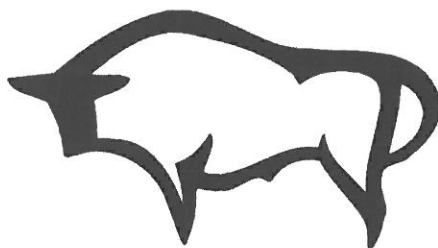


***“Kurzemes ciltslietu un mākslīgās  
apsēklošanas stacija” AS***

*2017 Annual Report  
prepared in accordance with  
Latvian statutory requirements,  
and Independent auditors' report\**



Jaunpils 2018

*\* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.*

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>CORPORATE INFORMATION</b>	<b>3 - 4</b>
<b>MANAGEMENT REPORT</b>	<b>5 - 6</b>
<b>STATEMENT OF MANAGEMENT'S RESPONSIBILITIES</b>	<b>7</b>
<b>FINANCIAL STATEMENTS:</b>	
<b>Balance sheet</b>	<b>8 - 9</b>
<b>Statement of profit and loss</b>	<b>10</b>
<b>Statement of changes in equity</b>	<b>11</b>
<b>Statement of cash flows</b>	<b>12</b>
<b>Notes to the financial statements</b>	<b>13 - 30</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>31 - 35</b>

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**CORPORATE INFORMATION**

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Name of the Company	Kurzemes ciltslietu un mākslīgās apsēkļošanas stacija
Legal status of the Company	Joint stock company
Registration number, place and date	000301708, Riga, 6 August 1991
Re-registration in Commercial Register	40003017085, Riga, 7 April 2004
NACE code	0150
Legal address	Jaunpils, Jaunpils district, Jaunpils region, LV-3145
Office address	Jaunpils, Jaunpils district, Jaunpils region, LV-3145
LEI code	529900KYEWO4FP2XMF82
Type of operations	Mixed farming (crop and livestock production)
Board after 20.03.2017	Gatis Kaķis– Chairman of the Board Sigita Lukaže – Member of the Board Mārtiņš Muižnieks- Member of the Board
Board until 20.03.2017	Gatis Kaķis– Chairman of the Board Sigita Lukaže – Member of the Board Daiga Lielpinka- Member of the Board
Council after 15.02.2017	Agnese Dūze– Chairman of the Council Maija Brunovska– Member of the Council Paulis Paškausks– Member of the Council Andris Paškausks– Member of the Council Ināra Kanska– Member of the Council
Council until 15.02.2017	Jānis Leimanis– Chairman of the Council Pēteris Augustovs– Member of the Council Maija Brunovska – Member of the Council Ināra Kanska – Member of the Council Haralds Mozgirs- Member of the Council

**AS KURZEMES CILTS LIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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Major shareholders as of 31.12.2017	LLC Latvijas šķirnes dzīv.n.audz.savienība	51.7%
	SC Agrofirma Tērvete	29.8%
Major shareholders as of 31.12.2016	LLC Latvijas šķirnes dzīv.n.audz.savienība	42.1%
	LLC JL Index	11.5%
	Pēteris Augustovs	11.7%
Reporting year	1 January to 31 December 2017	
Previous reporting year	1 January to 31 December 2016	
Auditor and certified auditor name and address	Deloitte Audits Latvia SIA Licence Nr.43 4a Gredu street, Riga, LV-1019, Latvija  Inguna Staša Certified Auditor Certificate No.145	

## AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

### MANAGEMENT REPORT

#### Company's operations during reporting year

The company's main operation remained unchanged during reporting year – bioproduct production of breeding bulls and boars, grains, various breeding services.

Still the main business risk is related to the rapid spread of African swine fever in the territory of Latvia. Considering that the company's customers are basically large farms, biosecurity safeguards are being improved, in order to prevent spreading of disease to breeding boars owned. Currently boars sperm sales are stable.

Assessing existing stocks of sperm, it was decided to write off the sperm of breeding bulls that have lost genetic value in the amount of 93,510 EUR.

The company has signed land rent agreements in 2017 for 150 hectares, thereby, in 2018, 410 hectares of land will be sowed. The turnover of the company was also influenced by the fact that 2/3 of the harvest is still located in the warehouse and was not sold due to low the market prices. Grain will be sold in 2018.

At the end of the reporting year entity applied for EU funds in amount of EUR 47,200 that is needed for the development of grain production.

#### Financial results and financial standing of the Company's commercial activity

The Company's revenue in 2017 amounts to EUR 891,912, it is 2.9 % less than in 2016. The Company's loss after tax for the year is EUR 38,149.

In the reporting year, the Company received subsidies from the state and EU in the amount EUR 92,681. Funds received breed animals maintenance and EU payments area.

In 2017 the Company purchased property, plant and equipment in the total amount of EUR 25,454, including: two cars EUR 11,389, bought food storage container for boars for EUR 3,160, purchased computer equipment for EUR 3,883 and other fixed assets for EUR 3,262, as well as finished reconstruction of the drainage system in a 31 ha plot of land for EUR 12,500, in order to improve biosecurity measures.

Revenue for 2017 in the amount of EUR 7,394 applies to co-financing from the EU Structural Funds.

#### Calculation of financial results:

##### Liquidity (Company's paying capacity – Company's ability to cover its current liabilities):

Total liquidity ratio	8.00
Current liquidity ratio	4.10
Quick liquidity ratio	3.24

##### Profitability (Company's success in profit- making):

Gross profit ratio	43.46%
Earnings before interest	-4.28%
Taxable profit ratio	-4.28%
Net profit ratio	-4.28%

##### Own funds ratios:

Non-current assets coverage with equity	1.62
Non-current assets coverage with equity and long-term liabilities	1.70
Current assets coverage with current	0.13
Net working capital (EUR)	669,492

##### Solvency (Company's ability to cover non-current and current liabilities):

Debt to assets ratio	0.10
Debt to equity ratio	0.11
Interest Coverage Ratio	-

## AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSEKĻOŠANAS STACIJA

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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### **Development of the Company**

1. Retain existing customers and continue to attract new customers.
2. Optimize the production and selling costs.
3. Buy or lease agricultural land of the grain industry.
4. Consider opportunities to attract EU funds for the reconstruction of Company's grain dryers and rebuild of garage- workshop building.

### **Events in Research and Development**

No research works are planned.

### **Management's proposals on profit sharing or loss cover**

The Company's management propose to cover losses of the 2017 with the profit of the following year.

### **The Company's branches and representative offices abroad**

Do not have.

### **Financial risk management**

The Company's principal financial instruments comprise trade and other receivables and trade and other payables, which arise directly from its operations.

#### *Financial risks*

The main financial risks arising from the Company's financial instruments are currency risk, liquidity risk and credit risk.

#### *Currency risk*

The Company's monetary assets and liabilities that are subject to foreign currency risk comprise cash, trade payables. The Company is exposed to foreign currency risk mainly due to the USD currency.

#### *Liquidity risk*

The Company manages its liquidity risk by maintaining an adequate level of cash.

#### *Credit risk*

The Company is exposed to credit risk through its trade receivables, as well as cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. The Company doesn't have credit risk concentration to single partner or similar description partners group.

### **Events after the balance sheet date**

In the time period since last day of the reporting year up to signing of the present report there have been no significant events which considerably affect the result of the reporting year.

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Gatis Kaķis  
Chairman of the Board

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Sigita Lukaže  
Member of the Board

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Mārtiņš Muižnieks  
Member of the Board

23 March 2018

## **STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT**

The management of Joint Stock Company “Kurzemes ciltslietu un māksīgās apsēkļošanas stacija” is responsible for the preparation of the Company’s Annual Report.

In accordance with information available the Management of Joint Stock Company “Kurzemes ciltslietu un māksīgās apsēkļošanas stacija” confirms that the Annual Report for the financial year has been prepared in accordance with the requirements of the applicable laws and regulations and gives a true and fair view on the JSC “Kurzemes ciltslietu un māksīgās apsēkļošanas stacija” assets, liabilities, financial position and loss. The Management Report provides true view on JSC “Kurzemes ciltslietu un māksīgās apsēkļošanas stacija” development and performance results.

Internal risk control procedures are effective, risk management and internal control during the reporting year were performed in accordance with internal control procedures.

The Management of Joint Stock Company “Kurzemes ciltslietu un māksīgās apsēkļošanas stacija” is responsible for the compliance with the requirements of laws and regulations of the Republic of Latvia.

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Gatis Kaķis  
Chairman of the Board

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Sigita Lukaže  
Member of the Board

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Mārtiņš Muižnieks  
Member of the Board

23 March 2018

BALANCE SHEET AS OF 31 DECEMBER 2017

ASSETS	Note	31.12.2017 EUR	31.12.2016 Restated* EUR
<b>I. Non-current assets</b>			
<b>I. Intangible assets</b>			
1 Concessions, patents, licenses, trademarks and similar rights.		270	536
<b>Total intangible assets</b>	<b>6</b>	<b>270</b>	<b>536</b>
<b>II. Property, plant and equipment</b>			
1 Real estate			
a) land, buildings and engineering constructions		825,291	834,051
2 Animals and plants			
a) productive animals and perennial plantings		23,571	28,754
3 Technological equipment and machinery		90,407	105,358
4 Other property, plant and equipment		9,203	7,414
5 Construction in progress		-	8,740
<b>Total property, plant and equipment</b>	<b>7</b>	<b>948,472</b>	<b>984,317</b>
<b>III. Long-term financial investments</b>			
1 Other securities and investments		3,529	3,529
<b>Total long-term financial investments</b>		<b>3,529</b>	<b>3,529</b>
<b>Total non-current assets</b>		<b>952,271</b>	<b>988,382</b>
<b>II. Current assets</b>			
<b>I. Inventories</b>			
1. Raw materials and consumables	8	105,584	82,165
2. Work in progress	9	42,845	39,591
3. Finished goods	10	224,321	306,181
<b>Total inventories</b>		<b>372,750</b>	<b>427,937</b>
<b>II. Receivables</b>			
1 Trade receivables	11	76,971	72,129
2 Other receivables	12	722	190
3 Deferred expense	13	5,013	5,814
<b>Total receivables</b>		<b>82,706</b>	<b>78,133</b>
<b>IV. Cash</b>			
	14	309,690	214,615
<b>Total current assets</b>		<b>765,146</b>	<b>720,685</b>
<b>TOTAL ASSETS</b>		<b>1,717,417</b>	<b>1,709,067</b>

\*) See Note 29

The accompanying notes on pages 13 to 30 are an integral part of these financial statement.



**BALANCE SHEET AS OF 31 DECEMBER 2017**

EQUITY AND LIABILITIES	Note	31.12.2017 EUR	31.12.2016 Restated* EUR
<b>I. Equity</b>			
1 Share capital	15	613,200	613,200
2 Reserves			
a) other reserves		1,258	1,258
3 Retained earnings		969,021	887,376
4 (Loss)/profit for the year		(38,149)	81,645
<b>Total equity</b>		<b>1,545,330</b>	<b>1,583,479</b>
<b>III. Liabilities</b>			
<b>I. Non-current liabilities</b>			
1 Deferred income	16	76,433	40,092
<b>Total non-current liabilities</b>		<b>76,433</b>	<b>40,092</b>
<b>II. Current liabilities</b>			
1 Trade payables	17	19,310	8,067
2 Taxes payable	18	22,388	26,110
3 Other payables	19	17,425	16,381
4 Accrued liabilities	20	31,389	29,726
5 Deferred income	21	5,142	5,212
<b>Total current liabilities</b>		<b>95,654</b>	<b>85,496</b>
<b>Total liabilities</b>		<b>172,087</b>	<b>125,588</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,717,417</b>	<b>1,709,067</b>

\*) See Note 29

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

**STATEMENT OF PROFIT AND LOSS**

	Note	2017 EUR	2016 Restated* EUR
1 Revenue	22	891,912	918,157
a) from agricultural activity		793,395	814,634
b) from other type of economic activities		98,517	103,523
2 Cost of sales	23	(504,306)	(496,400)
<b>3 Gross profit</b>		<b>387,606</b>	<b>421,757</b>
4 Distribution costs	24	(275,810)	(194,435)
5 Administrative expenses	25	(206,940)	(207,682)
6 Other operating income	26	57,176	63,007
7 Other operating expenses	27	(181)	(906)
9 Interest payable and similar expenses:			
a) to other persons		-	(96)
<b>10 Profit or loss before tax</b>		<b>(38,149)</b>	<b>81,645</b>
11 Corporate income tax		-	-
<b>15 Profit or loss for the year</b>		<b>(38,149)</b>	<b>81,645</b>
<b>16 Profit (loss) per share (EPS)</b>		<b>(0.044)</b>	<b>0.093</b>

\*) See Note 29

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital	Reserves	Retained earnings	Profit or loss for the year	Total
	EUR	EUR	EUR	EUR	EUR
<b>Balance as of 31 December 2015 (before restatement)</b>	<b>613,200</b>	<b>1,258</b>	<b>887,376</b>	<b>114,723</b>	<b>1,616,557</b>
Restatement*	-	-	(75,303)	-	(75,303)
<b>Balance as of 31 December 2015 (after restatement)</b>	<b>613,200</b>	<b>1,258</b>	<b>812,073</b>	<b>114,723</b>	<b>1,541,254</b>
Paid dividends	-	-	(39,420)	-	(39,420)
Reclassification of 2015 profits	-	-	114,723	(114,723)	-
Profit for the year (restated*)	-	-	-	81,645	81,645
<b>Balance as of 31 December 2016</b>	<b>613,200</b>	<b>1,258</b>	<b>887,376</b>	<b>81,645</b>	<b>1,583,479</b>
Reclassification of 2016 profits	-	-	81,645	(81,645)	-
Loss for the year	-	-	-	(38,149)	(38,149)
<b>Balance as of 31 December 2017</b>	<b>613,200</b>	<b>1,258</b>	<b>969,021</b>	<b>(38,149)</b>	<b>1,545,330</b>

\*) See Note 29

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**STATEMENT OF CASH FLOW**

	Note	2017 EUR	2016 EUR Restated*
<b>Cash flow from operating activities</b>			
Profit of loss before tax		(38,149)	81,645
<i>Adjustments for:</i>			
a) property, plant and equipment depreciation	7	55,414	53,013
b) intangible assets amortization	6	266	336
c) changes in value of productive animals	7	7,850	8,657
d) profit from sale and write-off of property, plant and equipment, net	26	(765)	(864)
e) loss from the sale and write-off of working animals, net	26	3,260	14,317
f) income from EU funds, state subsidies	26	(56,410)	(61,494)
g) profit of loss from foreign currency exchange rate fluctuations		(181)	(706)
h) provisioning (except for provisions for doubtful debts)		(1,663)	(21,977)
i) interest payments and similar expenses		-	96
<b>Profit or loss before adjustments in the balances of current assets and short-term liabilities</b>		<b>(30,378)</b>	<b>73,023</b>
<i>Adjustments for:</i>			
a) (increase)/decrease in trade receivables		(4,573)	11,619
b) decrease in inventories		55,187	25,472
c) decrease in trade and other payables		11,891	2,863
<b>Cash generated from operating activities</b>		<b>32,127</b>	<b>112,977</b>
Interest paid		-	(96)
Expenses for corporate income tax payments		-	(4,657)
<b>Net cash generated from operating activities</b>		<b>32,127</b>	<b>108,224</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets	7	(25,454)	(147,967)
Acquisition of productive animals	7	(11,650)	(26,038)
Cash proceeds from sale of productive animals		5,723	7,069
Cash proceeds from sale of fixed assets and intangible assets		1,467	1,084
<b>Net cash used in investing activities</b>		<b>(29,914)</b>	<b>(165,852)</b>
<b>Cash flows from financing activities</b>			
Received EU funds, state subsidies		92,681	55,531
Dividends paid		-	(39,420)
<b>Net cash generated from financing activities</b>		<b>92,681</b>	<b>16,111</b>
<b>Foreign currency exchange rate fluctuations</b>			
		<b>181</b>	<b>706</b>
<b>Net cash flow in the reporting year</b>		<b>95,075</b>	<b>(40,811)</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	14	<b>214,615</b>	<b>255,426</b>
<b>Cash and cash equivalents at the end of the reporting year</b>	14	<b>309,690</b>	<b>214,615</b>

\*) See Note 29

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENT**

### **1. GENERAL INFORMATION**

SC "Kurzemes ciltslietu un mākslīgās apsēkļošanas stacija", (hereinafter – the Company), legal address: Jaunpils, Jaunpils district, Jaunpils region, LV-3145, Latvija, incorporated in the Republic of Latvia on 6 August 1991. The address of its registered office and place of business is Jaunpils, Jaunpils district, Jaunpils region, LV-3145, Latvija. The main business activities of the Company are Mixed farming (crop and livestock production).

### **2. STATEMENT OF ACCOUNTING POLICIES**

#### ***Basis of preparation***

These financial statements have been prepared in accordance with the Laws of the Republic of Latvia on Accounting, Law on Annual Reports and Consolidated Annual Reports, Regulations No.775 of 22.12.2015 issued by the Cabinet of Ministers of the Republic of Latvia "Enforcement policies of the Law on Annual Reports and Consolidated Annual Reports".

The income statement is classified by function of expense. Due to changes in laws and regulations – Law on Annual Reports lapsed on 1 January 2016 and Law on Annual Reports and Consolidated Annual Reports entered into force – classification name of the income statement has changed, replacing the name "by turnover cost method" with "classified according to the function of expenses". Contents and nature of the items does not change due to the change in the name.

The statement of cash flows is prepared using the indirect method.

The financial report provides a true and fair view of the assets, liabilities, financial position and profit or loss of the joint-stock company. Company's accounting and evaluation methods have been changed comparing with previous reporting period. The monetary unit used in the financial statements is Euro (EUR) the monetary unit of Republic of Latvia. The financial statements cover the period from 1 January to 31 December 2017.

Items of the financial statements were evaluated according to the following accounting principles:

1. under assumption, that a Company will continue as a going concern;
2. the same evaluation methods are used as in a previous reporting year;
3. evaluation is made with proper precaution:
  - a) only profit made up to the balance sheet date was included in the report;
  - b) all foreseeable risk amounts and losses incurred during the reporting year or in the previous years were taken into account, even the ones that came to the knowledge of the Company during the period of time from balance sheet date until the date of preparation of the annual report;
  - c) all impairment and depreciation amounts have been calculated and taken into account regardless of whether the reporting year is finished with profit or loss;
4. income and expenses related to the reporting year are taken into account regardless of the date of payment and the date of invoice receipt or issue. Expenses are reconciled with incomes in the reporting year;
5. assets and liabilities items are evaluated separately;
6. opening balances of the reporting year match closing balances of the previous year, except for the adjustments referred to in Note 29;
7. all the items, that significantly affect assessment and decision- making of the users of the annual report, are disclosed;
8. business transactions are disclosed in the annual report, taking into account its economic contents and nature rather than legal form;
9. balance sheet and income statement items are stated at the cost of acquisition or production. The cost of acquisition is the purchase price of goods or services (less any discounts granted) plus any extra costs related to the purchase. The cost of production is the cost of acquiring raw materials and consumables and other expenses that are directly attributed to the construction of the asset. The cost of production may also include portions of expenses that are indirectly related to the construction of the asset, provided these costs are attributed to the same period.

## AS KURZEMES CILTS LIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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### *Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when it's determinable.

Significant estimates are related to useful lives of property, plant and equipment, valuation of inventory, long term assets valuation, allowances for doubtful debts.

### *Changes of the accounting policy*

In reporting year the management of the Company has changed its accounting policy with respect to:

- presentation of biological assets in the Company's balance sheet. In financial statements for the year 2017, entity has recognized impairment of work animals. Comparative figures have been restated accordingly.
- deferred income periodization and adjustment in the Company's balance sheet. The timing for recognizing of the SAPARD funds for 2017 was adjusted according to the useful life of the fixed assets. Comparative figures have been restated accordingly.

### *Contingencies*

Contingent liabilities are not recognized in these financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in these financial statements but disclosed when an inflow of economic benefits is probable.

### *Currency and foreign currency revaluation*

The accompanying financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Company's functional and presentation currency.

All transactions in the foreign currency are revaluated to euro according to the Euro foreign exchange reference rates by the European Central Bank, which is in force at the beginning of the day of business transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the ECB foreign exchange reference rate in force on the last day of the reporting year and gains and losses resulting from the settlement of such transactions are recognized in the statement of profit or loss.

	31.12.2017.	31.12.2016.
1 USD	1.1993	1.0541

### *Related parties*

Related parties are defined as Company's shareholders, board members (key management personnel) and entities that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions and close members of the families of any individual referred to previously and entities over which these persons exercise significant influence or control.

Related parties are defined also as entities in which the Company has significant influence or control.

### *Own shares and participation in other undertakings*

Acquired own shares are reported in the balance sheet item "Own stocks and shares", but participation in the equity capital of another undertaking are reported accordingly in "Participation in the capital of associated undertakings" or "Other securities and investments".

### *Intangible assets and property, plant and equipment*

Intangible assets and property, plant and equipment are initially measured at cost.

Property, plant and equipment are recognized as non-current assets if their acquisition cost exceeds 150 euros. Purchases under 150 euros are recognized as low-value inventory.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes, any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Only rights acquired in exchange for consideration are indicated in the item "Concessions, patents, licenses, trademarks, and similar rights".

## AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

Intangible assets and property, plant and equipment are stated at cost less accumulated depreciation/amortization. Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

<i>Intangible assets:</i>	
Computer software etc.	20%
<i>Property, plant and equipment</i>	
Buildings and construction	5%
Technological plant and machinery	10%-20%
Vehicles	20%
Other fixed assets and equipment	20%

Depreciation is calculated starting with the following month after the intangible asset or property, plant and equipment is ready for intended use. Land is not depreciated. Each part of an item of property and equipment 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 property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the higher of an asset's net selling price and its value in use.

Profit or loss from disposal of a long-term investment is indicated in the income statement in the net value.

Repair and restoration costs that increase useful life and value of assets are capitalized and depreciated over their estimated useful lives. Other repair and restoration costs are recognized as expenses of the reporting period.

The initial value of construction in progress is increased by other direct costs incurred in relation to the object until the new object is put into operation. The initial value of the respective asset is not increased by the interest of the loans used for creation of the new asset.

If investments are made in the rented asset (e.g. reconstruction, improvement or renewal), then such costs are recognized in the balance sheet item "Long-term investments in leased assets" and depreciated over the lease period.

### *Accounting of working and productive animals*

Working animals and productive animals, are initially recognized at their historical cost or at their cost price. In the following years will be recognized animal impairments, gradually writing off their value using the straight-line method over their estimated useful lives up to scratch value at the end of estimated useful life.

### *Inventories*

Inventories are stated at the lower of cost and net realizable value according to the perpetual inventory method.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials and purchased goods are recognized at acquisition cost using the weighted average price;
- sow seeds of winter crops and bull semen – at production cost.

## **AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is disclosed at the purchase (production) cost less allowances made.

In special cases, when stock units are damaged, partially or completely obsolete, or the cost of completing or selling their production significantly increased - the relevant inventory units are valued in accordance with the net realizable value.

### ***Receivables***

Receivables are recognized at original invoice amount less an allowance for any doubtful amounts. The allowance for any doubtful amounts is made in the cases, when the collection of these amounts is problematic. Debts are written off when the recovery is deemed impossible. Bad debts are written off in the losses of the reporting year.

Signs that an amount receivable may be doubtful:

- delayed payment of debt, after repeated reminders the debtor still does not pay or the debtor is questioning the Company's right to recover the debt;
- the debtor's poor financial situation and negative operating results or other circumstances indicating the debtor's failure to pay the full amount of the debt (known, that the debtor is subjected of proceeding for its recognition as bankrupt), etc.

### ***Trade receivables***

Trade receivables are recognized and carried at original invoice amount less an allowance for any doubtful amounts.

### ***Other receivables***

The Company under the item "Other receivables" presents those debtors that cannot be presented in other items, including tax overpayments, debit balances of accounts payable.

### ***Prepaid expenses and deferred revenue***

Payments made before the balance sheet date but referring to the next financial years shall be indicated in the item "Prepaid expenses".

Payments received before the balance sheet date but referring to the next financial years or further financial years shall be indicated in the balance sheet item "Deferred revenue".

### ***Other securities and investments***

Long-term investments in bonds and securities are measured at cost in the balance sheet. Short-term investments in shares and securities, which are listed on the stock exchange, are measured at market value in the balance sheet, which is determined by the stock exchange transactions on the last day of the reporting year.

### ***Cash***

Cash and cash equivalents include cash in bank and on hand.

### ***Impairment of assets***

At each balance sheet date, the Group reviews the carrying amounts of assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Asset's recoverable amount is the highest possible market value, subtracting selling related expenses or other related expenses. Where it is not possible to estimate recoverable amount of an individual asset, the Group estimates the value of cash-generating unit to which the asset belongs.

### ***Share capital***

The item "Share Capital" shows the share capital according to the capital registered in the Commercial Register.

### ***Share premium***

If shares of new issue have been sold for a larger amount than the nominal value, the Company has share premium. If these have been sold for an amount below the nominal value, the negative difference is indicated in this section as a negative number.

### ***Reserves***

Reserves are part of the net profit for the reporting year, which was redirected according to the special purposes defined in law and Statutes (incl. Loss cover).



## **AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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### ***Government grants***

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Accordingly, grants whose primary condition is that the Company should purchase or construct non-current assets are recognized as deferred revenue in the balance sheet and transferred to the statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 the statement of profit or loss in the period in which they become receivable.

### ***Long-term and short-term items***

Long-term items encompass amounts receivable, payable or subject to writing off in over a year after the end of the respective report year. Amounts receivable, payable or subject to writing off within a year are reported in short-term items.

### ***Loans and borrowings***

Loans and borrowings are initially recognized at the fair value of the principal amount issued or received, which is determined according to the contract or agreement less costs related to loan issue or receipt. After initial recognition, loans and borrowing are subsequently measured at amortized cost. Loan and borrowing interests are recognized in the statement of profit and loss as interest income or expenses in the related period.

### ***Trade and other payables***

Trade and other payables are subsequently measured at amortized cost.

### ***Leases***

Finance leases, which transfer to the Company substantially all the risk and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as interest expense.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. The commitments undertaken by the Company with respect to operating lease contracts are recorded as off-balance sheet liabilities.

### ***Provisions***

Provisions are recognized 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 can be made of the amount of the obligation.

The Company creates provisions to cover liabilities that related to the reporting period or previous periods and at the time of reporting, it is predictable or known but there is no certain amount or specific commitments occurrence and closing date.

Where the Company expects some or all of provisions to be reimbursed for example under an insurance contract the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Expenses relating to any provision are presented in the statement of profit and loss net of any reimbursement.

### ***Accrued liabilities***

Accrued liabilities comprise clearly known trade payables for goods or services which have been supplied during the reporting year but for which payment documents (invoices) have not been received by the balance sheet date due to the terms of the supply, sale or contractor agreement or for any other reasons.

## **AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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### ***Accruals for unused vacations***

Accruals for unused vacations are determined by multiplying the average salary for the last six months of the reporting year of each employee by the number of unused accrued annual leave days.

### ***Advances from customers***

Advances from customers are payments which in accordance with the contract the buyer pays the seller before the receipt of goods or service.

### ***Other payables***

The Company under the item "Other payables" presents those creditors that cannot be presented in other items, including credit balances of accounts receivable.

### ***Dividends***

Claims and obligations in respect of dividends are recognized when the shareholders' right to receive the payment is established, which means that only when the distribution is authorized by the shareholders decision, as well as when the amount of dividends is calculated.

### ***Taxes and mandatory state social insurance contributions***

Tax information is reconciled with the tax administration. The Company presents within payables only tax debts, any overpayments are presented under other receivables.

### ***Revenue recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognized:

#### ***Sale of goods***

Revenue arising from the sale of goods is recognized when all of the following criteria have been satisfied:

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

The Company reports the sale of goods, taking into account the economic substance and not merely the legal form.

#### ***Provision of services***

Revenue arising from the rendering of services is recognized in the period when the services are rendered.

Revenue arising from the rendering of services and related costs is recognized by reference to the stage of completion of the transaction at the balance sheet date.

If the outcome cannot be estimated reliably, revenue arising from the rendering of services is recognized only to the extent of the expenses recognized that are recoverable.

#### ***Other income***

Other income is income that is not included in the revenue, is occurred in the result of the economic activity, or is related to, or directly derived. Other income is recognized as follows:

- revenues from fines and penalties – upon receipt;
- proceeds from the sale of fixed assets - at net value, profit or loss from sale of non-current assets is calculated as the difference between the carrying amount of the property, plant and equipment and the proceeds of earnings and included in the profit and loss account for the period in which they were incurred;
- interest income on current account balances from credit institutions registered in the Republic of Latvia – upon receipt;
- dividends – when the shareholder's right to receive payment is established;
- other income – as incurred.

**AS KURZEMES CILTS LIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**Corporate income tax**

Corporate income tax includes current corporate income tax. Corporate income tax (CIT) is recognized in the income statement. Current corporate income tax is calculated in accordance with the Law on Corporate Income Tax and is applied statutory tax rate of 15% on taxable income.

Based on the new Corporate Income tax law of the Republic of Latvia announced in 2017, starting from 1 January 2018 corporate income tax will be applicable to distributed profits and several expenses that would be treated as profit distribution. In case of reinvestment of profit CIT shall not be applied. The applicable CIT rate has increased from the 15% to 20%.

**Subsequent events**

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**3. NUMBER OF EMPLOYEES**

	2017	2016
Average number of employees during the reporting year, incl.	36	35
Members of the Board	3	3
Members of the Council	5	5
Other employees	28	27

**4. PERSONNEL COSTS**

	2017	2016
	EUR	EUR
Total labour costs	<b>403,059</b>	<b>397,086</b>
- salaries	326,858	322,312
- state mandatory social insurance	76,201	74,774
Remuneration of employees engaged in production ( core activity)	<b>2017</b>	<b>2016</b>
	EUR	EUR
- salaries	217,970	206,194
- state mandatory social insurance payments	49,273	47,227
<b>TOTAL</b>	<b><u>267,243</u></b>	<b><u>253,421</u></b>
Remuneration of administration	<b>2017</b>	<b>2016</b>
	EUR	EUR
- salaries	108,888	116,118
- state mandatory social insurance payment	26,928	27,547
<b>TOTAL</b>	<b><u>135,816</u></b>	<b><u>143,665</u></b>

**5. MANAGEMENT REMUNERATION**

<i>Members of the Council</i>	<b>2017</b>	<b>2016</b>
	EUR	EUR
- salaries	12,380	16,496
- state mandatory social insurance payments	3,247	3,557
<b>TOTAL</b>	<b><u>15,627</u></b>	<b><u>20,053</u></b>
<i>Members of the Board</i>	<b>2017</b>	<b>2016</b>
	EUR	EUR
- salaries	38,340	64,947
- state mandatory social insurance payments	9,045	15,255
<b>TOTAL</b>	<b><u>47,385</u></b>	<b><u>80,202</u></b>

**6. INTANGIBLE ASSETS**

	Concessions, patents, licenses, trademark and similar rights EUR	Total intangible assets EUR
<b>Initial value as at 31.12.2015</b>	<b>4,422</b>	<b>4,422</b>
<b>Initial value as at 31.12.2016</b>	<b>4,422</b>	<b>4,422</b>
<b>Depreciation as at 31.12.2015</b>	<b>3,550</b>	<b>3,550</b>
Calculated amortization in period	336	336
<b>Depreciation as at 31.12.2016</b>	<b>3,886</b>	<b>3,886</b>
<b>Net book amount 31.12.2015</b>	<b>872</b>	<b>872</b>
<b>Net book amount 31.12.2016</b>	<b>536</b>	<b>536</b>
<b>Initial value as at 31.12.2016</b>	<b>4,422</b>	<b>4,422</b>
<b>Initial value as at 31.12.2017</b>	<b>4,422</b>	<b>4,422</b>
<b>Depreciation value as at 31.12.2016</b>	<b>3,886</b>	<b>3,886</b>
Calculated amortization in period	266	266
<b>Depreciation value as at 31.12.2017</b>	<b>4,152</b>	<b>4,152</b>
<b>Net book amount 31.12.2016</b>	<b>536</b>	<b>536</b>
<b>Net book amount 31.12.2017</b>	<b>270</b>	<b>270</b>

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**7. PROPERTY, PLANT AND EQUIPMENT**

	Real estate Restated* EUR	Technological equipment and machinery EUR	Other property, plant and equipment EUR	Construction in progress EUR	Animals and plants Restated* EUR	Total Restated* EUR
<b>Initial value as at 31.12.2015</b>	<b>836,529</b>	<b>553,358</b>	<b>40,255</b>	<b>4,200</b>	<b>43,509</b>	<b>1,477,851</b>
Additions	-	28,062	1,547	118,358	26,038	174,005
Reclassification	113,818	-	-	(113,818)	-	-
Disposed	-	(32,021)	(2,310)	-	(21,386)	(55,717)
<b>Initial value as at 31.12.2016</b>	<b>950,347</b>	<b>549,399</b>	<b>39,492</b>	<b>8,740</b>	<b>48,161</b>	<b>1,596,139</b>
<b>Depreciation as at 31.12.2015</b>	<b>98,084</b>	<b>443,447</b>	<b>31,982</b>	<b>-</b>	<b>10,750</b>	<b>584,263</b>
Calculated	18,212	32,395	2,406	-	8,657	61,670
Disposed	-	(31,801)	(2,310)	-	-	(34,111)
<b>Depreciation as at 31.12.2016</b>	<b>116,296</b>	<b>444,041</b>	<b>32,078</b>	<b>-</b>	<b>19,407</b>	<b>611,822</b>
<b>Net book value as of 31.12.2015</b>	<b>738,445</b>	<b>109,911</b>	<b>8,273</b>	<b>4,200</b>	<b>32,759</b>	<b>893,588</b>
<b>Net book value as of 31.12.2016</b>	<b>834,051</b>	<b>105,358</b>	<b>7,414</b>	<b>8,740</b>	<b>28,754</b>	<b>984,317</b>
<b>Initial value as of 31.12.2016</b>	<b>950,347</b>	<b>549,399</b>	<b>39,492</b>	<b>8,740</b>	<b>48,161</b>	<b>1,596,139</b>
Additions	4,160	12,602	4,932	3,760	11,650	37,104
Reclassification	12,500	-	-	(12,500)	-	-
Disposed	-	(9,105)	(2,684)	-	(19,353)	(31,142)
<b>Initial value as of 31.12.2017</b>	<b>967,007</b>	<b>552,896</b>	<b>41,740</b>	<b>-</b>	<b>40,458</b>	<b>1,602,101</b>
<b>Depreciation as of 31.12.2016</b>	<b>116,296</b>	<b>444,041</b>	<b>32,078</b>	<b>-</b>	<b>19,407</b>	<b>611,822</b>
Calculated	25,420	27,553	2,441	-	7,850	63,264
Written off	-	(9,105)	(1,982)	-	(10,370)	(21,457)
<b>Depreciation as at 31.12.2017</b>	<b>141,716</b>	<b>462,489</b>	<b>32,537</b>	<b>-</b>	<b>16,887</b>	<b>653,629</b>
<b>Net book value as of 31.12.2016</b>	<b>834,051</b>	<b>105,358</b>	<b>7,414</b>	<b>8,740</b>	<b>28,754</b>	<b>984,317</b>
<b>Net book value as of 31.12.2017</b>	<b>825,291</b>	<b>90,407</b>	<b>9,203</b>	<b>-</b>	<b>23,571</b>	<b>948,472</b>

\* See Note 29

**8. RAW MATERIALS AND CONSUMABLES**

	31.12.2017	31.12.2016
	EUR	EUR
Grain and seeds	68,355	52,698
Materials	17,934	15,420
Mineral fertilizers and chemicals	14,001	6,764
Animal feed	2,784	4,037
Fuel	1,977	2,458
Spare parts	533	437
Supplements	-	351
<b>Total</b>	<b>105,584</b>	<b>82,165</b>

**9. WORK IN PROGRESS**

	31.12.2017	31.12.2016
	EUR	EUR
Winter crops	42,845	39,591
<b>Total</b>	<b>42,845</b>	<b>39,591</b>

**10. FINISHED GOODS**

	31.12.2017	31.12.2016
	EUR	EUR
Frozen imported bull sperm	56,017	54,151
Frozen self-produced bull sperm	168,304	252,030
<b>Total</b>	<b>224,321</b>	<b>306,181</b>

**11. TRADE RECEIVABLES**

	31.12.2017	31.12.2016
	EUR	EUR
Carrying amount of trade receivables	91,395	83,081
Allowance for doubtful debts	(14,424)	(10,952)
<b>Net trade receivables</b>	<b>76,971</b>	<b>72,129</b>

*Movements in the allowance for doubtful debts*

	31.12.2017	31.12.2016
	EUR	EUR
<b>Allowance as at 31.12.2016</b>	<b>10,952</b>	<b>10,749</b>
Decrease	-	-
Increase	3,472	203
<b>Allowance as at 31.12.2017</b>	<b>14,424</b>	<b>10,952</b>

**12. OTHER RECEIVABLES**

	31.12.2017.	31.12.2016.
	EUR	EUR
Payments to advance settlement parties	722	190
<b>Total</b>	<b>722</b>	<b>190</b>

**AS KURZEMES CILTS LIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**13. PREPAID EXPENSES**

	31.12.2017	31.12.2016
	EUR	EUR
Insurance	5,013	5,814
<b>Total</b>	<b>5,013</b>	<b>5,814</b>

**14. CASH**

	31.12.2017	31.12.2016
	EUR	EUR
Cash at bank	303,901	210,205
Cash in hand	5,789	4,410
<b>Total</b>	<b>309,690</b>	<b>214,615</b>

**15. SHARE CAPITAL**

As at 31 December 2017 registered and fully paid share capital of the Company is EUR 613200 and it consists of 876000 shares with a par value of EUR 0.70 per share. As at 31 December 2016 registered and fully paid share capital of the Company is EUR 613200 and it consists of 876000 shares with a par value of EUR 0.70 per share.

Capital structure	31.12.2017			31.12.2016		
	% of share capital	Number of shares	EUR	% of share capital	Number of shares	EUR
Bearer shares with voting rights – publicly traded	100%	876,000	613,200	100%	876,000	613,200
Bearer shares without voting rights	0%	-		0%	-	
<b>Total</b>	<b>100%</b>	<b>876,000</b>	<b>613,200</b>	<b>100%</b>	<b>876,000</b>	<b>613,200</b>

**Shareholders of the Company as at 31 December 2017 and their position in the Company**

Shareholders	Position in the Company	% of share capital
SIA Latvijas šķ.dzīvn.audz.sav.	shareholder	51.74%
AS Agrofirma Tērvete	shareholder	29.83%
Other shareholders	x	18.43%
<b>Total:</b>	<b>x</b>	<b>100.00%</b>

**Details of the restrictions on the transfer of shares**

Restrictions on the transfer of shares or receipt of specific consent for transfer of shares have not been determined.

**Shareholder's right and agreement**

Regulated by Latvian laws and regulations, the Company's Statutes does not define special restrictions or provisions relating to the voting rights. The Company has no information on any shareholders agreement.

**Power of board members and special agreements**

According to Company's Statutes each board member has the right to represent the Company separately. The Company and board members do not have an agreement on resignation compensation.

**The rules for the election of board members, amendments of the Statutes**

Regulated by Latvian laws and regulations, the Company's Statutes does not define special restrictions or provisions relating to the election of board members, changes in the composition of the Board and amendment of the Statutes.

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSEKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**16. DEFERRED INCOME (NON-CURRENT)**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
		<b>Restated*</b>
ES financing Garage – workshop building reconstruction	39,299	-
ES financing for reconstruction and modernization of boars' cattle shed	24,667	26,667
ES financing for reconstruction and modernization of bulls 'cattle shed	12,467	13,425
<b>Total</b>	<b>76,433</b>	<b>40,092</b>

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
		<b>Restated*</b>
Deferred income write-off period		
From 2 to 5 years	25,705	14,790
After 5 years	50,728	25,302
<b>Total</b>	<b>76,433</b>	<b>40,092</b>

\*) See Note 29

**17. TRADE PAYABLES**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Latvian suppliers	12,085	8,067
Foreign suppliers	7,225	-
<b>Total</b>	<b>19,310</b>	<b>8,067</b>

**18. TAXES PAYABLES**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
State mandatory social insurance payments	11,051	10,628
Personal income tax	6,066	5,504
Value added tax	4,560	9,141
Natural resources tax	698	817
State fee of business risk	13	20
<b>Total</b>	<b>22,388</b>	<b>26,110</b>

**19. OTHER PAYABLES**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Salaries	17,213	16,038
Payments to advance settlement party	1	-
Receivables overpayments	211	343
<b>Total</b>	<b>17,425</b>	<b>16,381</b>



**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**20. ACCRUED LIABILITIES**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Accrued liabilities – unused vacations	24,389	18,465
Accrued liabilities	7,000	11,261
<b>Total</b>	<b>31,389</b>	<b>29,726</b>

**21. DEFERRED INCOME**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
		<b>Restated*</b>
ES financing Garage – workshop building reconstruction	2,183	-
ES financing for reconstruction and modernization of boars' cattle shed	2,000	2,000
ES financing for reconstruction and modernization of bulls 'cattle shed	959	959
ES financing for new machinery purchase for grain industry	-	2,253
<b>Total</b>	<b>5,142</b>	<b>5,212</b>

**22. REVENUE**

	<b>Nace code</b>	<b>2017</b>	<b>2016</b>
		<b>EUR</b>	<b>EUR</b>
<i>From agricultural activity:</i>			
Revenue from animal sperm	01.62	484,201	491,201
Revenue from grain sale	01.11	205,371	205,060
Revenue from artificial insemination services	01.62	61,492	69,603
Revenue from linear evaluation of cows	01.62	34,403	33,691
Revenue from livestock sale	01.42	5,722	7,069
Revenue from grain kiln service	01.63	1,366	7,890
Revenue from sale of other products and services	01.19	840	120
<b>Total</b>		<b>793,395</b>	<b>814,634</b>
<i>From other type of economic activities:</i>			
	<b>Nace code</b>	<b>2017</b>	<b>2016</b>
		<b>EUR</b>	<b>EUR</b>
Revenue from milk sample collection	52.29	52,677	54,780
Revenue from sale of other products and services	47.99	45,840	48,743
<b>Total</b>		<b>98,517</b>	<b>103,523</b>
<b>Grand total</b>		<b>891,912</b>	<b>918,157</b>

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**22A. REVENUE BY GEOGRAPHICAL SEGMENTS**

	<b>2017.</b>	<b>2016.</b>
	<b>EUR</b>	<b>EUR</b>
Latvia	891,802	911,187
Netherlands	-	6,970
Germany	110	-
<b>Total</b>	<b>891,912</b>	<b>918,157</b>

**23. COST OF SALES**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Salaries	132,557	128,146
State mandatory social insurance payments	29,343	29,120
Fertilizers, seeds and chemicals	81,127	82,235
Materials and spare parts	59,610	50,719
Property, plant and equipment depreciation	52,604	50,249
Miscellaneous services	48,540	45,643
Fuel	41,494	36,826
Current repair services	14,136	19,233
Electricity costs	8,983	10,058
Changes in value of work animals	7,850	8,657
Gas costs	7,685	6,581
Animal feed	7,643	8,498
Insurance payments	3,234	3,432
Natural resources tax	833	972
Disposal and dry waste	681	588
Medication	575	925
Other costs	7,411	14,518
<b>Total</b>	<b>504,306</b>	<b>496,400</b>

*\*See Note 29***24. DISTRIBUTION COSTS**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Write-off of breeding bull' bioproduct	93,103	2,086
Salaries	70,124	78,048
State mandatory social insurance payments	16,323	18,107
Transport costs	63,064	58,400
Real estate tax on land and buildings	6,513	5,474
Advertising costs	4,533	4,558
Allowance for doubtful debts	3,472	203
Expenses related to business travels	3,022	11,727
Other costs	15,557	15,832
<b>Total</b>	<b>275,810</b>	<b>194,435</b>

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

**25. ADMINISTRATIVE EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Administrative personnel expenses	108,888	116,118
State mandatory social insurance payments	26,928	27,547
Transport costs	17,858	16,521
Annual report and audit expenses *	14,531	9,049
Representation expenses	3,747	4,761
Office maintenance expenses	3,333	2,068
Property, plant and equipment depreciation	3,076	3,100
Legal services	1,153	35
Communication expenses	762	1,187
Bank charges	710	941
Miscellaneous services	25,954	26,355
<b>Total</b>	<b>206,940</b>	<b>207,682</b>

\* In the reporting period, SIA Deloitte Audit Latvia provided only audit services to the joint stock Company.

**26. OTHER OPERATING INCOME**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Subsidies from the Ministry of Agriculture	49,016	55,531
ES financing for new machinery purchase for grain industry	2,253	3,004
ES financing Garage – workshop building reconstruction	2,183	-
ES financing for reconstruction and modernization of boars ‘cattle shed	2,000	2,000
ES financing for reconstruction and modernization of bulls ‘cattle shed	958	959
Proceeds from sale of property, plant and equipment, net	766	1,084
Other income	-	429
<b>Total</b>	<b>57,176</b>	<b>63,007</b>

\*See Note 29

**27. OTHER OPERATING EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Losses from foreign currency exchange rate fluctuations, net	181	706
Other expenses	-	200
<b>Total</b>	<b>181</b>	<b>906</b>

**28. SWORN AUDITOR’S REMUNERATION**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Statutory audit of the Annual report	7,000	1,500
<b>Total</b>	<b>7,000</b>	<b>1,500</b>

**29. CORRECTIONS IN THE PREVIOUS YEAR INDICATORS**

During the audit 2017, discrepancies have been identified that affect the financial statements of the previous reporting period as a result of which certain financial items have been corrected for previous reporting periods. In reporting period some mistakes were identified, as well as accounting policy was changed in order to present financial in fair view. In paragraphs below there is description of each of mistakes identified and change of accounting policy, as well as their influence on financial report:

1. Mistake in calculation of depreciation of property and building. In accordance to accounting policy, depreciation rate of mentioned type of property is 5% per annum, however, starting from the year of reconstruction of those assets, depreciation rate applied was substantially lower. In 2017 mistake was identified and depreciation was calculated retrospectively from the year of reconstruction till the end of reporting period, restating accordingly retained earnings as of 31 December 2015, profits of 2016, as well as net book value of buildings as of 31 December 2016.

2. The Company has received SAPARD funding for reconstruction of above mentioned assets. In accordance to accounting standards, recognition of this type of revenue should match useful lives of assets in question. In reporting period it has been found, that revenue has been recognized in shorter period. Deferred income has been recalculated retrospectively from the period when entity had rights to receive funding till the end of the reporting period, restating accordingly retained earnings as of 31 December 2015, profits of 2016, as well as short term and long term parts of deferred income as of 31 December 2016.

3. Change in accounting policy. The Company uses bulls and boars in production sperm production. Until 2017 the Company has shown value of animals at acquisition costs. However, after production period bulls are sold with loss. Therefore it was decided to recognize impairment of bulls and gradually decrease their value during estimated useful life till the scratch value. This accounting policy was applied retrospectively for periods till the end of the reporting period, restating accordingly retained earnings as of 31 December 2015, profits of 2016, as well as assets as of 31 December 2017.

	<b>Historical balance on 31.12.2016. EUR</b>	<b>Restatement EUR</b>	<b>Restated balance on 31.12.2016. EUR</b>
<i>Corrected profit or loss statement items:</i>			
Cost of sales	(478,961)	(17,439)	(496,400)
Gross profit or loss	439,196	(17,439)	421,757
Other operating income	75,751	(12,744)	63,007
Profit before tax	111,828	(30,183)	81,645
Profit or loss for the period	111,828	(30,183)	81,645
<i>Corrected balance sheet items:</i>			
<i>Non-current assets:</i>			
Property, plant and equipment:			
land, buildings and engineering constructions	877,996	(43,945)	834,051
working animals or productive animals	48,161	(19,407)	28,754
Total property, plant and equipment	1,047,669	(63,352)	984,317
Total non-current assets	1,051,734	(63,352)	988,382
<b>TOTAL ASSETS</b>	<b>1,772,419</b>	<b>(63,352)</b>	<b>1,709,067</b>

**AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA**

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

	Historical balance on 31.12.2016. EUR	Restatement EUR	Restated balance on 31.12.2016. EUR
<i>Equity</i>			
Retained earnings for the previous year	962,679	(75,303)	887,376
Profit/ loss for the year	111,828	(30,183)	81,645
Total equity	1,688,965	(105,486)	1,583,479
<i>Liabilities</i>			
<i>Non-current liabilities</i>			
Deferred income	-	40,092	40,092
Total non-current liabilities	-	40,092	40,092
<i>Current liabilities</i>			
Deferred income	3,170	2,042	5,212
Total current liabilities	83,454	2,042	85,496
Total liabilities	83,454	42,134	125,588
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,772,419</b>	<b>(63,352)</b>	<b>1,709,067</b>
<i>Corrected cash flow statement:</i>			
<i>Cash flow from operating activities</i>			
Profit of loss before tax	111,828	(30,183)	81,645
<i>Adjustments for:</i>			
a) impairment adjustments for property, plant and equipment	44,231	8,782	53,013
b) changes in the value of working and productive animals	-	8,657	8,657
c) profit/ (loss) from sale and write-off of property, plant and equipment, net	20,302	(21,166)	(864)
d) losses from the sale and write-off of working animals, net	-	14,317	14,317
e) income from EU Co-financing, state subsidies	(74,238)	12,744	(61,494)
Peļņa/(zaudējumi) pirms apgrozāmo līdzekļu un īstermiņa kreditoru atlikumu izmaiņu ietekmes korekcijām	(15,844)	18,707	2,863
Gross cash flow from operating activities	101,119	11,858	112,977
Net cash flow from operating activities	96,366	11,858	108,224
<i>Cash flows from investing activities</i>			
Purchases of property, plant and equipment and intangible assets	(174,005)	26,038	26,038
Purchased work and productive animals	-	(26,038)	(26,038)
Revenue from sale of working and productive animals	-	7,069	7,069
Revenue from sale of fixed assets and intangible assets	1 306	(222)	1,084
Cash flow from investing activities	(172,701)	6,849	(165,852)
<i>Cash flow from financing activities</i>			
Received EU co – financing, state subsidies	74,238	(18,707)	55,531
Net cash generated from financing activities	34,818	(18,707)	16,111

**30. FINANCIAL RISK MANAGEMENT**

The Company's principal financial instruments comprise trade and other receivables and trade and other payables, which arise directly from its operations.

*Financial risks*

The main financial risk arising from the Company's financial instruments are currency risk, liquidity risk and credit risk.

*Currency risk*

The Company's monetary assets and liabilities that are subject to foreign currency risk comprise cash, trade payables. The Company is exposed to foreign currency risk mainly due to the USD currency.

## AS KURZEMES CILTSLIETU UN MĀKSĪGĀS APSĒKĻOŠANAS STACIJA

Reg.no.40003017085

Jaunpils, Jaunpils district, Jaunpils region, LV-3145

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### *Liquidity risk*

The Company manages its liquidity risk by maintaining an adequate level of cash.

### *Credit risk*

The Company is exposed to credit risk through its trade receivables, as well as cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. The Company doesn't have risk concentration to single partner or similar description partners group.

### **31. TRANSACTIONS WITH RELATED COMPANIES**

Explanation of the transaction		Amount EUR
AS Agrofirma Tērvete	bull semen and seeding materials without VAT	32,250
SIA Latvijas šķirnes dzīvnieku audzētāju savienība	Animal linear evaluation without VAT	34,393

### **32. INFORMATION ON SIGNIFICANT LEASE CONTRACTS**

During the reporting year the Company concluded three Land lease Contracts for the land lease in Kuldiga region, which in 2017 was concluded for three years.

### **33. FINANCIAL ASSISTANCE RECEIVED AND OTHER FORMS OF FINANCIAL SUPPORT**

During the reporting year the Company received subsidies from the Ministry of Agriculture granted to board industry EUR 4,994, bulls industry EUR 2,919, area payment EUR 41,103.

The Company did not have repaid amounts in relation to the non-fulfillment of conditions of the finance provider.

During the reporting year the Company did not receive any state or local government guarantees or equity contributions. During the reporting year the Company did not receive any donations of gifts.

### **34. LIABILITIES TO FORMER EMPLOYEES**

The Company has no obligations to former employees.

### **35. EVENTS AFTER THE REPORTING PERIOD**

In the period from the last day of the reporting year till signing this report, there have been no substantial events affecting the final results of the Annual report.

### **36. MANAGEMENT'S PROPOSAL ON LOSS COVER**

The Company's management propose to cover losses of the 2017 with the profit of the following year.

On behalf of the Joint Stock Company, on March 23, 2018, the financial statements were signed:

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Gatis Kaķis  
Chairman of the Board

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Sigita Lukaže  
Member of the Board

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Mārtiņš Muižnieks  
Member of the Board

## Independent Auditor's Report

### To the shareholders of AS "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija"

#### *Our Qualified Opinion on the Financial Statements*

We have audited the accompanying financial statements of AS "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" ("the Company") set out on pages 3 to 30 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of AS "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

#### *Basis for Qualified Opinion*

As disclosed in note 10 to the financial statements the Company's inventory balances as of 31 December 2017 includes self-produced stock balances of bull semen in the amount of 168 th EUR. (2016: 252 th EUR). During 2017 the Company has recognised decrease in the value of this inventory in the amount of 93 th EUR. According to the 'Law On the Annual Reports and Consolidated Annual Reports' inventory balances should be stated at lower of cost or lowest market value. The Company each year recalculates value of inventory using the current year actual cost price. Part of inventory has been produced in previous reporting periods, therefore, such practice is not in compliance with accounting regulations. Due to the specific nature of accounting records there is no information readily available to assess the impact of the non – compliance. At the year end 2017 the management evaluated impairment of inventory balance. The assessment was not supported with auditable evidence e.g. detailed calculations considering future sales volumes and prices. Consequently, we were unable to get appropriate sufficient evidence whether any adjustments to the inventory values of self-produced stock of bull semen as of 31 December 2017 and 2016 and decrease in the values of inventory recognised during 2017 were necessary.

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

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

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

## Independent Auditor's Report - continued

### *Emphasis of Matter*

We draw attention to Note 29 to the financial statements which describes restatements made by the management to correct misstatements in the financial statements of the Company for the year ended 31 December 2016. Our opinion is not modified in respect of this matter.

### *Other Matter*

The financial statements of the Company for the year ended 31 December 2016 were audited by other auditors who expressed unmodified opinions on those statements. As such corresponding figures for the year ended 31 December 2016 are not audited by us.

### *Key Audit Matters*

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

<b><i>Key audit matter</i></b>	<b><i>How our audit addressed this matter</i></b>
<p><i>Valuation of self-produced stock</i></p> <p>As disclosed in note 10 to the financial statements the Company's inventory balances as of 31 December 2017 includes self-produced stock balances of bull semen in the amount of 168 th EUR. 2016: 252 th EUR).</p> <p>According to the 'Law On the Annual Reports and Consolidated Annual Reports' inventory balances should be stated at lower of cost or lowest market value. If necessary, an allowance should be provided for obsolete, slow moving and defective inventories. The amount of the allowance is recognised in the statement of profit and loss.</p> <p>We have identified valuation of self-produced stock of bull semen as key audit matter as accounting for and valuation of these inventory balances involve significant judgment and estimates.</p>	<p>As indicated in the Basis for Qualified Opinion section we were unable to successfully complete the planned audit procedures and our opinion is modified in the respect of valuation of self-produced stock balances of bull semen.</p>

### *Reporting on Other Information*

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

- Information about the Company, as set out on pages 3-4 of the accompanying Annual Report,
- the Management Report, as set out on page 5-7 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 8 of the accompanying Annual Report;
- the Statement of Corporate Governance Report which the Company has prepared and plans to file with "Nasdaq Riga" together with Annual Report.

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



## Independent Auditor's Report - continued

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

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we are not able to express our opinion on self-produced stock value.

### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information*

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

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

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

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

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

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

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

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

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

## Independent Auditor's Report - continued

### *Auditor's Responsibility for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

## Independent Auditor's Report - continued

### *Other reporting responsibilities and confirmations*

On 27 April 2017 we were appointed by shareholders to audit the financial statements of AS "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" for the year ended 31 December 2017. This is our first year engagement.

We confirm that our audit opinion is consistent with the additional report presented to the Council of the Company.

We confirm that in light of our knowledge and belief we have not provided to the Company the prohibited non-audit services referred to of EU Regulation (EU) No 537/2014.

The responsible certified auditor on the audit resulting in this independent auditors' report is Inguna Stasa.

Deloitte Audits Latvia SIA  
Licence No.43



Inguna Stasa  
Board member  
Certified auditor of Latvia  
Certificate No 145

23 March 2018