

## **SIA "BALTIC DAIRY BOARD"**

(UNIFIED REGISTRATION NUMBER 43603036823)

### **UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**for the 12 months period ended 31 December 2016**

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

**BAUSKA, 2017**

SIA "BALTIC DAIRY BOARD"  
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for the 12 month period ended 31 December 2016

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**General information**

Name of the Company	BALTIC DAIRY BOARD
Legal status of the Company	Limited liability company
Unified registration number, place and date of registration	43603036823 Bauska, 21 July 2008
Address	Stacijas Street 1 Bauska, Latvia, LV-3901
The type of Actions (NACE)	Operation of dairies and cheese making (NACE 2.red.10.51)
Board Members names, surnames and positions	Kaspars Kazāks, 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 "Orients Audit & Finance" LZRA Licence Nr.28 Gunara Astras Street 8b Riga, LV-1082

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**SIA BALTIC DAIRY BOARD**

**REPORT OF THE MANAGEMENT**

**to the twelve month period ended 31 December 2016**

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.

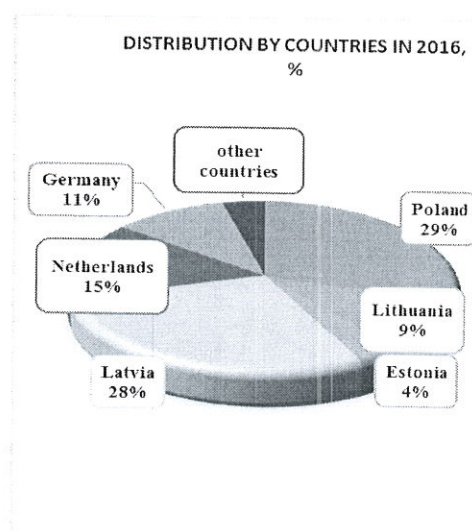
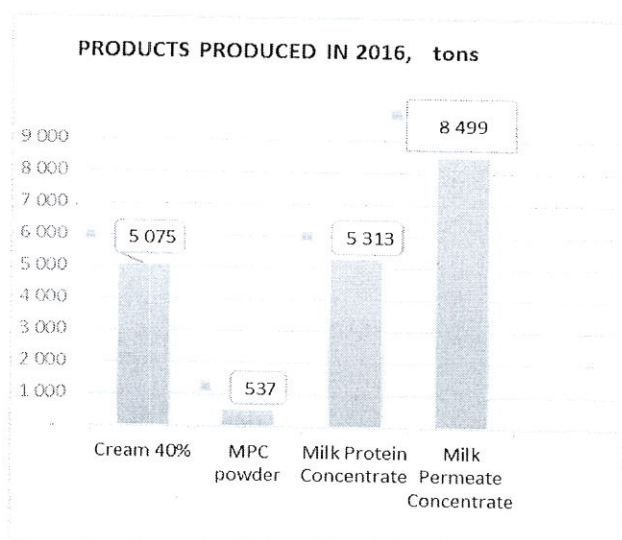
In the second half of 2016 the milk industry was experiencing relatively rapid improvement. Industrial prices for dairy products, especially cream price, started to rise in European markets. Cream price temporarily reached historically the highest point, and it was also the main reason for a sharp increase 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 11 299 311, 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 725 992, which is by 165% better result than in the first half of the year. The net loss in 2016 was EUR 386 348.

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.





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Due to the results of the second half of 2016, 12-month net sales in the reporting year was 18 604 200 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 10 739 147 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.

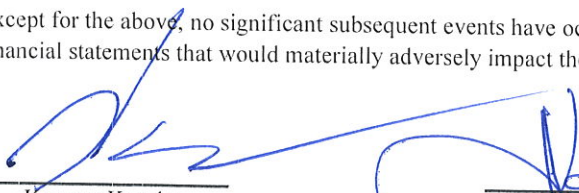
**3. Future Development of the Company:**


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. Negotiations with the Latvian banks are being held on possible refinancing of the company loan.
6. In February 2017, Kosher certificate has been extended for a year.
7. 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  
Chairmen of the Board

  
Ilona Kazāka  
Member of the Board

Bauska, 27 February 2017

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**STATEMENT OF THE MANAGEMENT RESPONSIBILITY**

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

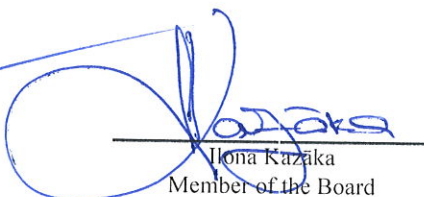
Management is responsible for the preparation of the separate financial statements that present truly and fairly the financial position of the Company as of 31 December 2016, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by EU.

The Management Board confirms that the decisions adopted and the assessments made in the course of preparation of information contained on pp. 7-29 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  
Chairmen of the Board



Ilona Kazāka  
Member of the Board

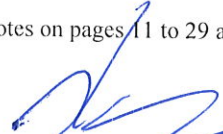
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**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2016 EUR	2015 EUR
Net sales	(1)	18 604 200	9 067 905
Cost of sales	(2)	(17 563 367)	(8 433 005)
<b>Gross profit</b>		<b>1 040 833</b>	<b>634 900</b>
Distribution expenses	(3)	(503 924)	(590 995)
Administrative expenses	(4)	(493 013)	(484 639)
Other income	(5)	291 896	63 410
Other expenses	(6)	(337 736)	(166 622)
Finance expenses	(8)	(582 574)	(87 876)
<b>Profit (loss) before tax</b>		<b>(584 518)</b>	<b>(631 822)</b>
Corporate income tax	(9)	198 170	79 995
<b>Net profit</b>		<b>(386 348)</b>	<b>(551 827)</b>

Notes on pages 11 to 29 are an integral part of these financial statements.

  
 Kaspars Kazāks  
 Chairmen of the Board

  
 Ilona Kazāka  
 Member of the Board

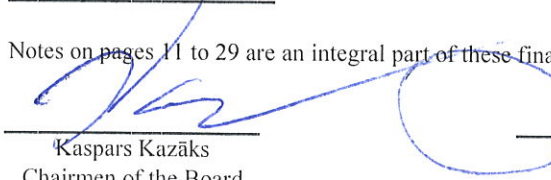
Bauska, 27 February 2017

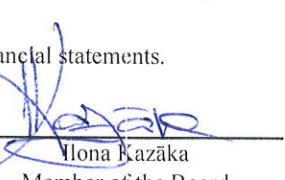
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**STATEMENT OF FINANCIAL POSITION**

		31.12.2016. EUR	31.12.2015. EUR
	Notes		
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Intangible assets	(10)	113	178
Property, plant and equipment	(11)	9 112 936	9 031 798
Deferred tax assets	(9)	268 135	69 965
Participation in the capital of another company		200	
<b>Total non-current assets:</b>		<b>9 381 384</b>	<b>9 101 941</b>
<b>Current assets</b>			
Inventories	(12)	184 107	7 164
Trade receivables	(13)	815 165	362 365
Corporate income tax receivable		24 428	132 132
Other current assets	(14)	333 204	355 753
Cash and cash equivalents	(15)	859	101 354
<b>Total current assets:</b>		<b>1 357 763</b>	<b>958 768</b>
<b><u>Total assets</u></b>		<b><u>10 739 147</u></b>	<b><u>10 060 709</u></b>
<b><u>EQUITY AND LIABILITIES</u></b>			
<b>Equity</b>			
Share capital	(16)	777 778	777 778
Share issue premium		421 557	421 557
Retained earnings		(259 654)	126 694
<b>Total equity:</b>		<b>939 681</b>	<b>1 326 029</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities:</b>		<b>5 987 722</b>	<b>6 026 039</b>
<b>Current liabilities</b>			
Deferred revenue	(18)	85 594	107 855
Finance lease liabilities	(19)	26 403	28 310
Advances received for factoring invoices	(20)	402 024	0
Loans from credit institutions	(21)	1 022 642	712 850
Trade payables	(23)	1 809 145	1 559 346
Advances from customers	(22)	11 067	-
Other liabilities	(24)	454 869	300 280
<b>Total current liabilities:</b>		<b>3 811 744</b>	<b>2 708 641</b>
<b>Total liabilities:</b>		<b><u>9 799 466</u></b>	<b><u>8 734 680</u></b>
<b><u>Total equity and liabilities:</u></b>		<b><u>10 739 147</u></b>	<b><u>10 060 709</u></b>

Notes on pages 11 to 29 are an integral part of these financial statements.

  
Kaspars Kazāks  
Chairman of the Board

  
Ilona Kazāka  
Member of the Board

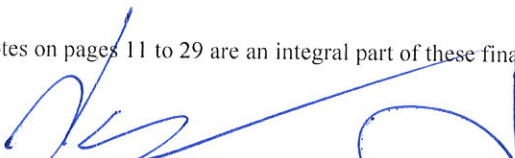
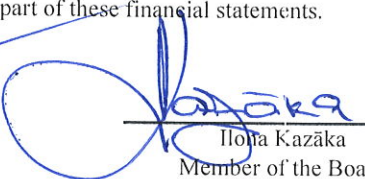
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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
<b>31.12.2014.</b>	<b>2 845</b>	<b>-</b>	<b>678 521</b>	<b>681 366</b>
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)
<b>31.12.2015.</b>	<b>777 778</b>	<b>421 557</b>	<b>126 694</b>	<b>1 326 029</b>
Total income or losses	-	-	(386 348)	(386 348)
<b>31.12.2016.</b>	<b>777 778</b>	<b>421 557</b>	<b>(259 654)</b>	<b>939 681</b>

Notes on pages 11 to 29 are an integral part of these financial statements.

 <hr style="width: 100%;"/> <p>Kaspars Kazāks Chairmen of the Board</p>	 <hr style="width: 100%;"/> <p>Ilona Kazāka Member of the Board</p>
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Bauska, 27 February 2017



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**CASH FLOW STATEMENT**

	Notes	2016 EUR	2015 EUR
<b>Cash flow from operating activities</b>	(25)	<b>2 245 383</b>	<b>1 989 767</b>
Interest paid		(223 570)	(87 864)
Repayment of income tax		117 166	
Income tax paid			(19 976)
<b>Net cash flow from operating activities</b>		<b>2 138 979</b>	<b>1 881 927</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		(2 875 968)	(7 357 607)
Proceeds from sales of property, plant and equipment			125 000
<b>Net cash flow from investing activities</b>		<b>(2 875 968)</b>	<b>(7 232 607)</b>
<b>Cash flow from financing activities</b>			
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)
<b>Net cash flow from financing activities</b>		<b>637 393</b>	<b>4 834 733</b>
<b>Foreign currency fluctuations</b>		<b>(899)</b>	<b>(21)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(100 495)</b>	<b>(515 968)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>101 354</b>	<b>617 322</b>
<b>Cash and Cash equivalents at the end of the financial year</b>		<b>859</b>	<b>101 354</b>

Notes on pages 11 to 29 are an integral part of these financial statements.

  
Kaspars Kazāks

Chairmen of the Board

  
Ilona Kazāka

Member of the Board

Bauska, 27 February 2017

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**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 m<sup>2</sup>, 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. ACCOUNTING POLICIES**

**(1) Basis of preparation**

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

The accounting policy that was applied in 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.

**(2) Foreign currencies**

**(a) Functional and presentation currency**

Items are recognized in the financial statements of the Company as measured using the currency of the primary economic environment in which the Company operates (the functional currency).

Starting from 2014 the functional and presentation currency of the Company is euro (EUR).

Starting from the 1st January 2014 the national currency of the Latvian Republic is euro (EUR), as a result from this date the functional and presentation currency of the Company is euro.

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**Foreign currencies (continuation)**

(b) Transactions and balances

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction.

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

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

	31.12.2016. EUR	31.12.2015. 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**

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Main operation of the Company is milk and whey protein concentrate, milk and whey permeate pasteurized cream and skimmed milk manufacturing and the wholesale of these products in the European Union. Revenue represent the total of goods and services sold during the year net of discounts and value added tax.

Sales of goods are recognised after significant ownership risk and rewards have been passed to the buyer. Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt. Income from provision of services is recognised based on the stage of completion method.

Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.

**(5) Intangible assets**

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

	Years
Licences, software	3

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



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**(6) Property, plant and equipment**

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

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

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

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

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

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

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

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

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

**(7) Investment property**

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

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

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

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

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**(8) Impairment of tangible and intangible assets**

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

**(9) The Company as a lessee**

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

**(10) The Company as a lessor**

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

**(11) Inventories**

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

**(12) Financial assets**

**Initial recognition and measurement**

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

**Subsequent measurement**

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



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**Derecognition**

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

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

**Impairment of financial assets**

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

**Financial assets carried at amortised cost**

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

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

**(13) Trade receivables**

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

**(14) Cash and cash equivalents**

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

**(15) Share capital and dividends**

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

**(16) Provisions**

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

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

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**(17) Financial liabilities**

**Initial recognition and measurement**

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

**Subsequent measurement**

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

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

**Derecognition**

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

**Offsetting of financial instruments**

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

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

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

**(18) Employee benefits**

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

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

**(19) Accrued liabilities for unused annual leave**

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

**(20) Income tax**

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

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

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



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**Income tax (continuation)**

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

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

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

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

**(21) Value added tax**

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

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

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

**(22) Grants**

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

**(23) Related parties**

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

**(24) Critical accounting estimates and judgements**

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

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

*Recoverable receivables*

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

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**Critical accounting estimates and judgements (continuation)**

*Determination of the useful life of property, plant and equipment*

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as at the end of the year is EUR 9 112 936 (31.12.2015. - EUR 9 031 798).

*Valuation of inventories*

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

**(25) Note of Annual report**

**Changes in Accounting policy and in Representation of information**

**Standards issued but not yet effective**

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

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

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

The Company is not a party to any joint arrangements.

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

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

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

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

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

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

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

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

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

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

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

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



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**Note of Annual report (continuation)**

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

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

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

**Annual Improvements to IFRSS**

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

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

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

**III. OTHER NOTES**

**(1) Segment Information and net sales**

**(a) Operation and reportable segment**

The company is dealing with milk and whey protein concentrate, milk and whey permeate pasteurized cream and skimmed milk manufacturing and the wholesale of these products in the European Union, 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 operations of the Company can be divided into six geographical segments, which are sales in Poland, Estonia, Latvia, Netherlands, Germany and Lithuania. Distribution of sales among these segments is as follows:

	2016 EUR	2015 EUR
Poland	5 471 846	6 505 606
Lithuania	1 769 712	496 722
Estonia	671 408	538 234
Latvia	5 170 234	1 527 343
Netherland	2 787 485	-
Germany	1 984 855	-
Other countries	748 660	-
	<u>18 604 200</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:

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	10 362 354	3 952 966
	<u>18 604 200</u>	<u>9 067 905</u>

**(2) Cost of sales**

The purchase of goods and delivery charges	15 197 199	7 736 190
Transportation costs	717 491	306 094
Salary expenses	449 414	88 449
Depreciation of fixed assets	492 363	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>17 563 367</u>	<u>8 433 005</u>



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**OTHER NOTES (continuation)**

<b>(3) Distribution expenses</b>	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Transportation costs	493 046	587 808
Advertising expenses	10 878	3 187
	<u><b>503 924</b></u>	<u><b>590 995</b></u>
 <b>(4) Administrative expenses</b>		
Salary expenses	166 487	184 971
Social insurance costs	39 845	43 634
Office expenses	30 421	13 682
Cash turnover expenses	51 185	84 287
Transportation costs	28 338	31 568
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
Depreciation of fixed assets	33 981	17 395
Bonds servicing costs	3 357	3 704
Company Certification costs	18 075	
Other administrative expenses	85 344	45 268
	<u><b>493 013</b></u>	<u><b>484 639</b></u>
 <b>(5) Other income</b>		
Funds received from LAD	133 850	-
Other income	78 077	31 054
Funds received from LIAA (part of the 2016 year's project)	79 969	32 356
	<u><b>291 896</b></u>	<u><b>63 410</b></u>
 <b>(6) Other expenses</b>		
Research expenses	29 707	59 381
Property maintenance, security and management costs	228 972	93 124
Representation costs	10 543	5 517
Net loss from exchange rate fluctuations	899	21
Natural resource tax	6 350	-
Net loss from sale of investmet property	-	1 973
Other expenses	61 265	6 606
	<u><b>337 736</b></u>	<u><b>166 622</b></u>

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**OTHER NOTES (continuation)**

(7) Expenses by Nature	2016	2015
	EUR	EUR
The purchase of goods and delivery charges	15 197 199	7 736 190
Transportation costs	1 238 875	925 470
Salary expenses	615 901	273 420
Research expenses	29 707	59 381
Depreciation of fixed assets	526 344	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	228 972	93 124
Office expenses	30 421	13 682
Cash turnover expenses	51 185	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
Maintenance, security and management costs of investmet property	-	-
Communication expenses	4 797	5 189
Net loss from exchange rate fluctuations	899	21
Natural resource tax	6 350.00	-
Other expenses	232 362	77 256
	<b>18 898 040</b>	<b>9 671 557</b>
 (8) Finance expenses		
Interest expenses on bonds	181 260	76 833
Interest expense on limited ZGI-3 loan	124 198	-
Interest expense on bank loans, factoring, overdraft	234 821	6 484
Finance charges on finance lease	1 848	2 291
Penalties paid	40 447	2 268
	<b>582 574</b>	<b>87 876</b>
 (9) Corporate income tax		
a) Components of corporate income tax		
Changes in deferred income tax	198 170	79 995
	<b>198 170</b>	<b>79 995</b>
b) Reconciliation of accounting profit to income tax charges		
The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:		
Profit before taxes	(584 518)	(631 822)
Theoretically calculated tax at 15% tax rate	<b>(87 678)</b>	<b>(94 773)</b>
Tax effects on:		
Non-deductible expenses for tax purposes	1 787 565	14 778
<b>Total corporate income tax expenses</b>	<b>1 699 887</b>	<b>(79 995)</b>
 c) Movement and components of deferred tax	2016	2015
	EUR	EUR
Deferred tax liabilities at the beginning of the financial year		10 030
Deferred tax charged to the income statement	(198 170)	(79 995)
<b>Deferred tax asset at the end of the financial year</b>	<b>(198 170)</b>	<b>(69 965)</b>

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**OTHER NOTES (continuation)**

**Corporate income tax (continuation)**

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

Temporary difference on depreciation of fixed and intangible assets	3 005 128	542 937
Gross deferred tax liabilities	<u>450 769</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	4 792 693	978 689
Gross deferred tax asset	<u>718 904</u>	<u>146 803</u>
<b>Net deferred tax liability (assets)</b>	<u><b>(268 135)</b></u>	<u><b>(69 965)</b></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
<b>31.12.2014</b>		
Initial cost	194	194
Accumulated depreciation	<u>(16)</u>	<u>(16)</u>
<b>Net book value</b>	<u><b>178</b></u>	<u><b>178</b></u>
<b>2015</b>		
Acquired		0
Depreciation	<u>(65)</u>	<u>(65)</u>
<b>Closing book value</b>	<u><b>(65)</b></u>	<u><b>(65)</b></u>
<b>31.12.2015</b>		
Initial cost	194	194
Accumulated depreciation	<u>(81)</u>	<u>(81)</u>
<b>Net book value</b>	<u><b>113</b></u>	<u><b>113</b></u>

**(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
<b>31.12.2014</b>						
Initial cost	196 087	53 566	150 047	1 122 387	1 081 038	2 603 125
Accumulated depreciation	<u>(158)</u>	<u>(5 357)</u>	<u>(61 580)</u>	<u>0</u>	<u>0</u>	<u>(67 095)</u>
<b>Net book value</b>	<u><b>195 929</b></u>	<u><b>48 209</b></u>	<u><b>88 467</b></u>	<u><b>1 122 387</b></u>	<u><b>1 081 038</b></u>	<u><b>2 536 030</b></u>
<b>2015</b>						
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	<u>(4 790)</u>	<u>(208 445)</u>	<u>(39 177)</u>	<u>0</u>	<u>0</u>	<u>(252 412)</u>
Depreciation written-off	0	0	3 038	0	0	3 038
<b>Closing book value</b>	<u><b>2 213 013</b></u>	<u><b>4 159 330</b></u>	<u><b>248 867</b></u>	<u><b>1 431 520</b></u>	<u><b>979 068</b></u>	<u><b>9 031 798</b></u>
<b>31.12.2015</b>						
Initial cost	2 217 961	4 373 132	346 586	1 431 520	979 068	9 348 267
Accumulated depreciation	<u>(4 948)</u>	<u>(213 802)</u>	<u>(97 719)</u>	<u>0</u>	<u>0</u>	<u>(316 469)</u>
<b>Net book value</b>	<u><b>2 213 013</b></u>	<u><b>4 159 330</b></u>	<u><b>248 867</b></u>	<u><b>1 431 520</b></u>	<u><b>979 068</b></u>	<u><b>9 031 798</b></u>
<b>2016</b>						
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	1 470 856		(1 567 529)	(1 009 431)	(1 009 431)
Depreciation	<u>(96 032)</u>	<u>(355 396)</u>	<u>(74 851)</u>			<u>(526 279)</u>
<b>Closing book value</b>	<u><b>2 248 487</b></u>	<u><b>6 561 551</b></u>	<u><b>241 694</b></u>	<u><b>3 367</b></u>	<u><b>57 837</b></u>	<u><b>9 112 936</b></u>
<b>30.06.2016</b>						
Initial cost	2 349 467	7 130 749	414 264	3 367	57 837	9 955 684
Accumulated depreciation	<u>(100 980)</u>	<u>(569 198)</u>	<u>(172 570)</u>	<u>0</u>	<u>0</u>	<u>(842 748)</u>
<b>Net book value</b>	<u><b>2 248 487</b></u>	<u><b>6 561 551</b></u>	<u><b>241 694</b></u>	<u><b>3 367</b></u>	<u><b>57 837</b></u>	<u><b>9 112 936</b></u>

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**OTHER NOTES (continuation)**

**Property, plant and equipment (continuation)**

a) Costs of fixed assets

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

b) Finance lease of fixed assets

The residual value of fixed assets bought in finance lease on 31 December 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

c) 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	141 007	
	<u>184 107</u>	<u>7 164</u>

**(13) Trade receivables**

Trade receivables in Latvia	396 367	21 522
Trade receivables in Poland, Lithuania, Netherland, Germany	418 798	340 843
	<u>815 165</u>	<u>362 365</u>

**OTHER NOTES (continuation)**

**(14) Other current assets**

	31.12.2016	31.12.2015
	EUR	EUR
VAT overpaid	263 936	193 457
Financing the project "Deep investigation of whey"	-	101 187
Advance payments for works and services	43 356	40 460
Other deferred expenses	502	1 492
Deferred insurance expenses	925	1 046
Deferred loans expenses	236	17 332
Settlement regarding requirements for personnel	207	69
caution money	24 042	710
	<u>333 204</u>	<u>355 753</u>

**(15) Cash and cash equivalents**

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



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**(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 EUR	31.12.2015 EUR
Bonds nominal value	18	28.10.2024.	<u>1 035 500</u>	<u>950 000</u>
			<u><b>1 035 500</b></u>	<u><b>950 000</b></u>

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



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**OTHER NOTES (continuation)**

(18) Deferred revenue	31.12.2016	31.12.2015.
	EUR	EUR
Long-term part	1 540 688	1 154 049
Short-term part	85 594	107 855
<b>Total</b>	<b>1 626 282</b>	<b>1 261 904</b>

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.

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

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	<b>70 267</b>	<b>102 309</b>
Future finance costs	(2 047)	(4 407)
Present value of finance lease liabilities	<b>68 220</b>	<b>97 902</b>

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

	31.12.2016	31.12.2015
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	(28 310)	(26 069)
At the end of the year	<b>69 592</b>	<b>97 902</b>

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**OTHER NOTES (continuation)**

**(20) Advances received for factoring invoices**

	31.12.2016	31.12.2015
	EUR	EUR
Advances received for factoring invoices	402 024	-
	<b>402 024</b>	<b>-</b>

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 January 31, 2017. Received factoring advance amount on 31.12.2016 is EUR 402 024,00. In 2017, before the date of report submission, the contract has been extended until January 31, 2018.

**(21) Borrowings**

	31.12.2016	31.12.2015
	EUR	EUR
<b>Non-current</b>		
Nordea Bank AB Latvian branch - repayable in 2-5 years	a) 2 743 571	3 351 733
	<b>2 743 571</b>	<b>3 351 733</b>
Other borrowings - repayable in 2-5 years	b) 626 146	500 665
	<b>626 146</b>	<b>500 665</b>
<b>Current</b>		
Nordea Bank AB Latvian branch	b) 822 062	543 467
Nordea Bank AB Latvijas filiāle -overdrafts	c) 200 580	169 383
	<b>1 022 642</b>	<b>712 850</b>
<b>Total borrowings</b>	<b>4 392 359</b>	<b>4 565 248</b>
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	<b>4 392 359</b>	<b>4 565 248</b>

*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 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.

*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 200000.00. The maturity is 28.02.2016. In 2016 to the report submission date of the contract has been extended until 28.02.2017.

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**OTHER NOTES (continuation)**

**(22) Advances from customers**

	31.12.2016	31.12.2015
	EUR	EUR
Advances from customers	11 067	
	<u>11 067</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	939 447	947 729
	<u>1 809 145</u>	<u>1 559 346</u>

**(24) Other liabilities**

	31.12.2016	31.12.2015
	EUR	EUR
Accrued liabilities for services	28 884	105 060
Accrued liabilities for interest on bonds	31 065	28 500
Accrued unused annual leave expenses	4 173	30 680
Salaries	49 201	24 090
Personal income tax		11 320
Social insurance payments	29 166	11 202
Motor vehicle duty	36 702	1 406
Natural resource tax	1 072	22
Risk duty	1 499	-
Borrowings from co-owner*	18	88 000
	<u>454 869</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 collateral.

**(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
<b>Gross cash flow from operating activities</b>	<u>2 245 383</u>	<u>1 989 767</u>



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**OTHER NOTES (continuation)**

**(26) Average number of employees**

Average number of people employed during the financial year	<u>42</u>	<u>17</u>
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**(27) Remuneration to personnel**

Salaries and mandatory State social insurance contributions for production personnel	537 756	108 907
Salaries and social insurance contributions for administration personnel	<u>206 332</u>	<u>228 605</u>
	<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
<b>Related parties</b>				
Company's Board and co-owners (15)	-	235 300		88 000
Related Company		<u>404 427</u>		<u>406 620</u>
	<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 4 125.

**(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 3 006 392).

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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.

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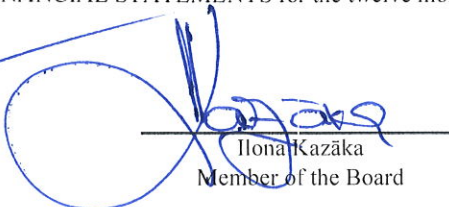
**OTHER NOTES (continuation)**

**(30) 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. Negotiations with the Latvian banks are being held on possible refinancing of the company loan.
6. In February 2017, Kosher certificate has been extended for a year.
7. 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 UNAUDITED CONDENSED FINANCIAL STATEMENTS for the twelve month period ended 31 December 2016 on pages 1 to 29 confirm:

 _____ Kaspars Kazāks Chairmen of the Board	 _____ Ilona Kazāka Member of the Board
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Bauska, 27 February 2017