SIA "BALTIC DAIRY BOARD"

(UNIFIED REGISTRATION NUMBER 43603036823)

UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the six month period ended 30 June 2018

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

BAUSKA, 2018

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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. Edvīns Samulis, Deputy Chairman of Council from 27.09.2017. Viesturs Neimanis, Member of the Council from 23.07.2015. Ivo Lidums, Member of the Council from 17.06.2016
Financial year	1 January 2018 - 30 June 2018
Previous financial year	1 January 2017 - 31 December 2017
Auditor's name and address	Natālija Zaiceva Sworn auditor (LZRA Certificate No. 138) SIA "Orients Audit & Finance" LZRA Licence Nr.28 Gunara Astras Street 8b Riga, LV-1082

SIA BALTIC DAIRY BOARD
UNAUDITED CONDENSED FINANCIAL STATEMENTS
to the six month period ended 30 June 2018

The type of business activity of SIA "Baltic Dairy Board" is an in-depth processing of raw milk and milk by-products with biotechnological methods. Raw materials are being manufactured to produce butter, cheese, milk protein powder and whey protein. The goal in year 2018 is to start the continuous long-term manufacturing and delivery of GOS (galacto-oligossaharide) products to leading manufacturers of infant/young children foods in the world.

1. Description of the type of business activity:

In the first half of 2018, due to the poor market conjuncture, a decision was taken to discontinue the production of cream, milk protein concentrate (MPC) and milk permeate (MP). Milk purchases were gradually reduced and in March cooperation with all raw milk suppliers was stopped. Returning to a favorable market conjuncture, it will be possible to resume production of these products.
In parallel with the above-mentioned events, the company focused on the development of the new product GOS, the completion of studies and the introduction of the product on the market. It has been successfully managed and, following completion of formalities and factory audits, it is scheduled to begin regular production and delivery of this product to the world's largest infant/baby food manufacturers in November 2018.
In view of the above, during this transitional period, the net sales of the first half-year amounted to EUR 841 458, which is 92% less than in the first six months of 2017. Net loss for the first half of 2018 was EUR 865 904, which is 18% less compared to the first half of 2017.
Balance value as of 30 June 2018 is EUR 8 787 549, that is 12% less than on 31.12.2017.

2. Most important events in 2018:

1. On 30 March 2018, a factory audit was conducted with the aim to obtain approval from a global scale infant /baby food producer for the suitability of the plant to produce GOS products. The audit ended with a positive conclusion.
2. In April 2018, research was completed and the quality assurances of the resulting product GOS were obtained from a number of potential customers.
3On 18 May 2018, a legal protection proceeding was initiated in the Zemgale District Court.

3. Post-balance-sheet conditions and events.

On 23 August 2018, the Zemgale District Court approved the application of SIA Baltic Dairy Board regarding the withdrawal of the application for a legal protection proceeding and the termination of civil proceedings.

Excluding the previously mentioned, in the days between the last days of the accounting year and the signing of the financial report there have been no events that would considerably negatively impact the financial situation of the company.

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

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 2018 and the results of their operations and cash flows for the year then ended. The management also confirms that the financial statements of the Company are prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Management Board confirms that the finacial statements and notes to the financial statements contained on pp. 7-31 have been prepared on the basis of source documents and the decisions adopted and the assessments made 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 lawas as as well as European Union regulations applicable to the Company.

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018 EUR	2017 EUR
Net sales	(1)	841 458	10 475 512
Cost of sales	(2)	(1 379 305)	(10 713 031)
Gross profit		**(537 847)**	**(237 519)**
Distribution expenses	(3)	(18 354)	(146 345)
Administrative expenses	(4)	(105 844)	(241 023)
Other income	(5)	179 887	75 918
Other expenses	(6)	(98 802)	(210 556)
Finance expenses	(8)	(284 944)	(289 264)
Profit (loss) before tax		**(865 904)**	**(1 048 789)**
Net profit		**(865 904)**	**(1 048 789)**

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

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2018. EUR	31.12.2017. EUR
ASSETS			
Non-current assets			
Intangible assets	(10)	18	49
Property, plant and equipment	(11)	8 373 338	8 707 261
Deferred tax assets	(9)	-	0
Participation in the capital of another company		200	200
Ilgtermiņa ieguldījumi kopā:		**8 373 556**	**8 707 510**
Current assets			
Inventories	(12)	324 036	340 225
Trade receivables	(13)	5 250	883 076
Other current assets	(14)	84 383	37 821
Cash and cash equivalents	(15)	324	769
Total current assets:		**413 993**	**1 261 891**
Total assets		**8 787 549**	**9 969 401**
EQUITY AND LIABILITIES			
Equity			
Share capital	(16)	777 778	777 778
Share issue premium		421 557	421 557
Retained earnings:			
Retained earnings or losses		(1 363 761)	(245 903)
Profit or loss of the year		(865 904)	(1 117 858)
Total equity:		**(1 030 330)**	**(164 426)**
Liabilities			
Non-current liabilities			
Debenture loans	(17)	1 230 279	1 128 695
Deferred revenue	(18)	1 455 094	1 455 094
Loans from credit institutions	(21)	1 753 538	1 753 538
Other borrowings	(21)	746 767	746 767
Finance lease liabilities	(19)	16 304	33 700
Total non-current liabilities:		**5 201 982**	**5 117 794**
Current liabilities			
Deferred revenue	(18)	42 797	85 594
Finance lease liabilities	(19)	9 903	38 917
Factoring liabilities	(20)	23 027	132 382
Loans from credit institutions	(21)	1 767 598	1 801 308
Trade payables	(23)	1 578 125	1 804 409
Advances from customers	(22)	220 256	269 639
Other liabilities	(24)	974 191	883 784
Total current liabilities:		**4 615 897**	**5 016 033**
Total liabilities:		**9 817 879**	**10 133 827**
Total equity and liabilities:		**8 787 549**	**9 969 401**

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

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

STATEMENT OF CHANGES IN EQUITY

	Share capital EUR	Share issue premium EUR	Retained earnings EUR	Total EUR
31.12.2016.	**777 778**	**421 557**	**(245 903)**	**953 432**
Total income or losses	-	-	(1 117 858)	(1 117 858)
31.12.2017.	**777 778**	**421 557**	**(1 363 761)**	**(164 426)**
Total income or losses	-	-	(865 904)	(865 904)
30.06.2018.	**777 778**	**421 557**	**(2 229 665)**	**(1 030 330)**

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

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

CASH FLOW STATEMENT

	Notes	2018 EUR	2017 EUR
Cash flow from operating activities	(25)	**51 168**	**243 188**
Interest paid		(41 860)	(288 429)
Repayment of income tax			
Net cash flow from operating activities		**9 308**	**(45 241)**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(21 377)	(162 485)
Net cash flow from investing activities		**(21 377)**	**(162 485)**
Cash flow from financing activities			
Proceeds from borrowings			
Received advance from LIAA			591 393
Funds received from research projects		32 344	72 777
Expenses on the borrowing repayment		(15 995)	(414 849)
Finance lease payments		(4 725)	(39 283)
Net cash flow from financing activities		**11 624**	**210 038**
Foreign currency fluctuations			**(2 402)**
Net increase / (decrease) in cash and cash equivalents		**(445)**	**(90)**
Cash and cash equivalents at the beginning of the financial year		**769**	**859**
Cash and Cash equivalents at the end of the financial year		**324**	**769**

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

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018

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 2018 to 30 June 2018

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 2017, corresponds to the accounting policy that was used for the preparation of Annual report of a year 2016.
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.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following new and/or amended International Financial Reporting Standards or interpretations published or revised during the reporting year, which became effective for the reporting period started from 1 January 2017, have been adopted by the Company:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments).** The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The application of these Amendments had no effect on the Company's financial statements.

- **IAS 7: Disclosure Initiative (Amendments).** The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The application of these Amendments had no effect on the Company's financial statements.
- The IASB has issued the **Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Company's financial statements
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5. These Amendments had no effect on Company's financial statements as the Company does not have any interests classified as held for sale.

Standards issued and not yet effective, and not early adopted by the Company

- **IFRS 9 Financial Instruments: Classification and Measurement** The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
- **IFRS 15: Revenue from Contracts with Customers.** The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the total estimated adjustment of the effect of the standard is not material.
- **IFRS 16: Leases.** The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.
- **IAS 40: Transfers to Investment Property (Amendments).** The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Company's Management has assessed the impact of the implementation of the Amendments, but does not consider that these Amendments will have a significant effect to the Company's financial statements

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration.** The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Company's Management has assessed the impact of the implementation of the IFRIC Interpretation, but does not consider that it will have a significant effect to the Company's financial statements, as the Company has not transactions in foreign currencies.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments.** The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company's Management has not yet evaluated the impact of the implementation of the IFRIC Interpretation, but does not consider that it will have a significant effect to the Company's financial statements
- **IFRS 9: Prepayment features with negative compensation (Amendment).** The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Company's Management has not yet evaluated the impact of the implementation of the IFRIC Interpretation, but does not consider that it will have a significant effect to the Company's financial statements.

Standards issued but not yet effective and not applicable for the Company

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments).** The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cashsettled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Company's financial statements, as the Company does not accomplish share-based payment transactions

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments).** The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Company's financial statements, as the Company does not have such long-term interests.
- **Amendment in 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.** The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Company's financial statements, as the Company does not estimate to sell or invest

The Management of the Company will not adopt these amendments because they will not be applicable for the Company.

Improvements to IFRSs

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards.** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- **IAS 28 Investments in Associates and Joint Ventures.** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Company has assessed that these improvements will have no impact on the Company's financial statements.
The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognised..
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The adoption of these amendments may result in changes to accounting policies or disclosures but impact of adoption on the financial position or performance of the Company has not yet assessed.

(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:

	30.06.2018.	**31.12.2017.**
	EUR	**EUR**
1 USD	1.1658	1.1993
1 PLN	4.3732	4.1770

(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.

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 amortization is included in the separate statement of comprehensive income under "Financial income". 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 ¡n interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

(12) Trade receivables

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

(13) Cash and cash equivalents

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

(14) Share capital and dividends

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

(15) Provision

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.

Aizņēmumu izmaksas

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 for the reporting year is calculated by applying statutory 15% tax rate.

According to the amendments to the "Law on Corporate Income Tax" of the Republic of Latvia issued on July 28, 2017, starting from January 1, 2018 legal persons will not pay income tax on profit. Corporate income rax will be paid for distributed profit and deemed distributed profit. Consequently, current and deferred tax assets and liabilities are measured using the tax rate applicable to undistributed profits. A 20% tax rate from the gross amount or 20/80 of the net cost will be applied to the distributed profit and deemed distributed profit starting from 1 january, 2018. Corporate income tax on dividend payments is recognized in the income statement as costs in the reporting period when the respective dividends were declared, while other deemed profit objects - at the time when the costs were incurred during the reporting year.

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.
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.
According to changes in regulatory enactments of the Republic of Latvia, which come into force on 1 January 2018, deferred tax assets and liabilities are not recognized in 2017. Deferred tax assets, calculated and recognized in the previous reporting periods are reversed in the current year's income statement or statement of comprehensive income, depending on whether initially deferred tax liabilities were recognized through the income statement or comprehensive income; as determined by IAS 12, changes in tax legislation are recognized in the period in which these changes were adopted.

(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 aat the end of the year is EUR 8 707 261 (31.12.2016. - EUR 9 111 507).

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 no significant additional allowance for doubtful trade receivables as of 30 June 2018 is required.

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, USA and more 8 countries. Distribution of sales among these segments is as follows:

	2018 EUR	2017 EUR
Poland	9 200	4 537 633
Lithuania	75 435	681 680
Estonia	11 850	200 748
Latvia	561 543	3 771 830
Netherlands	27 035	825 101
Germany		214 906
USA	152 615	
Other countries	3 780	243 614
	841 458	**10 475 512**

(c) Major customers

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

Client No. 1	141 869	3 683 514
Client No. 2	133 195	786 894
Client No. 3	152 615	459 455
Other customers	413 779	5 545 649
	841 458	**10 475 512**

(2) Cost of sales

The purchase of goods and delivery charges	914 285	9 462 237
Transportation costs	23 616	400 464
Salary expenses	53 354	246 415
Depreciation of fixed assets	314 335	296 574
Laboratory services (milk analysis)	3 451	24 621
Social insurance costs	22 386	57 321
Production of equipment for cleaning and disinfection costs	6 672	126 559
Costs of electricity	33 235	78 427
Other costs	7 971	20 413
	1 379 305	**10 713 031**

(3) Distribution expenses

Transportation costs	18 354	142 401
Advertising expenses		3 944
	18 354	**146 345**

(4) Administrative expenses

	2018	2017
	EUR	EUR
Salary expenses	53 468	100 358
Social insurance costs	11 640	24 429
Office expenses	3 255	10 948
Cash turnover expenses	1 314	34 489
Transportation costs	8 182	16 510
Business trip expenses	3 263	6 316
Professional services costs	3 640	1 105
Real estate tax	6 120	2 618
Communication expenses	2 037	2 510
Depreciation of fixed assets		17 340
Company Certification costs	1 405	8 197
Other administrative expenses	11 520	16 203
	105 844	**241 023**

(5) Other income

Funds received from LIAA and LAD for the various support programmes	42 797	31 401
Other income	25 086	1 720
Funds received from LIAA project	65 682	42 797
Funds received from research projects	46 322	
	179 887	**75 918**

(6) Other expenses

	2018	2017
	EUR	EUR
Research expenses	37 755	40 190
Property maintenance, security and management costs	51 444	123 304
Representation costs	873	3 769
Net loss from exchange rate fluctuations	1 426	5 272
Natural resource tax	1 211	4 137
Other expenses	6 093	33 884
	98 802	**210 556**

(7) Expenses by Nature

	2018	2017
	EUR	EUR
The purchase of goods and delivery charges	914 285	9 462 237
Transportation costs	50 152	559 375
Salary expenses	106 822	346 773
Research expenses	37 755	40 190
Depreciation of fixed assets	314 335	313 914
Social insurance costs	34 026	81 750
Laboratory services (milk analysis)	3 451	24 621
Production of equipment for cleaning and disinfection costs	6 672	126 559
Costs of electricity	33 235	78 427
Company Certification costs	1 405	8 197
Property maintenance, security and management costs	51 444	123 304
Office expenses	3 255	10 948
Cash turnover expenses	1 314	34 489
Representation costs	873	3 769
Business trip expenses	3 263	6 316
Professional services costs	3 640	1 105
Sales costs	-	-
Real estate tax	6 120	2 618
Property maintenance, security and management investment costs	-	-
Communication expenses	2 037	2 510
Net loss from exchange rate fluctuations	1 426	5 272
Natural resource tax	1 211	4 137
Other expenses	25 584	74 444
	1 602 305	**11 310 955**

(8) Finance expenses

Interest expenses on bonds	104 631	95 991
Interest expense on limited partnership ZGI-3 loan	67 447	59 814
Interest expense on bank loans, factoring, overdraft	84 082	107 065
Finance charges on finance lease	676	1 369
Penalties paid	28 108	25 025
	284 944	**289 264**

CITI PIELIKUMI (turpinājums)

(10) Intangible assets

	Software and licences	Total
	EUR	EUR
31.12.2016		
Initial cost	194	194
Accumulated depreciation	(145)	(145)
Net book value	49	49
2017		
Acquired		0
Depreciation	(31)	(31)
Closing book value	(31)	(31)
31.12.2017		
Initial cost	194	194
Accumulated depreciation	(176)	(176)
Net book value	18	18

(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
31.12.2016						
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
2016						
Opening net book value	2 248 487	6 609 112	241 694	3 367	8 847	9 111 507
Acquired	6 552	145 628	78 034		77 845	308 059
Disposed			(4 994)			(4 994)
Reclassified from other balance sheet ite					(80 883)	(80 883)
Depreciation	(100 097)	(446 362)	(84 963)			(631 422)
Depreciation written-off			4 994			4 994
Closing book value	2 154 942	6 308 378	234 765	3 367	5 809	8 707 261
31.12.2016						
Initial cost	2 356 019	7 325 367	487 304	3 367	5 809	10 177 866
Accumulated depreciation	(201 077)	(1 016 989)	(252 539)	0	0	(1 470 605)
Net book value	2 154 942	6 308 378	234 765	3 367	5 809	8 707 261
2017						
Opening net book value	2 154 942	6 308 378	234 765	3 367	5 809	8 707 261
Acquired	21 337					21 337
Disposed			(169 195)			(169 195)
Reclassified from other balance sheet					(5 809)	(5 809)
Depreciation	(50 472)	(228 305)	(35 527)			(314 304)
Depreciation written-off			134 048			134 048
Net book value	2 125 807	6 080 073	164 091	3 367	0	8 373 338
31.12.2017						
Initial cost	2 377 356	7 325 367	318 109	3 367	0	10 024 199
Accumulated depreciation	(251 549)	(1 245 294)	(154 018)	0	0	(1 650 861)
Net book value	2 125 807	6 080 073	164 091	3 367	0	8 373 338

b) Pledge of fixed assets

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

(12) Inventories

	30.06.2018	31.12.2017
	EUR	EUR
Materials and other	37 053	42 826
Raw materials	37 558	47 671
Finished goods and goods for sale	249 425	249 728
	324 036	340 225

(13) Trade receivables

Trade receivables in Latvia	5 250	570 768
Trade receivables in EU		312 308
	5 250	883 076

(14) Other current assets

VAT overpaid	-	
Advance payments for works and services	8 649	29 440
Other deferred expenses		359
Deferred company's certificate expenses		4 527
Deferred insurance expenses	262	1 276
Deferred media and IT service subscriptions expenses		921
Settlement regarding requirements for personnel	69 174	
Caution money	6 298	1 298
	84 383	37 821

(15) Cash and cash equivalents

Cash at bank on current accounts	324	769
	324	769

(16) Share capital

The registered and fully paid share capital amounts EUR 777 778 and consists of 777 778 lots with a nominal value of EUR 1 each. 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 terminš	30.06.2018	31.12.2017
			EUR	EUR
Bonds nominal value	18	28.10.2024	1 230 279	1 128 695
			1 230 279	**1 128 695**

In October 28, 2014 the Company registered a bond issue of 950 000 EUR in the Latvian Central Depository. A bond issue is carried out in order to attract additional capital to finance the development plan of the Issuer (to start a production of whey protein concentrate), as well as to increase the awareness in the regulated capital market and among the institutional investors. It was issued 950 bonds with a nominal value of 1 000 EUR each, with a fixed interest rate of 18% per annum. Coupon payments are made semi-annually - on October 28 and April 28. Bond maturity is October 28, 2024. The bond issue is not secured. On November 12, 2015 the Company has included these bonds on Nasdaq Baltic Bond list, where they are available for public trading. On 23 March 2016 the Board of Directors decided not to pay the coupon payments of 28 April 85500 EUR., but to increase the nominal value of one bond to 1090 EUR. JSC "Latvijas Centrālais depozitārijs" based on the Company's application on April 28, 2016 decided to record changes in the characteristics of the bonds issued by changing the nominal value of the bonds from 1000 EUR to 1090 EUR.
On 23 March 2017 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 1188.10 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.JSC "Latvijas Centrālais depozitārijs" based on the Company's application on April 28, 2018 decided to record changes in the characteristics of the bonds issued by changing the nominal value of the bonds from 1188.10 EUR to 1295.03 EUR.

(18) Deferred revenue

	30.06.2018	31.12.2017
	EUR	EUR
Financing on LIAA project APV/2.1.2.4.0/14/04/016 :		
Long-term part	1 455 094	1 455 094
Shirt-term part	42 797	85 594
Total	**1 497 891**	**1 540 688**

On September 11, 2014 the Company signed an agreement with the Latvian Investment and Development Agency in connection with a project titled "Procurement of Innovative Equipment for Deep Processing of Whey". Implementation of the project was started on September 11, 2014 and completion of the project was on August, 2015. In the item “deferred income” is reflected the support payment received, which constitutes 100% of the aid funding.

(19) Finance lease liabilities

	30.06.2018	31.12.2017
	EUR	EUR
Non-current		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	16 304	33 700
	16 304	**33 700**
Current		
Liabilities according to the finance lease agreements, payable within 1 year	9 903	38 917
	9 903	**38 917**

As referred to in Note 11, the Company has acquired fixed assets in financial leasing from SIA "Nordea Finance Latvia": cars. Two new financial leasing agreements hava been concluded in 2017. Interest payments at the floating rate of 3 months Euribor + 3% per annum payable monthly. Financial leasing repayment term ranging from May 2014 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.

(20) Advances received for factoring invoices

	30.06.2018	31.12.2017
	EUR	EUR
Payments received for factoring invoices	23 027	132 382
	23 027	**132 382**

In 2016, the Company signed a factoring contract No.1/2016 with Factor "SIA Nordea Finace Latvia" on factoring with limit EUR 600 000. 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 ereases the Buyer's (debtor's) debt in full. Maximum invoice payment term is 90 days. On 31.12.2017, under Amendment No. 15, 11.12.2017 factoring agreement is in force for 16 buyers of the Company. In accordance with Amendment Nr.14 factoring limit is EUR 300 000. The contract is valid until february 28, 2018. Received factoring advance amount on 31.12.2017 is EUR 132 382 (On 31.12.2016 EUR 402 024). In 2018, before the date of report submission, the contract has not been extended.

(21) Borrowings

		30.06.2018	31.12.2017
		EUR	EUR
Non-current			
Nordea Bank AB Latvian branch - repayable in 2-5 years	a)	1 753 538	1 753 538
		1 753 538	**1 753 538**
Other borrowings - repayable in 2-5 years (KS "ZGI-3")	b)	746 767	746 767
		746 767	**746 767**
Current			
Nordea Bank AB Latvian branch	a)	1 354 705	1 399 746
Nordea Bank AB Latvian branch - overdrafts	c)	412 893	401 562
		1 767 598	**1 801 308**
Total borrowings		**4 267 903**	**4 301 613**

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. 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 31.12.2017 outstanding loan amount - EUR 615 607 (31.12.2016.- 675 479). 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 2018, before the date of report submission, the contract has been extended untill 15.08.2018

In 2014 the Company signed a loan agreement Nr.2014-48-A with Nordea Bank AB Latvian branch on the total amount of EUR 3 065 000. In 2015 the amendments for the agreement were signed for an additional loan amount of EUR 1 680 000 for the project implementation. The loan annual interest rate is 6% and plus the 3-month EURIBOR. The loan maturity is 28.02.2019. On 31.12.2017 the outstanding loan amount - EUR 2 537 676 (31.12.2016.- EUR 2 890 154).

Pledges are registred 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 were capitalized, as a result the outstanding loan amount on 31.12.2016 was EUR 626 146. On 30.12.2017 amendments No. 4 were made to the contract that the calculated but unpaid interest on 31.12.2017 in the amount of EUR 120 621 will be capitalized, as a result the outstanding loan amount on 31.12.2017 is EUR 746 767.

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. In 2017 the additional agreement to Overdraft contract was signed about the Overdraft amount increase for EUR 400 000 and maturity was 31.05.2017. At the financial statements date the additional agreement to Overdraft contract was signed and maturity date is 15.08.2018.

(22) Advances from customers

	30.06.2018	31.12.2017
	EUR	EUR
Advances from customers	220 256	269 639
	220 256	**269 639**

(23) Trade payables

	30.06.2018	31.12.2017
	EUR	EUR
Debts to farmers for milk - Latvia	589 406	587 690
Debts to other suppliers for goods and services	988 719	1 216 719
	1 578 125	**1 804 409**

(24) Other liabilities

	30.06.2018	31.12.2017
	EUR	EUR
Accrued liabilities for services		16 053
Accrued liabilities for interest on bonds	36 908	33 861
Accrued unused for interest on borowwings	105 274	24 841
Accrued unused annual leave expenses	13 733	50 094
Salaries	26 115	18 172
VAT	41 334	55 562
Personal income tax	45 430	23 080
Social insurnce tax	71 548	23 380
Motor vehicle duty	248	1 514
Natural resource tax	2 441	1 230
Riskduty	62	23
Settlement of debts to staff	12 163	8 174
Borrowings from co-owner*	618 935	627 800
	974 191	**883 784**

*In 2017 the Company received a loan from the co-owner with a maturity 31.12.2018. Interest-free loan, without security.

(25) Cash granted from operations

	30.06.2018	31.12.2017
	EUR	EUR
Cash flow from operating activities		
Income from sales of goods and services	924 592	19 823 353
Payments to suppliers, employees, other operating expenses	(873 424)	(19 581 498)
Other income or expenses from operating activities		1 333
Gross cash flow from operating activities	**51 168**	**243 188**

(26) Average number of employees

Average number of people employed during the financial year	21	42

(27) Remuneration to personnel

Salaries and mandatory State social insurance contributions for production personnel	75 740	574 054
Salaries and social insurance contributions for administration personnel	65 108	226 226
	140 848	**800 280**
Including Board members and key management		

Council members did not receive any remuneration in 2018 and the state social insurance contributions were not made.

CITI PIELIKUMI (turpinājums)

(30) Financial and capital risk management

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

(a) Interest rate risks - interest rate risk

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

	30.06.2018	**31.12.2017**
	EUR	**EUR**
Financial assets with variable interest rate, EUR	(3 593 753)	(3 623 066)
Open position, net	**(3 593 753)**	**(3 623 066)**

(32) Subsequent events

On 23 August 2018, the Zemgale District Court approved the application of SIA Baltic Dairy Board regarding the withdrawal of the application for a legal protection proceeding and the termination of civil proceedings.

The Annual report for the year ended 30 June 2018 on pages 1 to 31 confirm:

According to the mandate
Kaspars Kazāks
Chairman of the Board

Bauska, 15 August 2018