

SIA "BALTIC DAIRY BOARD"

(UNIFIED REGISTRATION NUMBER 43603036823)

UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the six month period ended 30 June 2017

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

BAUSKA, 2017



SIA "BALTIC DAIRY BOARD"
UNAUDITED CONDENSED FINANCIAL STATEMENTS
for the period ended 30 June 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 2017 - 30 June 2017
Previous financial year	1 January 2016 - 31 December 2016
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

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SIA BALTIC DAIRY BOARD
REPORT OF THE MANAGEMENT
to the six month period ended 30 June 2017

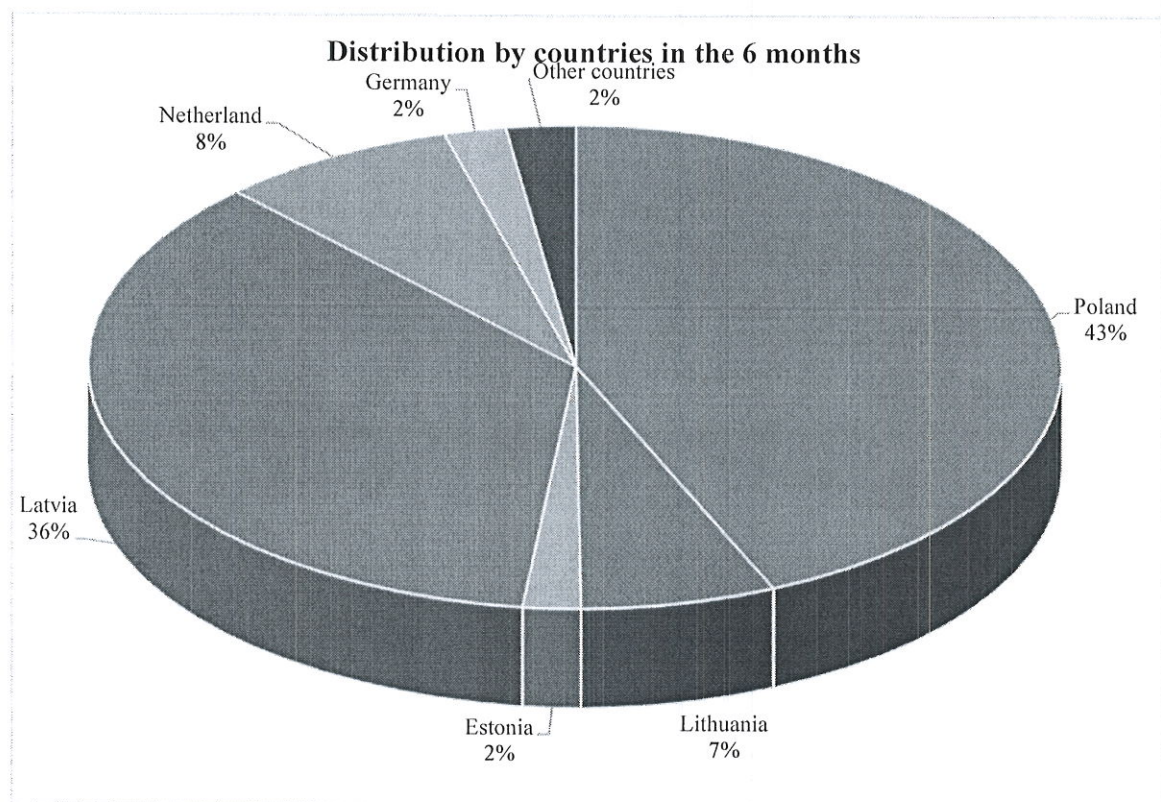
The line of business of SIA "Baltic Dairy Board" is processing of raw milk and milk by-products. The Company produces ingredients for production of butter, cheese, milk protein powder and whey protein. Company goal in 2018: to launch design and construction phases of dairy protein and GOS (galactooligosaccharide) powder manufacturing and packaging facilities in Bauska.

1. Description of Business:

In the first half of 2017, the situation in dairy sector improved relatively quickly. The European markets saw considerable rising of prices of manufactured dairy products, especially cream and butter. In fact, the price of cream and butter has reached its highest level ever causing the price of raw milk to increase in the Baltic States and Europe. Such situation is expected to continue also in the second half of 2017.

Company's net turnover was 10 475 512 EUR in the first half of 2017, which is more than 43 % compared to the first half of 2016. In the first half of 2017, net loss was 1 048 789 EUR or 6 % less than in the beginning of 2016.

As of 30.06.2017, the balance sheet value is 11 067 748 EUR or 3 % more than that as of 31.12.2016.



2. Main events in the first half of 2017:

1. 9 May 2017: audit committee of the Baltic Dairy Board, consisting of 3 members, was established.
2. 29 May 2017: the Baltic Dairy Board trademark was registered in the European Union.
3. 2 April 2017: Kosher Certification was extended by adding concentrated GOS (galactooligosaccharide) to the Baltic Dairy Board product range.
4. 27 April 2017: the Food and Veterinary Service of the Republic of Latvia issued the Baltic Dairy Board a certificate for manufacturing three types of feedstuff mix with prebiotic effects.
5. Successful launch of the new product GOS (galactooligosaccharide).

3. Future Development of the Company:

1. The main priority in 2017 was continuous manufacturing and launching of export of the new product GOS (galactooligosaccharide), as a result of gradual increase in the manufacturing amount and the consequential reduction in cost price and rise in profit.
2. To ensure continuous raise in the company's value, turnover and profit by continuing the current activities.
3. To attract investments for expanding the manufacturing unit to launch design phase of protein powder and GOS powder drying equipment and building.

4. Subsequent events:

1. 3 August 2017: Halal certification was extended by adding concentrated GOS (galactooligosaccharide) to the Baltic Dairy Board product range.
2. 31 August 2017: the research "Study of possibilities to improve controlled enzymatic hydrolysis to obtain high-quality whey and milk protein hydrolysates" was successfully completed.

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, 23 August 2017

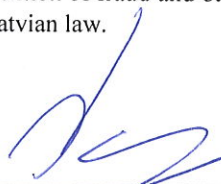
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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

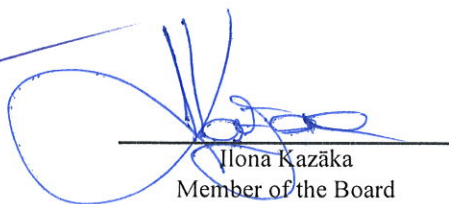
The management of SIA "Baltic Dairy Board" (further referred to as "the Company") is responsible for the preparation of the financial statements of the Company. The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as of 30 June 2017 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. 7-29 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
Chairman of the Board



Ilona Kazāka
Member of the Board

Bauska, 23 August 2017

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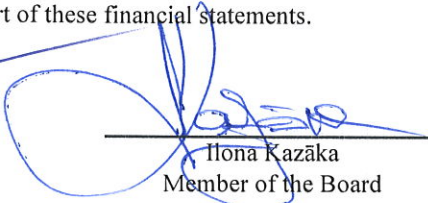
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 month 2017 EUR	6 month 2016 EUR
Net sales	(1)	10 475 512	7 304 889
Cost of sales	(2)	(10 713 031)	(7 738 503)
Gross profit		(237 519)	(433 614)
Distribution expenses	(3)	(146 345)	(226 091)
Administrative expenses	(4)	(241 023)	(260 397)
Other income	(5)	75 918	143 808
Other expenses	(6)	(210 556)	(136 659)
Finance expenses	(8)	(289 264)	(199 387)
Profit (loss) before tax		(1 048 789)	(1 112 340)
Corporate income tax	(9)	0	
Net profit		(1 048 789)	(1 112 340)

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


Bauska, 23 August 2017


SIA "BALTIC DAIRY BOARD"
UNAUDITED CONDENSED FINANCIAL STATEMENTS
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STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2017. EUR	31.12.2016. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(10)	86	113
Property, plant and equipment	(11)	8 918 492	9 111 507
Deferred tax assets	(9)	279 096	279 096
Participation in the capital of another company		200	200
Total non-current assets:		9 197 874	9 390 916
Current assets			
Inventories	(12)	901 174	187 810
Trade receivables	(13)	638 596	814 808
Corporate income tax receivable		24 428	24 428
Other current assets	(14)	329 309	334 607
Cash and cash equivalents	(15)	795	859
Total current assets:		1 894 302	1 362 512
<u>Total assets</u>		<u>11 092 176</u>	<u>10 753 428</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	(16)	777 778	777 778
Share issue premium		421 557	421 557
Retained earnings:			
Retained earnings or losses		(245 903)	126 694
Profit or loss of the year		(1 048 789)	(372 597)
Total equity:		(95 357)	953 432
Liabilities			
Non-current liabilities			
Debenture loans	(17)	1 128 695	1 035 500
Deferred revenue	(18)	1 540 688	1 540 688
Loans from credit institutions	(21)	2 743 571	2 743 571
Other borrowings	(21)	626 146	626 146
Finance lease liabilities	(19)	72 150	41 817
Total non-current liabilities:		6 111 250	5 987 722
Current liabilities			
Deferred revenue	(18)	88 986	85 594
Finance lease liabilities	(19)	19 816	26 403
Factoring liabilities	(20)	219 408	402 024
Loans from credit institutions	(21)	911 026	1 022 642
Trade payables	(23)	2 646 204	1 809 480
Advances from customers	(22)	373 555	11 067
Other liabilities	(24)	792 860	455 064
Total current liabilities:		5 051 855	3 812 274
Total liabilities:		11 163 105	9 799 996
<u>Total equity and liabilities:</u>		<u>11 067 748</u>	<u>10 753 428</u>

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

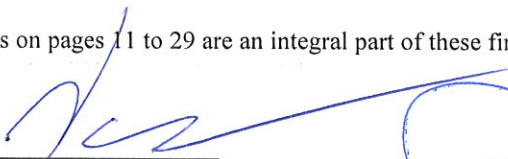
Bauska, 23 August 2017

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
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
Total income or losses	-	-	(1 048 789)	(1 048 789)
30.06.2017.	777 778	421 557	(1 294 692)	(95 357)

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

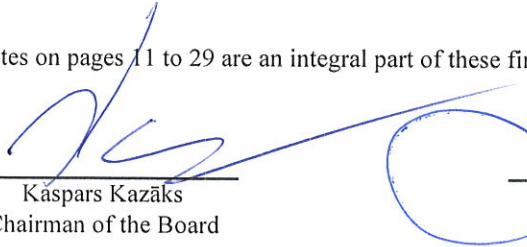
Bauska, 23 August 2017

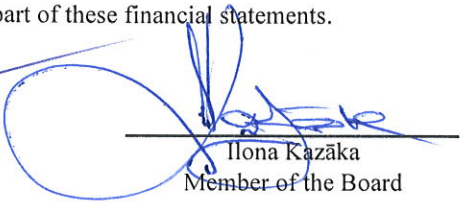
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CASH FLOW STATEMENT

	Notes	6 month 2017 EUR	6 month 2016 EUR
Cash flow from operating activities	(25)	(232 340)	(102 219)
Interest paid		(108 432)	(105 143)
Net cash flow from operating activities		<u>(340 772)</u>	<u>(207 362)</u>
Cash flow from investing activities			
Acquisition of property, plant and equipment		(72 290)	(277 176)
Net cash flow from investing activities		<u>(72 290)</u>	<u>(277 176)</u>
Cash flow from financing activities			
Proceeds from borrowings		585 500	366 119
Received advance from LIAA (part of the granted funding)		73 676	633 740
Expenses on the borrowing repayment		(312 514)	(502 673)
Finance lease payments		(19 933)	(21 354)
Net cash flow from financing activities		<u>326 729</u>	<u>475 832</u>
Foreign currency fluctuations		(5 273)	(247)
Net increase / (decrease) in cash and cash equivalents		<u>(91 606)</u>	<u>(8 953)</u>
Cash and cash equivalents at the beginning of the financial year		92 401	101 354
Cash and Cash equivalents at the end of the financial year		<u>795</u>	<u>92 401</u>

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

Bauska, 23 August 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,

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:

	30.06.2016. EUR	31.12.2015. EUR
1 USD	1.1413	1.0541
1 PLN	4.2489	4.4103

(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.

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(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:

	6 month 2017	6 month 2016
	EUR	EUR
Poland	4 537 633	1 970 752
Lithuania	681 680	810 229
Estonia	200 748	240 449
Latvia	3 771 830	2 169 804
Netherland	825 101	1 502 260
Germany	214 906	589 099
Other countries	243 614	22 296
	10 475 512	7 304 889

(c) Major customers

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

	EUR	EUR
Client No. 1	3 683 514	1 806 395
Client No. 2	786 894	1 197 758
Client No. 3	459 455	
Other customers	5 545 649	4 300 736
	10 475 512	7 304 889

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(2) Cost of sales	6 month 2017	6 month 2016
	EUR	EUR
The purchase of goods and delivery charges	9 462 237	6 511 071
Transportation costs	400 464	346 041
Salary expenses	246 415	202 235
Depreciation of fixed assets	296 574	328 242
Laboratory services (milk analysis)	24 621	36 148
Social insurance costs	57 321	47 673
Production of equipment for cleaning and disinfection costs	126 559	161 893
Costs of electricity	78 427	90 838
Other costs	20 413	14 362
	10 713 031	7 738 503
(3) Distribution expenses	EUR	EUR
Transportation costs	142 401	224 995
Advertising expenses	3 944	1 096
	146 345	226 091
(4) Administrative expenses	EUR	EUR
Salary expenses	100 358	78 891
Social insurance costs	24 429	18 610
Office expenses	10 948	15 954
Cash turnover expenses	34 489	21 934
Transportation costs	16 510	12 153
Business trip expenses	6 316	6 502
Professional services costs	1 105	1 084
Real estate tax	2 618	6 116
Communication expenses	2 510	2 205
Depreciation of fixed assets	17 340	16 269
Company Certification costs	8 197	
Other administrative expenses	16 203	80 679
	241 023	260 397
(5) Other income	EUR	EUR
Funds received from LIAA and LAD for the various support programmes	31 401	45 168.00
Other income	1 720	44 712
Funds received from LIAA project	42 797	53 928
	75 918	143 808
(6) Other expenses	EUR	EUR
Research expenses	40 190	
Property maintenance, security and management costs	123 304	115 902
Representation costs	3 769	3 863
Net loss from exchange rate fluctuations	5 272	247
Natural resource tax	4 137	-
Net loss from sale of investmet property		16 647
Other expenses	33 884	
	210 556	136 659

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(7) Expenses by Nature

	EUR	EUR
The purchase of goods and delivery charges	9 462 237	6 511 071
Transportation costs	559 375	583 189
Salary expenses	346 773	281 126
Research expenses	40 190	0
Depreciation of fixed assets	313 914	344 511
Social insurance costs	81 750	66 283
Laboratory services (milk analysis)	24 621	36 148
Production of equipment for cleaning and disinfection costs	126 559	-
Costs of electricity	78 427	-
Company Certification costs	8 197	-
Property maintenance, security and management costs	123 304	115 902
Office expenses	10 948	15 954
Cash turnover expenses	34 489	21 934
Representation costs	3 769	3 863
Business trip expenses	6 316	6 502
Professional services costs	1 105	1 084
Real estate tax	2 618	6 116
Maintenance, security and management costs of investment property	-	-
Communication expenses	2 510	2 205
Net loss from exchange rate fluctuations	5 272	247
Natural resource tax	4 137	-
Other expenses	74 444	112 784
	11 310 955	8 108 919

(8) Finance expenses

	EUR	EUR
Interest expenses on bonds	95 991	71 250
Interest expense on limited partnership ZGI-3 loan	59 814	-
Interest expense on bank loans, factoring, overdraft	107 065	110 248
Finance charges on finance lease	1 369	1 010
Penalties paid	25 025	16 879
	289 264	199 387

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(10) Intangible assets	Software and licences	Total
31.12.2016	EUR	EUR
Initial cost	194	194
Accumulated depreciation	(81)	(81)
Net book value	113	113
2017		
Acquired	-	-
Depreciation	(27)	(27)
Closing book value	(27)	(27)
30.06.2017		
Initial cost	194	194
Accumulated depreciation	(108)	(108)
Net book value	86	86

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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
31.12.2015						
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
Disposed						0
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
31.12.2016						
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
2017						
Opening net book value	2 248 487	6 609 112	241 694	3 367	8 847	9 111 507
Acquired	11 011	9 570	73 079	4 802	55 155	153 617
Reclassified from other balance sheet					(32 849)	(32 849)
Depreciation	(50 059)	(221 459)	(42 265)			(313 783)
Closing book value	2 209 439	6 397 223	272 508	8 169	31 153	8 918 492
30.06.2017						
Initial cost	2 360 478	7 189 309	487 343	8 169	31 153	10 076 452
Accumulated depreciation	(151 039)	(792 086)	(214 835)	0	0	(1 157 960)
Net book value	2 209 439	6 397 223	272 508	8 169	31 153	8 918 492

(12) Inventories

	30.06.2017 EUR	31.12.2016 EUR
Materials and other	161 405	43 100
Finished goods and goods for sale	739 769	144 710
	901 174	187 810

(13) Trade receivables

Trade receivables in Latvia	280 986	396 367
Trade receivables in EU	357 610	418 441
	638 596	814 808

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(14) Other current assets

	30.06.2017	31.12.2016
	EUR	EUR
VAT overpaid	249 587	263 995
Financing the project "Deep investigation of whey"	-	-
Advance payments for works and services	23 460	44 699
Other deferred expenses	236	75
Deferred insurance expenses	1 482	926
Deferred loans expenses	502	663
Settlement regarding requirements for personnel		207
caution money	54 042	24 042
	<u>329 309</u>	<u>334 607</u>

(15) Cash and cash equivalents

Cash at bank on current accounts	795	859
	<u>795</u>	<u>859</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	30.06.2017	31.12.2016
			EUR	EUR
Bonds nominal value	18	28.10.2024.	1 128 695	1 035 500
			<u>1 128 695</u>	<u>1 035 500</u>

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.

JSC "Latvijas Centrālais depozitārijs" based on the Company's application on April 28, 2017 decided to record changes in the characteristics of the bonds issued by changing the nominal value of the bonds from 1090 EUR to 1188.10 EUR.

(18) Deferred revenue

	30.06.2017	31.12.2016.
	EUR	EUR
Financing on LIAA project APV/2.1.2.4.0/14/04/016 :		
Long-term part	1 540 688	1 540 688
Short-term part	88 986	85 594
Total	<u>1 629 674</u>	<u>1 626 282</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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(19) Finance lease liabilities	30.06.2017	31.12.2016..
	EUR	EUR
Non-current		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	72 150	41 817
	<u>72 150</u>	<u>41 817</u>
Current		
Liabilities according to the finance lease agreements, payable within 1 year	19 816	26 403
	<u>19 816</u>	<u>26 403</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
(20) Advances received for factoring invoices		
	EUR	EUR
Payments received for factoring invoices	219 408	402 024
	<u>219 408</u>	<u>402 024</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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(21) Borrowings

	30.06.2017	31.12.2015
	EUR	EUR
Non-current		
Nordea Bank AB Latvian branch - repayable in 2-5 years	a) 2 743 571	2 743 571
	<u>2 743 571</u>	<u>2 743 571</u>
Other borrowings - repayable in 2-5 years	b) 626 146	626 146
	<u>626 146</u>	<u>626 146</u>
Current		
Nordea Bank AB Latvian branch	a) 509 548	822 062
Nordea Bank AB Latvian branch - overdrafts	c) 401 478	200 580
	<u>911 026</u>	<u>1 022 642</u>
Total borrowings	<u>4 280 743</u>	<u>4 392 359</u>
At beginning of the year	4 392 359	4 565 248
Borrowings received during the year		404 798
Borrowings repaid during the year	(312 515)	(577 687)
At the end of the year	<u>4 079 844</u>	<u>4 392 359</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 31.08.2017.

(22) Advances from customers

	30.06.2017	31.12.2016
	EUR	EUR
Advances from customers	373 555	11 067
	<u>373 555</u>	<u>11 067</u>

(23) Trade payables

Debts to farmers for milk - Latvia	539 580	465 271
Debt to the related Company	453 402	404 427
Debts to other suppliers for goods and services	1 653 222	939 782
	<u>2 646 204</u>	<u>1 809 480</u>

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for the period ended 30 June 2017

OTHER NOTES (continuation)

(24) Other liabilities	30.06.2017	31.12.2016
	EUR	EUR
Accrued liabilities for services	16 554	28 893
Accrued liabilities for interest on bonds	33 861	31 065
Accrued unused for interest on borrowings	75 126	4 370
Accrued unused annual leave expenses	49 201	49 201
Salaries	38 690	37 379
Personal income tax	20 431	29 166
Social insurance payments	19 891	36 702
Motor vehicle duty	2 797	1 073
Natural resource tax	1 951	1 499
Risk duty	5	18
Settlement of debts to staff	553	398
Borrowings from co-owner*	533 800	235 300
	<u>792 860</u>	<u>455 064</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	6 month 2017	6 month 2016
Cash flow from operating activities		
Income from sales of goods and services	9 574 759	6 674 414
Payments to suppliers, employees, other operating expenses	(9 807 099)	(6 776 633)
Gross cash flow from operating activities	<u>(232 340)</u>	<u>(102 219)</u>

(26) Average number of employees	6 month 2017	6 month 2016
	EUR	EUR
Average number of people employed during the financial year	<u>45</u>	<u>41</u>

(27) Remuneration to personnel	6 month 2017	6 month 2016
	EUR	EUR
Salaries and mandatory State social insurance contributions for production personnel	537 756	249 908
Salaries and social insurance contributions for administration personnel	206 332	97 501
	<u>744 088</u>	<u>347 409</u>

Including Board members and key management

salary expenses	33 042	24 600
mandatory State social insurance contributions	7 629	5 803

Council members did not receive any remuneration in 2017 the state social insurance contributions were not made.

(28) Transactions with related parties

a) claims and liabilities

		30.06.2017.		31.12.2016.	
	Notes	Debitori EUR	Kreditori EUR	Debitori EUR	Kreditori EUR
Related parties					
Company's Board and co-owners	(15)	-	533 800		235 300
Related Company			453 402		404 427
		<u>0</u>	<u>987 202</u>	<u>0</u>	<u>639 727</u>

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.

OTHER NOTES (continuation)

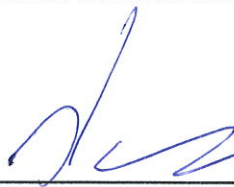
(32) Subsequent events

1. 3 August 2017: Halal certification was extended by adding concentrated GOS (galactooligosaccharide) to the Baltic Dairy Board product range.

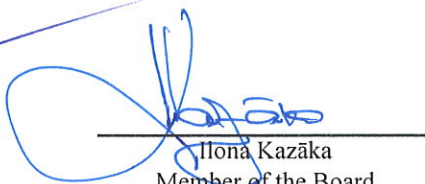
2. 31 August 2017: the research "Study of possibilities to improve controlled enzymatic hydrolysis to obtain high-quality whey and milk protein hydrolysates" was successfully completed.

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 30 June 2017.

Unaudited condensed financial statements for the six month period ended 30 June 2017 on pages 1 to 29 confirm:



Kaspars Kazāks
Chairman of the Board



Ilona Kazāka
Member of the Board

Bauska, 23 August 2017