

**SIA "BALTIC DAIRY BOARD"**

(UNIFIED REGISTRATION NUMBER 43603036823)

**UNAUDITED FINANCIAL STATEMENTS  
for the six month period ended 30 June 2019**

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

BAUSKA, 2019

UNAUDITED CONDENSED FINANCIAL STATEMENTS  
for the six month period ended 30 June 2019

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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 till 25.04.2019 Kaspars Kazāks, Member of the Board from 26.04.2019 Normunds Ozoliņš, Member of the Board from 15.01.2019. till 26.04.2019 Ilona Kazāka, Member of the Board till 15.01.2019
Council Members names, surnames and positions	Ivars Ķirsons, Chairman of the Council from 23.07.2015. Gatis Jurisons, Deputy Chairman of Council till 27.09.2017. 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 2019 -30 June 2019
Previous financial year	1 January 2018 - 31 December 2018
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**  
**REPORT OF THE MANAGEMENT**  
**to the six month period ended 30 June 2019**

"Baltic Dairy Board" factory was put into operation on December 22, 2015, production launch on January 15, 2016. SIA Baltic Dairy Board main operations are related to the production of in-depth processed organic raw milk and its components, the production and supply of specific raw materials (GOS powder) in the leading global infant food producers. Organic raw materials produced on site are exported to producers of organic butter, milk protein powder (MCP85 ) and organic lactose, as well company makes production service for organic products for skimmed milk and whey concentrates (SWC) for the production of raw materials of whey protein (WPC80).

***1. Type of operations:***

The certificate of the production of organic dairy products was received in December 2018. In early 2019, the company started purchasing and processing of organic raw milk and other organic dairy products. Work was actively continued on completing approval procedures with an aim to initiate the supply of GOS products to infant/ toddler food producers. In December 2018, a long-term contract for supplying and delivering GOS was signed with a Dutch company, the baby food producer, and in June 2019 started a regular supply deliveries of GOS powder to this company.

This was a huge achievement for our company, but there is still ongoing work for completing the approval processes to significantly increase the supplies of GOS products, including organic GOS syrup, which has received a great interest in the food production sector for children.

The turnover of the company in 2019 was EUR 358 657. The relatively low turnover during the first 6 months of 2019 can be explained by the above mentioned fact that the company had to undergo completion of the factory/ product approval procedures and successfully completed the necessary certification and authorization in order to start supplying global children food sector.

The balance sheet value as at 30 June 2019 was EUR 8 186 051 and it is by 5 per cent less than on 31 December 2018.

Net loss in 2019 amounted to EUR 912 279 – by 5 per cent more than on 30 June 2018.

***2. Important events in 2019.***

1. According to the decision by the shareholders' meeting on 8 January 2019, the composition of the Board of SIA "Baltic Dairy Board" was changed – Member of the Board Ilona Kazāka was excluded from the Board (currently on parental leave). Normunds Ozoliņš was approved as a Member of the Board.

2. KOCHER and HALAL certificates were renewed in February 2019.

3. The Energy Management System was extended and certified according to the requirements of ISO 50001 in March 2019.

4. According to the decision by the shareholders' meeting on 18 April 2019, the composition of the Board of SIA "Baltic Dairy Board" was changed. Based on the application submitted by Normunds Ozoliņš, the Member of the Board Normunds Ozoliņš was excluded from the composition of the Board. Kaspars Kazāks was approved as a Member of the Board with the right to represent the commercial company separately.

5. In April 2019, the organic certificate was supplemented with the product 'organic GOS concentrates' and this is a significant and important event. Taking into account the fact that the production facility is already approved, it is planned to start supplies of this product to companies across the world already from July 2019.

6. In June 2019, regular supplies of GOS powder to the Netherlands-based company, which is one of the leading food producers in the world, were launched.

***3. Further development of the company***

1. The top priority in 2019 is to ensure continuous production of GOS products, including organic GOS products, and export of the products produced, gradually increasing the production volume and thereby reducing the production cost.

2. Steady increase of the value, turnover and profit of the Company.

3. Attraction of investment to expand the production facility.

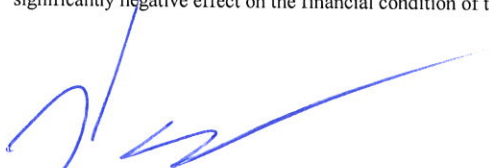


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***4. Circumstances and events after the balance-sheet date***

On August 7, 2019, the Zemgales District Court decided to initiate the legal protection process case of the Baltic Dairy Board Ltd. It is limited in time until 7 October 2019 the legal protection action plan has to be developed and agreed with creditors, submitting it for approval to the court no later than the day after the

Except for the aforementioned, in the period since the last day of the reporting period there have been no events that would have a significantly negative effect on the financial condition of the Company.



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Kaspars Kazāks  
Member of the Board

Bauska, 29 August 2019

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**STATEMENT OF THE MANAGEMENT RESPONSIBILITY**

The management of SIA "Baltic Dairy Board" (further referred to as "the Company") is responsible for the preparation of the financial statements of the Company. The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as of 30 June 2019 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 financial statements and notes to the financial statements contained on pp. 7-29 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 law as well as European Union regulations applicable to the Company.



Kaspars Kazāks  
Member of the Board

Bauska, 29 August 2019

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**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**

	Notes	6 month 2019 EUR	6 month 2018 EUR
Net sales	(1)	35 86 57	84 14 58
Cost of sales	(2)	(92 80 57)	(1 37 93 05)
<b>Gross profit</b>		<u>(56 94 00)</u>	<u>(53 78 47)</u>
Distribution expenses	(3)	(5 59)	(1 83 54)
Administrative expenses	(4)	(7 32 95)	(10 58 44)
Other income	(5)	4 64 54	17 98 87
Other expenses	(6)	(5 75 22)	(9 88 02)
Finance income	(8)	0	
Finance expenses	(9)	(25 79 57)	(28 49 44)
<b>Profit (loss) before tax</b>		<u>(91 22 79)</u>	<u>(86 59 04)</u>
<b>Net profit</b>		<u><u>(91 22 79)</u></u>	<u><u>(86 59 04)</u></u>

Notes on pages 11 to 25 are an integral part of these financial statements.



Kaspars Kazāks  
Member of the Board

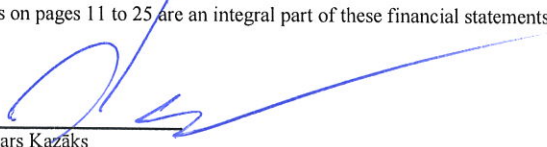
Bauska, 29 August 2019

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**STATEMENT OF FINANCIAL POSITION**

		30.06.2019. EUR	31.12.2018. EUR
<b>ASSETS</b>	<b>Notes</b>		
<b>Non-current assets</b>			
Intangible assets	(11)	-	49
Property, plant and equipment	(12)	7 84 37 91	8 10 95 75
Participation in the capital of another company		2 00	2 00
<b>Ilgtermiņa ieguldījumi kopā:</b>		<b>7 84 39 91</b>	<b>8 10 98 24</b>
<b>Current assets</b>			
Inventories	(13)	9 25 70	35 44 65
Trade receivables	(14)	16 77 93	86 74
Other current assets	(15)	8 13 81	8 57 57
Cash and cash equivalents	(16)	3 16	47 02
<b>Total current assets:</b>		<b>34 20 60</b>	<b>45 35 98</b>
<b>Total assets</b>		<b>8 18 60 51</b>	<b>8 56 34 22</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	(17)	77 77 78	77 77 78
Share issue premium		42 15 57	42 15 57
Retained earnings:			
Retained earnings or losses		(2 83 03 79)	(1 36 37 61)
Profit or loss of the year		(91 22 79)	(1 46 66 18)
<b>Total equity:</b>		<b>(2 54 33 23)</b>	<b>(1 63 10 44)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Debenture loans	(18)	1 46 16 93	1 34 10 02
Deferred revenue	(19)	1 40 57 30	1 40 57 30
Other borrowings	(22)	74 67 67	74 67 67
Finance lease liabilities	(20)	8 96	8 96
<b>Total non-current liabilities:</b>		<b>3 61 50 86</b>	<b>3 49 43 95</b>
<b>Current liabilities</b>			
Deferred revenue	(19)	3 37 40	6 74 79
Finance lease liabilities	(20)	41 52	72 56
Factoring liabilities	(21)	2 39 17	2 35 36
Loans from credit institutions	(22)	3 61 06 21	3 57 50 16
Trade payables	(23)	1 74 13 79	1 66 62 84
Current income tax payables	(24)	3 59 64	3 59 64
Advances from customers	(25)	35 62 20	19 07 84
Other liabilities	(26)	1 30 82 95	1 13 37 03
<b>Total current liabilities:</b>		<b>7 11 42 88</b>	<b>6 70 00 22</b>
<b>Total liabilities:</b>		<b>10 72 93 74</b>	<b>10 19 44 17</b>
<b>Total equity and liabilities:</b>		<b>8 18 60 51</b>	<b>8 56 33 73</b>

Notes on pages 11 to 25 are an integral part of these financial statements.

  
Kaspars Kazāks  
Member of the Board

Bauska, 29 August 2019

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
<b>31.12.2017.</b>	<b>77 77 78</b>	<b>42 15 57</b>	<b>(1 36 37 61)</b>	<b>(16 44 26)</b>
Total income or losses	-	-	(1 46 66 18)	(1 46 66 18)
<b>31.12.2018.</b>	<b>77 77 78</b>	<b>42 15 57</b>	<b>(2 83 03 79)</b>	<b>(1 63 10 44)</b>
Total income or losses	-	-	(91 22 79)	(91 22 79)
<b>30.06.2019.</b>	<b>77 77 78</b>	<b>42 15 57</b>	<b>(3 74 26 58)</b>	<b>(2 54 33 23)</b>

Notes on pages 11 to 25 are an integral part of these financial statements.



Kaspars Kazāks  
Member of the Board

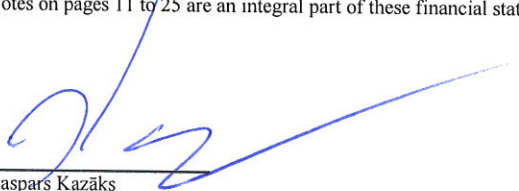
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**CASH FLOW STATEMENT**

	Notes	2019 EUR	2018 EUR
<b>Cash flow from operating activities</b>	(27)	(13 78 50)	(11 79 44)
Interest paid			(4 85 62)
Repayment of income tax			(21)
<b>Net cash flow from operating activities</b>		<u>(13 78 50)</u>	<u>(16 65 27)</u>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment			(2 13 37)
Proceeds from sale of fixed assets			7 04 38
Loans issued		1 24 50	7 78 74
<b>Net cash flow from investing activities</b>		<u>1 24 50</u>	<u>12 69 75</u>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		22 51 00	11 17 60
Funds received from research projects		1 27 14	8 68 41
Expenses on the borrowing repayment		(11 68 00)	(12 09 55)
Finance lease payments			(3 27 35)
<b>Net cash flow from financing activities</b>		<u>12 10 14</u>	<u>4 49 11</u>
<b>Foreign currency fluctuations</b>			(14 26)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>(43 86)</u>	<u>39 33</u>
<b>Cash and cash equivalents at the beginning of the financial year</b>		47 02	7 69
<b>Cash and Cash equivalents at the end of the financial year</b>		<u>3 16</u>	<u>47 02</u>

Notes on pages 11 to 25 are an integral part of these financial statements.

  
Kaspars Kazāks  
Member of the Board

Bauska, 29 August 2019



## **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 was 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 until March 2018, 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 type of operations of SIA "Baltic Dairy Board" is enhanced processing of conventional and organic raw milk and its by-products through the application of biotechnological methods.

The industrial research project titled 'Feasibility Study of Whey (Dairy By-Product) Bioconversion into Ethanol and By-Product Processing', with the total costs of the project amounting to EUR 246 000, was implemented in collaboration with Vides, Bioenergetikas and Biotehnologiju kompetences centrs SIA (Environmental, Bioenergetics and Biotechnological Competence Centre) in 2014.

As a result of the research it was decided to focus on innovative processing techniques by using deep waste-free sweet and sour whey processing and of creating products with high added value.

On 19th December 2012 the Company has signed an agreement on the acquisition of real estate property of a former milk processing company, insolvent "Bauskas piena kombināts" JSC, with the total area of 63 175 m<sup>2</sup>, and the there existing building and equipment.

The Company's current financial year is from 1 January 2019 to 30 June 2019.

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 2018, corresponds to the accounting policy that was used for the preparation of Annual report of a year 2017.

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 2018, have been 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.



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- **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.
- **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.
- **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

#### 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.

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

- **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.

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- **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.
- **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 standard is effective for annual periods beginning on or after 1 January 2019. 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 such assets.

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

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 There are no new or amended standards or interpretations that would have a material impact on the Company at the time of signing the report.



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**(2) Foreign currencies**

**(a) Functional and presentation currency**

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

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

**(b) Transactions and balances**

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

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

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

	31.12.2018. EUR	31.12.2017. EUR
1 USD	1,1454	1,1993
1 PLN	4,3028	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.

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

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

Subsequent costs are recognized in the 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 lives, 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 in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



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**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.

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**Offsetting of financial assets and financial liabilities**

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

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

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

**(17) Employee benefits**

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

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

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

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

**Borrowing costs**

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

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

**(19) Income tax**

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

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 tax 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 recognised in the period in which these changes were adopted.



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**(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 revaluing 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 32.

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

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as at the end of the year is EUR 8 109 575 (31.12.2017. - EUR 8 707 261).

*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 31 December 2018 is required.

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**III. OTHER NOTES**

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

	2019	2018
	EUR	EUR
Other countries	35 86 57	84 14 58
	<u>35 86 57</u>	<u>84 14 58</u>

**(2) Cost of sales**

The purchase of goods and delivery charges	53 18 36	91 42 85
Transportation costs	40 18	2 36 16
Salary expenses	5 16 64	5 33 54
Depreciation of fixed assets	25 58 35	31 43 35
Laboratory services (milk analysis)	70 93	34 51
Social insurance costs	1 24 67	2 23 86
Production of equipment for cleaning and disinfection costs	13 22	66 72
Costs of electricity	2 89 33	3 32 35
Other costs	3 48 89	79 71
	<u>92 80 57</u>	<u>1 37 93 05</u>

**(3) Distribution expenses**

Transportation costs	3 68	1 83 54
Advertising expenses	1 91	
	<u>5 59</u>	<u>1 83 54</u>

**(4) Administrative expenses**

	2019	2018
	EUR	EUR
Salary expenses	3 46 58	5 34 68
Social insurance costs	83 49	1 16 40
Office expenses	17 02	32 55
Cash turnover expenses	3 11	13 14
Transportation costs	27 95	81 82
Business trip expenses	1 29	32 63
Professional services costs	12 70	36 40
Real estate tax		61 20
Communication expenses	12 18	20 37
Depreciation of fixed assets	99 50	
Company Certification costs	1 29 13	14 05
Other administrative expenses		1 15 20
	<u>7 32 95</u>	<u>10 58 44</u>

**(5) Other income**

Proceeds from sale of fixed assets		-
Funds received from LIAA and LAD for the various support programmes	1 27 14	4 27 97
Other income		2 50 86
Funds received from LIAA project	3 37 40	6 56 82
Funds received from research projects		4 63 22
	<u>4 64 54</u>	<u>17 98 87</u>

**(6) Other expenses**

	2019	2018
	EUR	EUR
Research expenses	9 93	3 77 55
Property maintenance, security and management costs	5 19 90	5 14 44
Representation costs	2 47	8 73
Net loss from exchange rate fluctuations		14 26
Natural resource tax	8 65	12 11
Other expenses	34 27	60 93
	<u>5 75 22</u>	<u>9 88 02</u>

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(7)	Expenses by Nature	2019	2018
		EUR	EUR
The purchase of goods and delivery charges		53 18 36	91 42 85
Transportation costs		71 81	5 01 52
Salary expenses		8 63 22	10 68 22
Research expenses		9 93	3 77 55
Depreciation of fixed assets		26 57 85	31 43 35
Social insurance costs		2 08 16	3 40 26
Laboratory services (milk analysis)		70 93	34 51
Production of equipment for cleaning and disinfection costs		13 22	66 72
Costs of electricity		2 89 33	3 32 35
Company Certification costs		1 29 13	14 05
Property maintenance, security and management costs		5 19 90	5 14 44
Office expenses		17 02	32 55
Cash turnover expenses		3 11	13 14
Representation costs		2 47	8 73
Business trip expenses		1 29	32 63
Professional services costs		12 70	36 40
Sales costs		1 91	-
Real estate tax		-	61 20
Communication expenses		12 18	20 37
Net loss from exchange rate fluctuations		0	14 26
Natural resource tax		8 65	12 11
Other expenses		3 83 16	2 55 84
		<u>1 05 94 33</u>	<u>1 60 23 05</u>
(9)	Finance expenses		
Interest expenses on bonds		12 43 11	10 46 31
Interest expense on limited partnership ZGI-3 loan		7 21 25	6 74 47
Interest expense on bank loans, factoring, overdraft		3 59 68	8 40 82
Finance charges on finance lease		95	6 76
Penalties paid		2 54 58	2 81 08
		<u>25 79 57</u>	<u>28 49 44</u>

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(12) Property, plant and equipment	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances paid for Property, plant and equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2017</b>						
Initial cost	2 35 60 19	7 32 53 67	48 73 04	33 67	58 09	10 17 78 66
Accumulated depreciation	(20 10 77)	(1 01 69 89)	(25 25 39)	-	-	(1 47 06 05)
<b>Net book value</b>	<b>2 15 49 42</b>	<b>6 30 83 78</b>	<b>23 47 65</b>	<b>33 67</b>	<b>58 09</b>	<b>8 70 72 61</b>
<b>2018</b>						
Opening net book value	2 15 49 42	6 30 83 78	23 47 65	33 67	58 09	8 70 72 61
Acquired	2 13 37					2 13 37
Disposed			(19 62 72)		(58 09)	(20 20 81)
Depreciation	(10 10 23)	(39 64 65)	(6 39 58)			(56 14 46)
Depreciation written-off			14 45 04			14 45 04
<b>Closing book value</b>	<b>2 07 52 56</b>	<b>5 91 19 13</b>	<b>11 90 39</b>	<b>33 67</b>	<b>0</b>	<b>8 10 95 75</b>
<b>31.12.2018</b>						
Initial cost	2 37 73 56	7 32 53 67	29 10 32	33 67	0	9 99 71 22
Accumulated depreciation	(30 21 00)	(1 41 34 54)	(17 19 93)	-	-	(1 88 75 47)
<b>Net book value</b>	<b>2 07 52 56</b>	<b>5 91 19 13</b>	<b>11 90 39</b>	<b>33 67</b>	<b>0</b>	<b>8 10 95 75</b>
<b>2019</b>						
Opening net book value	2 07 52 56	5 91 19 13	11 90 39	33 67	0	8 10 95 75
Depreciation	(5 05 50)	(18 90 94)	(2 61 40)			(26 57 84)
<b>Net book value</b>	<b>2 02 47 06</b>	<b>5 72 28 19</b>	<b>9 28 99</b>	<b>33 67</b>	<b>-</b>	<b>7 84 37 91</b>
<b>31.12.2018</b>						
Initial cost	2 37 73 56	7 32 53 67	29 10 32	33 67	-	9 99 71 22
Accumulated depreciation	(35 26 50)	(1 60 25 48)	(19 81 33)	0	-	(2 15 33 31)
<b>Net book value</b>	<b>2 02 47 06</b>	<b>5 72 28 19</b>	<b>9 28 99</b>	<b>33 67</b>	<b>-</b>	<b>7 84 37 91</b>

(13) Inventories	30.06.2019	31.12.2018
	EUR	EUR
Materials and other	1 17 70	3 68 57
Raw materials	4 84 80	6 82 52
Finished goods and goods for sale	3 23 20	24 93 56
	<b>9 25 70</b>	<b>35 44 65</b>

(14) Trade receivables		
Trade receivables in Latvia	86 74	86 74
Trade receivables in EU	15 91 19	
	<b>16 77 93</b>	<b>86 74</b>

(15) Other current assets		
Advance payments for works and services	85 44	1 59 46
Other deferred expenses	21 15	
Deferred insurance expenses		3 39
Loan to a legal person	7 04 24	6 91 74
Caution money	2 98	2 98
	<b>8 13 81</b>	<b>8 57 57</b>

(16) Cash and cash equivalents		
Cash at bank on current accounts	3 16	47 02
	<b>3 16</b>	<b>47 02</b>



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**(17) 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.

**(18) Debenture loans (long-term)**

	The effective interest rate, %	Maturity of liabilities termiņš	30.06.2019 EUR	31.12.2018 EUR
Bonds nominal value	18	28.10.2024	1 46 16 93	1 34 10 02
			<u>1 46 16 93</u>	<u>1 34 10 02</u>

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

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. On 5 April 2018, the Board of the Company decided not to pay the coupon payment of 28 April, but to increase the nominal value of one bond from 1188.10 EUR to EUR 1295.03. On October 9, 2018, the Board of the Company decided not to pay the 28 th October coupon payment, but to increase the nominal value of one bond. On 28 October 2018, the Latvian Central Depository decided, on the basis of a submission from the Company, to register changes in the characteristics of the bonds issued, changing the nominal value of the bonds from 1295.03 to EUR 1411.58. On 10 April 2019, the Latvian Central Depository decided, on the basis of a submission from the Company, to register changes in the characteristics of the bonds issued, changing the nominal value of the bonds from 1411.58 to EUR 1538.62.

**(19) Deferred revenue**

	30.06.2019 EUR	31.12.2018 EUR
Financing on LIAA project APV/2.1.2.4.0/14/04/016 :		
Long-term part	1 40 57 30	1 40 57 30
Short-term part	3 37 40	6 74 79
<b>Total</b>	<u>1 43 94 70</u>	<u>1 47 32 09</u>

**(20) Finance lease liabilities**

	30.06.2019 EUR	31.12.2018 EUR
<b>Non-current</b>		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	8 96	8 96
	<u>8 96</u>	<u>8 96</u>
<b>Current</b>		
Liabilities according to the finance lease agreements, payable within 1 year	41 52	72 56
	<u>41 52</u>	<u>72 56</u>

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

	30.06.2019 EUR	31.12.2018 EUR
Payments received for factoring invoices	2 39 17	2 35 36
	<u>2 39 17</u>	<u>2 35 36</u>

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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 erases 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 payment on 31.12.2018 amounts EUR 23 536 (On 31.12.2017 EUR 132 382). In 2019, before the date of annual report signing, the contract has not been extended.

(22) Borrowings	30.06.2019	31.12.2018
	EUR	EUR
<b>Non-current</b>		
Luminor Bank AS - repayable in 2-5 years	a) -	1 75 35 38
	<u>-</u>	<u>1 75 35 38</u>
Other borrowings - repayable in 2-5 years ( KS "ZGI-3")	b) 74 67 67	74 67 67
	<u>74 67 67</u>	<u>74 67 67</u>
<b>Current</b>		
Luminor Bank AS	a) 3 10 82 43	3 10 82 43
Luminor Bank AS - overdrafts	c) 50 23 78	46 67 73
	<u>3 61 06 21</u>	<u>3 57 50 16</u>
<b>Total borrowings</b>	<u>4 35 73 88</u>	<u>6 07 53 21</u>

*a) Luminor Bank AS 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 31.12.2018 outstanding loan amount - EUR 626 339 (31.12.2017.- 615 607). 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, the contract has been extended untill 15.05.2018. The loan has not been repaid on the date of signing of the financial report.

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 31.12.2018 the outstanding loan amount - EUR 2 481 903 (31.12.2017.- EUR 2 537 676). The loan has not been repaid on the date of signing of the financial report.

Pledges are registered in the Register of commercial pledges of the Enterprise Register of the Republic of Latvia. Information about security see in Note 31.

*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, so the calculated but unpaid interest on 31.12.2017 in the amount of EUR 120 621 were capitalized, as a result the outstanding loan amount on 31.12.2018 is EUR 746 767.

*c) Luminor Bank AS 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 28.02.2018. Later, the date of repayment has been extended to 15.05.2018. The loan has not been repaid on the date of signing of the annual report.

(23) Trade payables	30.06.2019	31.12.2018
	EUR	EUR
Debts to farmers for milk - Latvia	58 51 91	59 04 05
Debts to other suppliers for goods and services	1 15 61 88	1 07 58 79
	<u>1 74 13 79</u>	<u>1 66 62 84</u>
<b>(24) Corporate income tax liabilities</b>	30.06.2019	31.12.2018
	EUR	EUR
Corporate income tax	3 59 64	3 59 64
	<u>3 59 64</u>	<u>3 59 64,00</u>

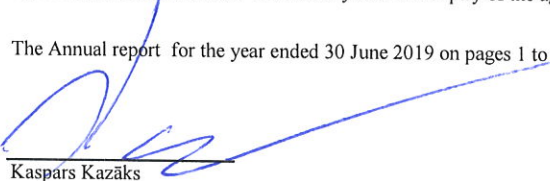
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<b>(25) Advances from customers</b>	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
Advances from customers	35 62 20	19 07 84
	<b>35 62 20</b>	<b>19 07 84</b>
<b>(26) Other liabilities</b>	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
Accrued liabilities for services	68 04	97 27
Accrued liabilities for interest on bonds	4 38 51	4 02 32
Accrued unused for interest on borrowings	21 82 92	14 61 68
Accrued unused annual leave expenses	2 43 15	2 43 15
Salaries	1 59 29	1 86 10
VAT	6 34 88	7 43 32
Personal income tax		
Social insurance tax	4 94 11	3 67 97
Motor vehicle duty	8 40 76	6 62 22
Natural resource tax	2 77	10 02
Risk duty	40 64	29 54
Settlement of debts to staff	14	66
Borrowings from co-owner*	1 07 82	1 79 38
Loan from legal person	61 86 40	61 66 40
Loan from natural persons	16 33 52	6 85 00
Uzkrātās saistības par ilgtermiņa līgumiem	50 00	1 02 00
	<b>1 30 82 95</b>	<b>1 13 37 03</b>
*In 2018 the Company received a loan from the co-owner with a maturity 31.12.2019. Interest-free loan, without security.		
<b>(27) Cash granted from operations</b>	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Income from sales of goods and services	25 84 89	1 02 56 19
Payments to suppliers, employees, other operating expenses	(39 63 39)	(1 14 35 63)
Other income or expenses from operating activities		
<b>Gross cash flow from operating activities</b>	<b>(13 78 50)</b>	<b>(11 79 44)</b>
<b>CITI PIELIKUMI (turpinājums)</b>		
<b>(28) Average number of employees</b>		
Average number of people employed during the financial year	11	12
<b>(32) Subsequent events</b>		

On August 7, 2019, the Zemgales District Court decided to initiate the legal protection process case of the Baltic Dairy Board Ltd.

It is limited in time until 7 October 2019 the legal protection action plan has to be developed and agreed with creditors, submitting it for approval to the court no later than the day after the expiry of the agreed maturity.

The Annual report for the year ended 30 June 2019 on pages 1 to 25 confirm:

  
Kaspars Kazāks  
Member of the Board

Bauska, 29 August 2019