed ton decreased significantly, thereby notably increasing the efficiency.
 3. Product quality. In the first four months all issues regarding product quality were eliminated that allowed to sell high quality products for more favourable prices further on.
- Starting production in January 2016, the goal was to achieve higher quality indicators for the manufactured products and the highest possible processing efficiency as quickly as possible - it has been done.

PRODUCTS PRODUCED IN 2016, tons



DISTRIBUTION BY COUNTRIES IN 2016, %



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Due to the results of the second half of 2016, 12-month net sales in the reporting year was 18 603 949 EUR that is about 105% more than net sales in the 12-month reporting year 2015. Increase in turnover is significant, and it is due to the start of production in January 2016.

Balance on 31.12.2016 is 10 753 428 EUR, which is by 7% more than on 31.12.2015.

In view of the above, in 2016 the planned financial results were achieved, as well as positive EBITDA indicator in the first year of production is a good result.

2. Key events in 2016:

1. Since 1 January 2016, the company's products are KOSHER certified (KOSHER Certificate).
2. On 28 October 2016, the company received Halal certificate (Halal Control) for all company's products.
3. Obtained funding in 2016 and in September started research on "Study of improvement of a controlled enzymatic hydrolysis process for obtaining high-quality whey and milk protein hydrolysate".
4. In June 2016, the company initiated the certification process according to ISO/TS 22002:1:2009 FSSC 22000 Standard.

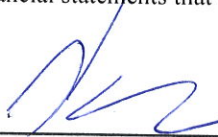
3. Future Development of the Company:

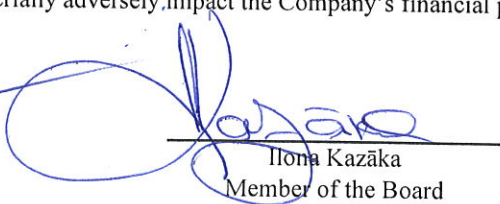
1. The key priority for 2017 is to ensure continuous production and exports of products gradually increasing the amount of production and reducing the costs of production and starting exports outside the European Union..
2. Launch in production a new, perspective product - GOS (galacto oligosaharides), which is currently being developed.
3. Permanently increase the company's value, turnover and profit by current activities.
4. The Company plans to attract investments for the production facility expansion – start to plan and develop the design of protein powder drying equipment and facility.

4. Subsequent events:

1. On 14 February 2017, the company has been certified in accordance with ISO / TS 22002: 1: 2009 FSSC 22000 standard.
2. Obtained funding and in January 2017 launched research on "Lactose-containing milk and whey permeate enzymatic bio-conversion in products with increased value."
3. In February 2017, first export load sent to USA for the total amount of EUR 114 000.
4. In February 2017, produced a test lot of the new product GOS (galacto oligosaharides).
5. In February 2017, Kosher certificate has been extended for a year.
6. In January 2017, initiated registration of the company's Baltic Dairy Board trademark.

Except for the above, no significant subsequent events have occurred since the last day of the reporting period to the date of these financial statements that would materially adversely impact the Company's financial position.


Kaspars Kazāks
Chairman of the Board


Ilona Kazāka
Member of the Board

Bauska, 24 April 2017

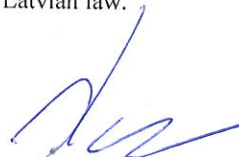
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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

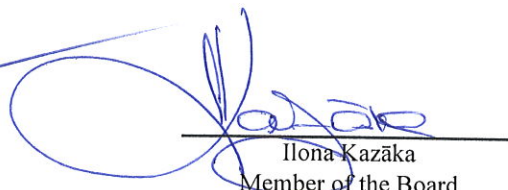
The management of SIA "Baltic Dairy Board" (further referred to as "the Company") is responsible for the preparation of the financial statements of the Company. The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as of 31 December 2016 and the results of their operations and cash flows for the year then ended. The management also confirms that the requirements of International Financial Reporting Standards as adopted by the EU have been complied with.

The Management Board confirms that the decisions adopted and the assessments made in the course of preparation of information contained on pp. 7-31 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 Kazāks
Chairman of the Board



Ilona Kazāka
Member of the Board

Bauska, 24 April 2017

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INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 EUR	2015 EUR
Net sales	(1)	18 603 949	9 067 905
Cost of sales	(2)	(17 561 090)	(8 433 005)
Gross profit		<u>1 042 859</u>	<u>634 900</u>
Distribution expenses	(3)	(503 924)	(590 995)
Administrative expenses	(4)	(493 069)	(484 639)
Other income	(5)	291 896	63 410
Other expenses	(6)	(336 720)	(166 622)
Finance expenses	(8)	(582 770)	(87 876)
Profit (loss) before tax		<u>(581 728)</u>	<u>(631 822)</u>
Corporate income tax	(9)	209 131	79 995
Net profit		<u><u>(372 597)</u></u>	<u><u>(551 827)</u></u>

Notes on pages 11 to 31 are an integral part of these financial statements.


Kaspars Kazāks

Chairman of the Board


Ilona Kazāka

Member of the Board

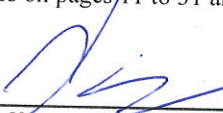
Bauska, 24 April 2017

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STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016. EUR	31.12.2015. EUR
ASSETS			
Non-current assets			
Intangible assets	(10)	113	178
Property, plant and equipment	(11)	9 111 507	9 031 798
Deferred tax assets	(9)	279 096	69 965
Participation in the capital of another company		200	
Total non-current assets:		9 390 916	9 101 941
Current assets			
Inventories	(12)	187 810	7 164
Trade receivables	(13)	814 808	362 365
Corporate income tax receivable		24 428	132 132
Other current assets	(14)	334 607	355 753
Cash and cash equivalents	(15)	859	101 354
Total current assets:		1 362 512	958 768
Total assets		10 753 428	10 060 709
EQUITY AND LIABILITIES			
Equity			
Share capital	(16)	777 778	777 778
Share issue premium		421 557	421 557
Retained earnings:			
Retained earnings or losses		126 694	678 521
Profit or loss of the year		(372 597)	(551 827)
Total equity:		953 432	1 326 029
Liabilities			
Non-current liabilities			
Debenture loans	(17)	1 035 500	950 000
Deferred revenue	(18)	1 540 688	1 154 049
Loans from credit institutions	(21)	2 743 571	3 351 733
Other borrowings	(21)	626 146	500 665
Finance lease liabilities	(19)	41 817	69 592
Total non-current liabilities:		5 987 722	6 026 039
Current liabilities			
Deferred revenue	(18)	85 594	107 855
Finance lease liabilities	(19)	26 403	28 310
Factoring liabilities	(20)	402 024	0
Loans from credit institutions	(21)	1 022 642	712 850
Trade payables	(23)	1 809 480	1 559 346
Advances from customers	(22)	11 067	-
Other liabilities	(24)	455 064	300 280
Total current liabilities:		3 812 274	2 708 641
Total liabilities:		9 799 996	8 734 680
Total equity and liabilities:		10 753 428	10 060 709

Notes on pages 11 to 31 are an integral part of these financial statements.


Kaspars Kazāks

Chairman of the Board


Ilona Kazāka

Member of the Board

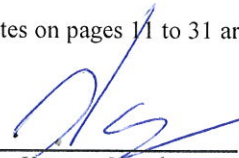
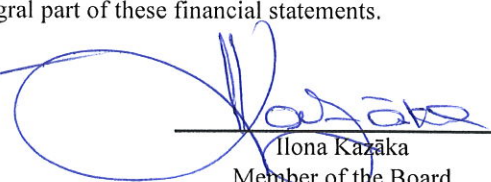
Bauska, 24 April 2017

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
31.12.2014.	2 845	-	678 521	681 366
Share capital increase	774 933	-	-	774 933
The new share sale above nominal value	-	421 557		421 557
Total income or losses	-	-	(551 827)	(551 827)
31.12.2015.	777 778	421 557	126 694	1 326 029
Total income or losses	-	-	(372 597)	(372 597)
31.12.2016.	777 778	421 557	(245 903)	953 432

Notes on pages 11 to 31 are an integral part of these financial statements.

 <hr style="width: 80%; margin: 0 auto;"/> <p>Kaspars Kazāks Chairman of the Board</p>	 <hr style="width: 80%; margin: 0 auto;"/> <p>Ilona Kazāka Member of the Board</p>
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Bauska, 24 April 2017

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CASH FLOW STATEMENT

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities	(25)	2 245 383	1 989 767
Interest paid		(223 570)	(87 864)
Repayment of income tax		117 166	
Income tax paid			(19 976)
Net cash flow from operating activities		<u>2 138 979</u>	<u>1 881 927</u>
Cash flow from investing activities			
Acquisition of property, plant and equipment		(2 875 968)	(7 357 607)
Proceeds from sales of property, plant and equipment			125 000
Net cash flow from investing activities		<u>(2 875 968)</u>	<u>(7 232 607)</u>
Cash flow from financing activities			
Share capital increase			774 933
Income from share issue premium			421 557
Proceeds from borrowings		1 077 643	3 083 876
Received advance from LIAA (part of the granted funding)		444 346	685 721
Expenses on the borrowing repayment		(856 286)	(110 000)
Finance lease payments		(28 310)	(21 354)
Net cash flow from financing activities		<u>637 393</u>	<u>4 834 733</u>
Foreign currency fluctuations		(899)	(21)
Net increase / (decrease) in cash and cash equivalents		<u>(100 495)</u>	<u>(515 968)</u>
Cash and cash equivalents at the beginning of the financial year		101 354	617 322
Cash and Cash equivalents at the end of the financial year		<u>859</u>	<u>101 354</u>

Notes on pages 11 to 31 are an integral part of these financial statements.


Kaspars Kazāks

Chairman of the Board


Ilona Kazāka

Member of the Board

Bauska, 24 April 2017

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

SIA "Baltic Dairy Board" (the "Company") was established and started to operate in 2008. Until 31 December 2015 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.

From January 2016, the Company is primarily engaged in the production of raw milk and milk by-products. The Company produces raw material for butter, milk protein powder and whey protein production.

Products are being exported to both, the European Union and the third countries.

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 2016 to 31 December 2016.

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

II. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation of financial statement

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

The accounting policy that was applied in 2016, corresponds to the accounting policy that was used for the preparation of Annual report of a year 2015.

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.

Standards and Interpretations effective in the current period

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

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

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

Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015),

Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

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

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

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

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

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

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

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

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

Standards and Interpretations issued but not yet adopted by the EU

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

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

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Basis of preparation of financial statement (continuation)

FRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),

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

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

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

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

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

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

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

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

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

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

(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 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.

(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:

	31.12.2016.	31.12.2015.
	EUR	EUR
1 USD	1.0541	1.0926
1 PLN	4.4103	4.2400

(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

Revenues are recognised to the extent when it is possible to estimate them reliably and there is basis to consider, that the Company will receive related to them economic benefits. Revenues are reduced by returns, discounts and other similar provisions.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- 1) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) the amount of revenue can be measured reliably;
- 4) it is probable that the economic benefits associated with the transaction will flow to the Company; and
- 5) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(5) Intangible assets

Intangible assets, in general, consist of licences, 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 property, plant and equipment amount or as a separate property, plant and equipment 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.

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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	5-20
Other machinery and equipment	3-5

The estimated annual depreciation rates and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

An item of fixed assets is derecognised when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income for the relevant period.

(7) 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.

(8) 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.

(9) 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.

(10) Inventories

The inventories are stated at the lower of cost and net recoverable 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.

(11) 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.

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) 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 assets and financial liabilities

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.

(17) Employee benefits

Short-term employee material wealth, including remuneration, 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.

(18) 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.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(19) 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.

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.

(20) Government and EU grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions related to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

(21) 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.

(22) 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.

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 at the end of the year is EUR 9 112 936 (31.12.2015. - EUR 9 031 798).

Recoverability of deferred tax assets on tax loss carried forward

The Company assesses the availability of taxable profits during the period when tax losses and tax discounts carried forward can be used. The Company's Management reviews the deferred tax asset at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available during the period when tax loss and discounts can be carried forward to use the deferred tax asset.

Critical accounting estimates and judgements (continuation)

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.

Allowance for doubtful trade receivables

The Company's management evaluates the carrying amount of trade receivables on individual basis and assesses their recoverability, making an allowance for doubtful trade receivables, if necessary. The Company's management has evaluated the trade receivables and considers that allowances provided are sufficient to cover the impairment loss as of 31 December 2016.

III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

The company is dealing with milk and milk by-products manufacturing. Since the Company's main activities includes raw butter, cheese, milk protein powder and whey protein production, 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 dealing with the whole-sale of milk products and milk by-products. The operations of the Company can be divided into six geographical segments, which are sales in Poland, Estonia, Latvia, Netherlands, Germany, Lithuania and more 8 countries. Distribution of sales among these segments is as follows:

	2016	2015
	EUR	EUR
Poland	5 471 846	6 505 606
Lithuania	1 769 712	496 722
Estonia	671 157	538 234
Latvia	5 170 234	1 527 343
Netherland	2 787 485	-
Germany	1 984 855	-
Other countries	748 660	-
	<u>18 603 949</u>	<u>9 067 905</u>

(c) Major customers

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

	2016	2015
	EUR	EUR
Client No. 1	3 307 240	3 015 266
Client No. 2	2 964 032	2 099 673
Client No. 3	1 970 574	-
Other customers	10 362 103	3 952 966
	<u>18 603 949</u>	<u>9 067 905</u>

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(2) Cost of sales	2016	2015
	EUR	EUR
The purchase of goods and delivery charges	15 193 495	7 736 190
Transportation costs	717 490	306 094
Salary expenses	449 413	88 449
Depreciation of fixed assets	493 792	235 032
Laboratory services (milk analysis)	73 311	26 560
Social insurance costs	101 980	20 458
Production of equipment for cleaning and disinfection costs	159 914	-
Costs of electricity	300 177	-
Other costs	71 518	20 222
	<u>17 561 090</u>	<u>8 433 005</u>
	<u>17 561 090</u>	<u>8 433 005</u>
(3) Distribution expenses	2016	2015
	EUR	EUR
Transportation costs	493 046	587 808
Advertising expenses	10 878	3 187
	<u>503 924</u>	<u>590 995</u>
	<u>503 924</u>	<u>590 995</u>
(4) Administrative expenses	2016	2015
	EUR	EUR
Salary expenses	171 553	184 971
Social insurance costs	39 845	43 634
Office expenses	30 400	13 682
Cash turnover expenses	51 243	84 287
Transportation costs	28 338	31 568
Business trip expenses	12 829	29 335
Professional services costs	12 238	20 735
Costs associated with the issuance of bonds		
Real estate tax	6 116	4 871
Communication expenses	4 797	5 189
Depreciation of fixed assets	33 981	17 395
Bonds servicing costs	3 357	3 704
Company Certification costs	18 075	-
Other administrative expenses	80 297	45 268
	<u>493 069</u>	<u>484 639</u>
	<u>493 069</u>	<u>484 639</u>
(5) Other income	2016	2015
	EUR	EUR
Funds received from LIAA and LAD for the various support programmes	133 850	-
Other income	78 077	31 054
Funds received from LIAA project	79 969	32 356
	<u>291 896</u>	<u>63 410</u>
	<u>291 896</u>	<u>63 410</u>
(6) Other expenses	2016	2015
	EUR	EUR
Research expenses	29 707	59 381
Property maintenance, security and management costs	229 251	93 124
Representation costs	10 543	5 517
Net loss from exchange rate fluctuations	1 005	21
Natural resource tax	6 350	-
Net loss from sale of investment property	-	1 973
Other expenses	59 864	6 606
	<u>336 720</u>	<u>166 622</u>
	<u>336 720</u>	<u>166 622</u>

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(7) Expenses by Nature	2016	2015
	EUR	EUR
The purchase of goods and delivery charges	15 193 495	7 736 190
Transportation costs	1 238 874	925 470
Salary expenses	620 966	273 420
Research expenses	29 707	59 381
Depreciation of fixed assets	527 773	252 427
Social insurance costs	141 825	64 092
Laboratory services (milk analysis)	73 311	26 560
Production of equipment for cleaning and disinfection costs	159 914	-
Costs of electricity	300 177	-
Company Certification costs	18 075	-
Property maintenance, security and management costs	229 251	93 124
Office expenses	30 400	13 682
Cash turnover expenses	51 243	84 287
Representation costs	10 543	5 517
Business trip expenses	12 829	29 335
Professional services costs	12 238	20 735
Real estate tax	6 116	4 871
Communication expenses	4 797	5 189
Net loss from exchange rate fluctuations	1 005	21
Natural resource tax	6 350.00	-
Other expenses	225 914	77 256
	<u>18 894 803</u>	<u>9 671 557</u>
(8) Finance expenses	2016	2015
	EUR	EUR
Interest expenses on bonds	181 260	76 833
Interest expense on limited partnership ZGI-3 loan	124 198	-
Interest expense on bank loans, factoring, overdraft	235 017	6 484
Finance charges on finance lease	1 848	2 291
Penalties paid	40 447	2 268
	<u>582 770</u>	<u>87 876</u>
(9) Corporate income tax		
a) Components of corporate income tax	2016	2015
	EUR	EUR
Changes in deferred income tax	209 131	79 995
	<u>209 131</u>	<u>79 995</u>
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:		
	2016	2015
	EUR	EUR
Profit before taxes	(581 728)	(631 822)
Theoretically calculated tax at 15% tax rate	<u>(87 259)</u>	<u>(94 773)</u>
Tax effects on:		
Non-deductible expenses for tax purposes	366 335	14 778
Total corporate income tax expenses	<u>279 076</u>	<u>(79 995)</u>
c) Movement and components of deferred tax	2016	2015
	EUR	EUR
Deferred tax liabilities at the beginning of the financial year	(69 965)	10 030
Deferred tax charged to the income statement	(209 131)	(79 995)
Deferred tax asset at the end of the financial year	<u>(279 096)</u>	<u>(69 965)</u>

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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):

	2016	2015
	EUR	EUR
Temporary difference on depreciation of fixed and intangible assets	<u>2 984 487</u>	<u>542 937</u>
Gross deferred tax liabilities	<u>447 673</u>	<u>81 441</u>
Temporary difference on accruals for annual leave		(30 680)
Gross deferred tax asset	<u>0</u>	<u>(4 602)</u>
Loss under the CIT returns	4 845 128	978 689
Gross deferred tax asset	<u>726 769</u>	<u>146 803</u>
Net deferred tax liability (assets)	<u>(279 096)</u>	<u>(69 965)</u>

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
	EUR	EUR
31.12.2014		
Initial cost	194	194
Accumulated depreciation	<u>(16)</u>	<u>(16)</u>
Net book value	<u>178</u>	<u>178</u>
2015		
Acquired	-	-
Depreciation	<u>(65)</u>	<u>(65)</u>
Closing book value	<u>(65)</u>	<u>(65)</u>
31.12.2015		
Initial cost	194	194
Accumulated depreciation	<u>(81)</u>	<u>(81)</u>
Net book value	<u>113</u>	<u>113</u>

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(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
31.12.2014						
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)	(9 164 997)
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	9 031 798
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
2016						
Opening net book value	2 213 013	4 159 330	248 867	1 431 520	979 068	9 031 798
Acquired	34 833	1 286 761	67 678	139 376	88 200	1 616 848
Reclassified from other balance sheet	96 673	1 519 846		(1 567 529)	(1 058 421)	(1 009 431)
Depreciation	(96 032)	(356 825)	(74 851)			(527 708)
Closing book value	2 248 487	6 609 112	241 694	3 367	8 847	9 111 507
30.06.2016						
Initial cost	2 349 467	7 179 739	414 264	3 367	8 847	9 955 684
Accumulated depreciation	(100 980)	(570 627)	(172 570)	0	0	(844 177)
Net book value	2 248 487	6 609 112	241 694	3 367	8 847	9 111 507

a) Finance lease of fixed assets

The residual value of fixed assets bought in finance lease on 31 December 2016 was EUR 68220 (31.12.2015 - EUR 98 836). The ownership of these fixed assets will move to the Company only after all lease liabilities fulfilment (see Note 19). Under a finance lease assets held the depreciation is EUR 24 213.

b) Pledge of fixed assets

Information on pledged fixed assets is disclosed in the Note 29 to the financial statements.

(12) Inventories

	31.12.2016	31.12.2015
	EUR	EUR
Materials and other	43 100	7 164
Finished goods and goods for sale	144 710	
	187 810	7 164

(13) Trade receivables

	31.12.2016	31.12.2015
	EUR	EUR
Trade receivables in Latvia	396 367	21 522
Trade receivables in EU	418 441	340 843
	814 808	362 365

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(14) Other current assets

	31.12.2016	31.12.2015
	EUR	EUR
VAT overpaid	263 995	193 457
Financing the project "Deep investigation of whey"	-	101 187
Advance payments for works and services	44 699	40 460
Other deferred expenses	75	1 492
Deferred insurance expenses	926	1 046
Deferred loans expenses	663	17 332
Settlement regarding requirements for personnel caution money	207	69
	24 042	710
	<u>334 607</u>	<u>355 753</u>

(15) Cash and cash equivalents

	31.12.2016	31.12.2015
	EUR	EUR
Cash at bank on current accounts	859	101 354
	<u>859</u>	<u>101 354</u>

(16) 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.

(17) Debenture loans (long-term)

	The effective interest rate,%	Maturity of liabilities	31.12.2016	31.12.2015
			EUR	EUR
Bonds nominal value	18	28.10.2024.	1 035 500	950 000
			<u>1 035 500</u>	<u>950 000</u>

On 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. On 23 March 2016 the Board of Directors decided not to pay the coupon payments of 28 April 85500 EUR., but to increase the nominal value of one bond to 1090 EUR. JSC "Latvijas Centrālais depozitārijs" based on the Company's application on April 28, 2016 decided to record changes in the characteristics of the bonds issued by changing the nominal value of the bonds from 1000 EUR to 1090 EUR.

(18) Deferred revenue

	31.12.2016	31.12.2015.
	EUR	EUR
Financing on LIAA project APV/2.1.2.4.0/14/04/016 :		
Long-term part	1 540 688	1 154 049
Short-term part	85 594	107 855
Total	<u>1 626 282</u>	<u>1 261 904</u>

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 100% of the aid funding.

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OTHER NOTES (continuation)

(19) Finance lease liabilities	31.12.2016	31.12.2015.
	EUR	EUR
Non-current		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	41 817	69 592
Liabilities according to the finance lease agreements, payable over 5 years	-	-
	<u>41 817</u>	<u>69 592</u>
Current		
Liabilities according to the finance lease agreements, payable within 1 year	26 403	28 310
	<u>26 403</u>	<u>28 310</u>

As referred to in Note 11, the Company has acquired fixed assets in financial leasing from SIA "Nordea Finance Latvia": cars. In the 2016 year the Company has not entered 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.

	31.12.2016	31.12.2015
	EUR	EUR
In accordance with the agreements the minimum finance lease payments are:		
Payable within 1 year	27 195	30 320
Payable from 2 to 5 years	43 072	71 989
Total finance lease gross liabilities	<u>70 267</u>	<u>102 309</u>
Future finance costs	(2 047)	(4 407)
Present value of finance lease liabilities	<u>68 220</u>	<u>97 902</u>

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

At beginning of the year	97 902	53 963
Entered into finance lease obligations during the year	-	70 008
Repaid finance lease obligations during the year	(29 682)	(26 069)
At the end of the year	<u>68 220</u>	<u>97 902</u>

(20) Advances received for factoring invoices	00.01.1900	00.01.1900
	EUR	EUR
Payments received for factoring invoices	402 024	-
	<u>402 024</u>	<u>-</u>

In 2016, the Company signed a factoring contract No.1/2016 with Factor "SIA Nordea Finace Latvia" on factoring with limit EUR 600000.00 . Added rate 3.2% + base rate for EUR currency EONIA. Factoring advance payment-amount paid by the Factor to the Company after invoice acceptance is 90% from each accepted invoice. Factoring reserve - 10% is paid to the Company by the Factor within 3 days from the receipt of the full invoice amount from the Buyer, then the Company erases the Buyer's (debtor's) debt in full. Maximum invoice payment term is 90 days. On 31.12.2016, under Amendment No. 7, 06.09.2016 factoring agreement is in force for 11 buyers of the Company. The contract is valid until 31 January 2017. Received factoring advance amount on 31.12.2016 is EUR 402 024. In 2017, before the date of report submission, the contract has been extended until 31 January 2018.

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OTHER NOTES (continuation)

(21) Borrowings

	31.12.2016	31.12.2015
	EUR	EUR
Non-current		
Nordea Bank AB Latvian branch - repayable in 2-5 years	a) 2 743 571	3 351 733
	<u>2 743 571</u>	<u>3 351 733</u>
Other borrowings - repayable in 2-5 years	b) 626 146	500 665
	<u>626 146</u>	<u>500 665</u>
Current		
Nordea Bank AB Latvian branch	a) 822 062	543 467
Nordea Bank AB Latvian branch - overdrafts	c) 200 580	169 383
	<u>1 022 642</u>	<u>712 850</u>
Total borrowings	<u>4 392 359</u>	<u>4 565 248</u>
At beginning of the year	4 565 248	-
Borrowings received during the year	404 798	4 565 248
Borrowings repaid during the year	(577 687)	-
At the end of the year	<u>4 392 359</u>	<u>4 565 248</u>

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. On 11.09.2015, amends were made to the contract by establishing the loan annual interest rate of 5.3% plus the 3-month EURIBOR .The loan maturity is 31.03.2018. On 31.12.2016 outstanding loan amount - EUR 675 479 (31.12.2015.- 692 580). In the agreement stated financial indicators at the Report preparation date were not met. In case whether financial indicators are not met, a bank has the right once a year to increase the additional interest rate, but not more than 1%.

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 31.12.2016 the outstanding loan amount - EUR 2 890 154 (31.12.2015.- EUR 3 006 392).

Pledges are registered in the Register of commercial pledges of the Enterprise Register of the Republic of Latvia. Information about security see in Note 29.

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. On 01.08.2016 amendments No. 2 were made to the contract on loan annual interest rate change to 19% per annum. 30.12.2016. On 30.12.2016 amendments No. 3 were made to the contract that the calculated, but unpaid interest on 31.12.2016, in the amount of EUR 125 481 will be capitalized, as a result the outstanding loan amount on 31.12.2016 is EUR 626 146.

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 200 000. The maturity is 28.02.2017. At the financial statements date the additional agreement to Overdraft contract was signed about the Overdraft amount increase for EUR 400 000. The maturity is 31.05.2017.

(22) Advances from customers

	31.12.2016	31.12.2015
	EUR	EUR
Advances from customers	11 067	-
	<u>11 067</u>	<u>-</u>

(23) Trade payables

	31.12.2016	31.12.2015
	EUR	EUR
Debts to farmers for milk - Latvia	465 271	204 997
Debt to the related Company	404 427	406 620
Debts to other suppliers for goods and services	939 782	947 729
	<u>1 809 480</u>	<u>1 559 346</u>

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(24) Other liabilities	31.12.2016	31.12.2015
	<u>EUR</u>	<u>EUR</u>
Accrued liabilities for services	28 893	105 060
Accrued liabilities for interest on bonds	31 065	28 500
Accrued unused for interest on borrowings	4 370	-
Accrued unused annual leave expenses	49 201	30 680
Salaries	37 379	24 090
Personal income tax	29 166	11 320
Social insurance payments	36 702	11 202
Motor vehicle duty	1 073	1 406
Natural resource tax	1 499	22
Risk duty	18	-
Settlement of debts to staff	398	-
Borrowings from co-owner*	235 300	88 000
	<u>455 064</u>	<u>300 280</u>

*In 2016 the Company received a loan from the co-owner with a maturity 31.12.2017. Interest-free loan, without security.

(25) Cash granted from operations

Cash flow from operating activities

Income from sales of goods and services	18 363 411	10 055 501
Payments to suppliers, employees, other operating expenses	(16 326 284)	(8 085 720)
Other income or expenses from operating activities	208 256	19 986
Gross cash flow from operating activities	<u>2 245 383</u>	<u>1 989 767</u>

(26) Average number of employees

	2016	2015
	<u>EUR</u>	<u>EUR</u>
Average number of people employed during the financial year	42	17

(27) Remuneration to personnel

	2016	2015
	<u>EUR</u>	<u>EUR</u>
Salaries and mandatory State social insurance contributions for production personnel	537 756	108 907
Salaries and social insurance contributions for administration personnel	206 332	228 605
	<u>744 088</u>	<u>337 512</u>

Including Board members and key management

salary expenses	55 593	37 729
mandatory State social insurance contributions	13 114	8 900

Council members did not receive any remuneration in 2016 the state social insurance contributions were not made.

(28) Transactions with related parties

a) claims and liabilities

	Notes	31.12.2016.		31.12.2015.	
		Debitori EUR	Kreditori EUR	Debitori EUR	Kreditori EUR
Related parties					
Company's Board and co-owners	(15)	-	235 300		88 000
Related Company			404 427		406 620
		<u>0</u>	<u>639 727</u>	<u>0</u>	<u>494 620</u>

The amount of goods and services purchased from related Company in 2016 was EUR 956 679, in 2015 - EUR 812 827. The amount of services sold in 2016 was EUR 218, in 2015 - EUR 4 126.

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OTHER NOTES (continuation)

(29) 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 28.02.2019. On 31.12.2016 the outstanding loan amount - EUR 2 890 154 (31.12.2015.- 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 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. On 11.09.2015, amends were made to the contract by establishing the loan annual interest rate of 5.3% plus the 3-month EURIBOR .The loan maturity is 31.03.2018. On 31.12.2016 outstanding loan amount - EUR 675 479 (31.12.2015.- 692 580). In the agreement stated financial indicators at the Report preparation date were not met.

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 5 377 399.

(30) 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 - interest rate risk

The company is exposed to interest rate risk, principally related with its loans with a floating interest rate.

	31.12.2016	31.12.2015.
	EUR	EUR
Financial assets with variable interest rate, EUR	<u>(3 834 433)</u>	<u>(4 162 485)</u>
Open position, net	<u>(3 834 433)</u>	<u>(4 162 485)</u>

(b) Credit risk

Maximum exposure to credit risk

Trade receivables	814 808	362 365
Other claims	333 606	353 215
Cash	859	101 354
	<u>1 149 273</u>	<u>816 934</u>

The Company exposed to the credit risk associated with its trade receivables, cash and cash equivalents. 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.

The Company has no significant credit risk concentration related to a single counterparty or group of counterparties with similar characteristics.

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	< 90 days	Past due 90-180 days	> 180 days
31.12.2016.	814 808	0	814 808	806 808	5 100		2 900
31.12.2015.	362 365	0	362 365	362 465	338 559	23 906	-

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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 2016	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Debenture loans	1 035 500	-	-	-	1 035 500
Borrowings from credit institutions	3 766 213	1 022 642	-	2 743 571	-
Other liabilities	626 146	-	-	626 146	-
Long-term financial lease liabilities	41 817	-	16 796	25 021	-
Short-term financial lease liabilities	26 403	26 403	-	-	-
Trade payables	1 809 480	1 809 480	-	-	-
Other liabilities	381 838	381 838	-	-	-
	7 687 397	3 240 363	16 796	3 394 738	1 035 500

On 31 December 2015	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years 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

(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. Equity to total assets at the end of the year is 9% (2015: 13%).

	31.12.2016. EUR	31.12.2015. EUR
Long-term and short-term liabilities	8 173 714	7 472 776
Cash and its equivalents	(859)	(101 354)
Liabilities excess over cash and its equivalents	8 172 855	7 371 422
Equity	953 432	1 326 029
Total capital	<u>9 126 287</u>	<u>8 697 451</u>
Total assets	10 753 428	10 060 709
Net liabilities to equity	857%	556%
Equity ratio on total assets	9%	13%

OTHER NOTES (continuation)

(31) The concept of going concern application


The year then ended on 31 December 2016 the Company has finished with a loss of EUR 372 597. At the balance sheet date Company's current liabilities exceeded current assets in amount of EUR 2 449 762.

(32) Subsequent events

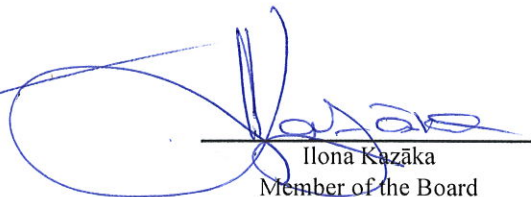
1. On 14 February 2017, the company has been certified in accordance with ISO / TS 22002: 1: 2009 FSSC 22000 standard.
2. Obtained funding and in January 2017 launched research on "Lactose-containing milk and whey permeate enzymatic bio-conversion in products with increased value."
3. In February 2017, first export load sent to USA for the total amount of EUR 114 000.
4. In February 2017, produced a test lot of the new product GOS (galacto oligosaharides).
5. In February 2017, Kosher certificate has been extended for a year.
6. In January 2017, initiated registration of the company's Baltic Dairy Board trademark.

Except for the above, no significant subsequent events have occurred since the last day of the reporting period to the date of these financial statements that would materially adversely impact the Company's financial position as at 31 December 2016.

The Annual report for the year ended 31 December 2016 on pages 1 to 31 confirm:



Kaspars Kazāks
Chairman of the Board



Ilona Kazāka
Member of the Board

Bauska, 24 April 2017



Independent Auditor's Report

To the shareholders of "Baltic Dairy Board" SIA

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of "Baltic Dairy Board" SIA ("the Company") set out on pages 7 to 31 of the accompanying annual report, which comprise:

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of "Baltic Dairy Board" SIA as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

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

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

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

Key audit matters

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



We have determined the matter described below as the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed that matter
<p><i>Material uncertainty relating to the going concern assumption</i></p> <p>Refer to Notes 31 and 32 to the accompanying financial statements.</p> <p>The Company has finished the year then ended on 31 December 2016 with a loss of EUR 372 597. At the balance sheet date Company's current liabilities exceeded current assets in amount of EUR 2 449 762.</p> <p>If the Company has losses and working capital shortage, the auditor must consider whether in the statements disclosed information is consistent and gives a true and fair view, and to obtain sufficient and appropriate evidence and draw conclusions whether it is appropriate to apply the Company's going concern concept in the preparation of financial statements.</p>	<p>We have discussed the reasons of loss with the Company's management. In the Management Report to the accompanying financial statements the management has clarified the main reasons of loss, which are inherent for beginning of production. The loss is intended to prevent by ensuring continuous production, increasing its volume and as a result reducing the cost of production.</p> <p>According to ISA 570 (revised) "Going Concern" requirements, we asked the Management to prepare and submit additional written assurances that confirm the audit evidence about the Management's actions plan in the future relating to Company's ability to continue operations and feasibility of this plan.</p> <p>In 2017 company plans to run the production and marketing of a new product, which was designed and created in collaboration with Latvian scientific institutions. This newly created product has a very high added value and a fast growing demand.</p>

Reporting on Other Information

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

- the Management Report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

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

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

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



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

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Member of the Board of SIA "Orient's Audit & Finance"
Commercial Company License No.28

Riga, Latvia
24 April 2017



Natalija Zaiceva
Certified Auditor
Certificate No.138