

SIA "BALTIC DAIRY BOARD"

(UNIFIED REGISTRATION NUMBER 43603036823)

ANNUAL REPORT for the year ended 31 December 2019

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

BAUSKA, 2020

SIA "BALTIC DAIRY BOARD"
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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. Edvīns Samulis, Deputy Chairman of Council from 27.09.2017. Viesturs Neimanis, Member of the Council till 22.07.2019. Ivo Lidums, Member of the Council from 17.06.2016
Financial year	1 January 2019 - 31 December 2019
Previous financial year	1 January 2018 - 31 December 2018
Auditor's name and address	Natālija Zaiceva Sworn auditor (LZRA Certificate No. 138) SIA "Oriens Audit & Finance" LZRA Licence Nr.28 Gunara Astras Street 8b Riga, LV-1082

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SIA BALTIC DAIRY BOARD
REPORT OF THE MANAGEMENT
to 2019 ANNUAL PERIOD

1. Type of operations:

1. Using specific plant and equipment, research and acquired knowledge on biotechnological production processes, a specific raw material with high added value is produced - GOS powder (galacto-oligosaccharide, a product with particularly strong prebiotic properties), which is being supplied to companies in the infant and baby food sector.
2. Baltic Dairy Board Ltd. (hereinafter - the Company) carries out in-depth processing of conventional and organic raw milk and its by-products, producing raw materials for butter, cheese, milk and whey protein powder, as well as lactose powder.
3. In addition, the Company carries out the production of a demanded industrial organic niche product (Organic Milk Permeate) with high added value.
4. Another important activity is the provision of milk, skimmed milk, whey and whey concentrate processing services to other companies.

2. Important events in 2019:

1. In January 2019, the Company gradually resumed production, starting the production of industrial organic products from organic raw materials (organic milk and its organic by-products). With the relatively rapid increase in the production and export of organic niche products, the Company has become one of the largest producers and exporters of organic products in the Baltics and one of the few companies in Europe operating in the production of organic products - producing organic products on an industrial scale.
2. In June 2019, after four years of research and experiments, creating our own specific GOS products, and purposeful work for another two years through approval procedures with the aim to be approved in the infant food raw material production sector, the Company was approved as a producer of baby food raw materials and started regular GOS product (various types) deliveries to one of the global companies in the Netherlands, which produces ready-made formulas for infant and baby food. Most of these products are exported to China.
3. A cooperation agreement was concluded with the Dutch company for 3 years, with a fixed price of GOS products, which allows us to plan future activities, income and profit with confidence. This was a very significant and important achievement for the Company, with even more significant potential in the nearest future. Work is continuing to complete additional approval procedures and expand the supply of GOS products to other global companies operating in the infant food sector. It should be noted that, given the particularly complex production technology of the product, there are only a few producers of such GOS products in the world (~ five companies, one in Europe and one in England). It also explains the fact that large global companies with a turnover of several billions per year start communication with our Company relatively easily and carry out long, time-consuming approval procedures with the aim of purchasing GOS products manufactured by our Company in long term.
4. In July 2019, the Company started providing processing services to other companies producing milk and whey protein concentrates with high protein content (MPC85/WPC80). The aim was to load the spare capacity of the Company's plant, thus reducing the total processing costs per unit and thus increasing the overall processing efficiency.

3. Economic performance

The company's turnover in 2019 reached EUR 2 135 568, which is 141% higher than in 2018. It should be noted that 94% of the turnover was achieved in the last seven months of 2019, which can be explained by the fact that the production and export volumes of GOS and organic products started to increase significantly from June 2019. The provision of processing services started in July 2019. The technical condition of the company's production plant is excellent, all regular equipment maintenance and calibrations have been performed. The company has sufficient working capital at its disposal to successfully continue its operations and production, as well as increase production volumes. In addition, the Company is gradually making payments to reduce the tax debt to the SRS and is able to start gradually reducing liabilities to other creditors.

Balance sheet value as of 31.12.2019. is EUR 7 763 819, it is by 9% less than on 31.12.2018.

The company's EBITDA in 2019 reached EUR 1 395 028. Net profit for the reporting year is 79,094 EUR.

EBITDA and net income can be explained by several reasons:

1. fixed asset depreciation costs of EUR 566 035,
2. estimated financing costs in the EUR 836 919,
3. the Company's liabilities were significantly reduced by mutual agreement by canceling liabilities to a related party in the amount of EUR 1 757 286.
4. the operating load of the plant returned to normal and started to increase in May 2019.

Considering the results of the first quarter of 2020 and market development trends, the Company's Management Board forecasts that in 2020 the Company's net turnover could range from EUR 5.5 to 7.0 million, while EBITDA from EUR 1.7 to 2.5 million.

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4. Significant events in 2019

1. On 7 August 2019, the Zemgale District Court decided to initiate legal proceedings against the Company. A deadline is set for October 7, 2019 for the development and coordination of the plan of legal protection measures with creditors, submitting it to the court for approval not later than on the next day after the expiry of the specified coordination deadline.
2. On 1 October 2019, the Zemgale District Court made a decision to extend the term of the Company until November 6, 2019 for the development and coordination of the plan of legal protection measures with creditors. Stipulating that the plan of legal protection measures shall be submitted to the court for approval not later than on the day following the expiry of the extended term of coordination.
3. On 12 December 2019, the Zemgale District Court decided to terminate the Company's Legal Protection Process (LPP). The reason for this was the secured creditor's lack of interest in coordinating and approving the LPP plan.
4. In June 2019, the first export of GOS products in the amount of EUR 63 014 is performed. In total, GOS products worth EUR 304 196 were exported in 2019.

5. Further development of the company

1. In 2020, the Company's priority is to ensure a gradually increasing production and export of existing GOS and organic products, thus continuing to show stable, positive monthly financial results. Buyers of the products have confirmed that the volumes and prices of GOS product orders in 2020 will not be affected by the COVID-19 situation in the world.
2. An important priority for 2020 is to regain the trust of banks, continue negotiations and reach an agreement on restructuring or refinancing existing liabilities, taking into account the rapidly improving financial results over the last 9 months (2019/2020). This is necessary to be able to reach an agreement with the Company's other creditors and to allow the Company's management to focus fully on growth, thereby increasing the Company's turnover, efficiency and profitability by gradually covering its liabilities to creditors.
3. Make reasonable investments to improve production processes and gradually increase future production capacity, which will soon be needed when receiving additional GOS production orders.
4. Continue to provide processing services to other companies, using free processing capacity, thus consuming energy resources more efficiently and increasing employee productivity, gaining additional income.

6. Circumstances and events after the balance-sheet date

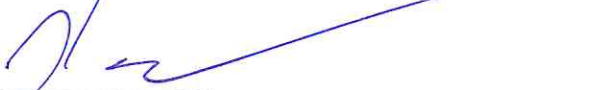
1. KOCHER and HALAL certificates were renewed and extended.
2. The Energy Management System was extended, certified in accordance with the requirements of ISO 50001.
3. The Company's organic processing certificate was renewed and extended.
4. COVID-19

Following the World Health Organization's announcement on 11 March 2020 that COVID-19 had reached pandemic proportions, on 12th of March the Latvian government decided to declare a state of emergency, thus limiting and trying to reduce the rapid spread of the virus, recommending movement and social contact reduction. Procedures have been implemented in the territory and premises of Baltic Dairy Board Ltd. factory to prevent the spread of the virus, protect employees and continue production work. The company performs daily health monitoring (measurement of body temperature) of employees and all other authorized persons before entering the production area. Cleaning and disinfection activities are intensified in the company's office and production premises, as well as hand washing and disinfection facilities are available in several places.

The company has sufficient stock of raw materials and auxiliary materials to ensure production processes, as well as the company is in constant contact with raw material suppliers outside Latvia, concerning future production planning. The buyer of our company's GOS products has confirmed that the order volumes of the products will not be affected by the COVID-19 situation in the world and the production and delivery of these products will take place without changes. Organic product orders, on the other hand, fell by 75% in April, due to the culmination of COVID-19 uncertainty at the end of March / beginning of April and huge congestions on borders, which forced our suppliers and customers to significantly reduce their supply of organic raw materials and finished product orders in April. This situation will have a negative impact on the turnover and profit of April 2020, but it is already known and organized that in May the production of organic products will return to the previous level.

At present, it can be concluded that the negative impact on the production process was only for one month (April), but it is not possible to predict how the situation could develop in the future, thus there is uncertainty about economic development. The company's management believes that Baltic Dairy Board Ltd. will be able to overcome the emergency situation, however, this conclusion is based on information that is currently available.

5. The company is currently in very active negotiations with banks with the aim of restructuring and/or refinancing bank loans.



Kaspars Kazāks
Member of the Board

Bauska, 29 April 2020

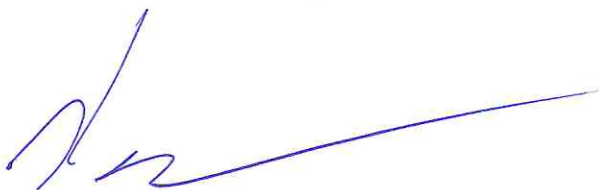
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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

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 31 December 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. 7-28 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 laws as well as European Union regulations applicable to the Company.



Kaspars Kazāks
Member of the Board

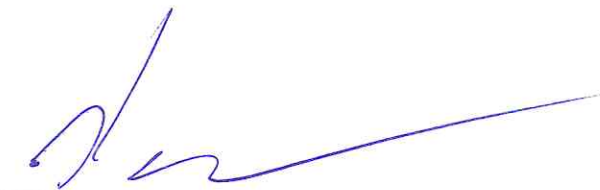
Bauska, 29 April 2020

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INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 EUR	2018 EUR
Net sales	(1)	2 135 568	884 288
Cost of sales	(2)	(2 773 958)	(1 677 251)
Gross profit		(638 390)	(792 963)
Distribution expenses	(3)	(15 421)	(19 395)
Administrative expenses	(4)	(165 322)	(155 264)
Other income	(5)	1 916 893	221 022
Other expenses	(6)	(181 747)	(132 423)
Finance income	(8)	-	1 953
Finance expenses	(9)	(836 919)	(553 584)
Profit (loss) before tax		79 094	(1 430 654)
Net profit		79 094	(1 430 654)

Notes on pages 11 to 28 are an integral part of these financial statements.



Kaspars Kazāks
Member of the Board


Bauska, 29 April 2020

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STATEMENT OF FINANCIAL POSITION

		31.12.2019. EUR	31.12.2018. EUR
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	(10)	7 533 151	8 109 575
Participation in the capital of another company		200	200
Ilgtermiņa ieguldījumi kopā:		7 533 351	8 109 775
Current assets			
Inventories	(11)	87 339	354 465
Trade receivables	(12)	117 788	8 674
Other current assets	(13)	17 846	85 757
Cash and cash equivalents	(14)	7 495	4 702
Total current assets:		230 468	453 598
Total assets		7 763 819	8 563 373
EQUITY AND LIABILITIES			
Equity			
Share capital	(15)	777 778	777 778
Share issue premium		421 557	421 557
Retained earnings:			
Retained earnings or losses		(2 794 415)	(1 363 761)
Profit or loss of the year		79 094	(1 430 654)
Total equity:		(1 515 986)	(1 595 080)
Liabilities			
Non-current liabilities			
Debenture loans	(17)	436 042	1 341 002
Deferred revenue	(18)	1 311 471	1 405 730
Other borrowings	(21)	-	746 767
Finance lease liabilities	(19)	-	896
Total non-current liabilities:		1 747 513	3 494 395
Current liabilities			
Provision	(16)	350 824	
Deferred revenue	(18)	87 431	67 479
Finance lease liabilities	(19)	1 274	7 256
Factoring liabilities	(20)	24 244	23 536
Loans from credit institutions	(21)	3 508 243	3 575 016
Other borrowings	(21)	746 767	
Trade payables	(22)	1 706 899	1 666 284
Current income tax payables	(23)	4 426	0
Advances from customers	(24)	359 099	190 784
Other liabilities	(25)	743 085	1 133 703
Total current liabilities:		7 532 292	6 664 058
Total liabilities:		9 279 805	10 158 453
Total equity and liabilities:		7 763 819	8 563 373

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Kaspars Kazāks
Member of the Board

Bauska, 29 April 2020

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share issue premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
31.12.2017.	777 778	421 557	(1 363 761)	(164 426)
Total income or losses	-	-	(1 430 654)	(1 430 654)
31.12.2018.	777 778	421 557	(2 794 415)	(1 595 080)
Total income or losses	-	-	79 094	79 094
31.12.2019.	777 778	421 557	(2 715 321)	(1 515 986)

Notes on pages 11 to 28 are an integral part of these financial statements.



Kaspars Kazāks
Member of the Board

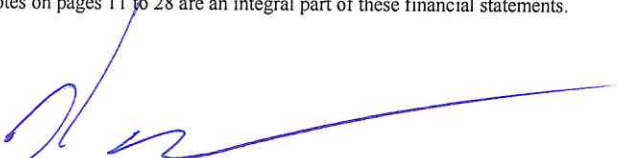
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CASH FLOW STATEMENT

	Notes	2019 EUR	2018 EUR
Cash flow from operating activities	(26)	(49 746)	(117 944)
Interest paid			(48 562)
Repayment of income tax			(21)
Net cash flow from operating activities		<u>(49 746)</u>	<u>(166 527)</u>
Cash flow from investing activities			
Acquisition of property, plant and equipment			(21 337)
Proceeds from sale of fixed assets			70 438
Loans issued			77 874
Net cash flow from investing activities		<u>0</u>	<u>126 975</u>
Cash flow from financing activities			
Proceeds from borrowings		249 100	111 760
Funds received from research projects		12 704	86 841
Expenses on the borrowing repayment		(204 544)	(120 955)
Finance lease payments		(3 445)	(32 735)
Net cash flow from financing activities		<u>53 815</u>	<u>44 911</u>
Foreign currency fluctuations		(1 276)	(1 426)
Net increase / (decrease) in cash and cash equivalents		<u>2 793</u>	<u>3 933</u>
Cash and cash equivalents at the beginning of the financial year		4 702	769
Cash and Cash equivalents at the end of the financial year		<u>7 495</u>	<u>4 702</u>

Notes on pages 11 to 28 are an integral part of these financial statements.


Kaspars Kazāks
Member of the Board

Bauska, 29 April 2020

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NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

SIA "Baltic Dairy Board" (the "Company") was established and started to operate in 2008. Until 31 December 2015 the company 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 m2, and the there existing building and equipment.

The Company's current financial year is from 1 January 2019 to 31 December 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 2019, corresponds to the accounting policy that was used for the preparation of Annual report of a year 2018.

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.

a) Correction of fundamental errors

In 2019, the Company discovered an error that will occur in the 2018 financial statements, this error has been corrected retrospectively. The total effect of the correction of fundamental errors is shown below.

Balance sheet items	Notes	Effect on 31.12.2018.		
		Before corrections	Error correction	After corrections
Other current assets - CIT overpayment	15	-	35 964	35964
Total assets			35 964	
Retained earnings or uncovered losses from previous years				-
Profit or loss for the year		(1 466 618)	35 964	(1 430 654)
Total equity			35 964	
Items if profit or loss		Before corrections	After corrections	
Corporate income tax		(35 964)	-	
Profit or loss for the year		(1 466 618)	(1 430 654)	

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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 2019, have been adopted by 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.

Other new standards and amendments did not have a material effect on the amounts recognized in previous periods and are not expected to have a material effect on the current or future financial statements.

Other new and amended IFRS and their Interpretations effective after 1 January 2020 will not have a material impact on the Company's operations and financial statements.

(2) Foreign currencies

(a) Functional and presentation currency

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

Items included in the financial statements are denominated in the official currency of the Republic of Latvia, the euro (EUR), which is the Company's reporting currency.

(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:

	31.12.2019. EUR	31.12.2018. EUR
1 USD	1.1189	1.1454
1 PLN	4.2567	4.3028

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(3) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(4) Income recognition

Revenue is the remuneration received for the business operating activities. Revenues are recognised based on the prices specified in the contract. The transaction price is the amount that the Company expects to receive after the transfer of control over the goods or services, excluding amounts received on behalf of the third parties (eg. value added tax). The transaction price is reduced by the discounts or other benefits granted to the buyer. Specific criteria for recognizing the Company's revenue for each type of the revenue are stated below. The Company has no such agreement with the client that would have a payment period more than one year, therefore the Company does not make any adjustments to reflect changes in the value of money over time. In addition, payments does not have variable remuneration. Revenue from the sales of goods is recognized when the control is transferred, ie when the Company has delivered the goods to the customer and the goods have been accepted by the customer, and it is probable that the receivable will be recovered. Revenue from the services provided are recognized in the financial period in which the services are provided, taking into account the ratio of the total service provided to the total contract service, if applicable.

(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 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.

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(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.

(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.

The Company regularly reviews current litigation to assess the need for provisions. It is taken into account the litigation's essence, claims, legal proceedings and the likelihood of the economic resources outflow, the opinions of legal advisers, as well as management's intention to respond to litigation and claims. As the estimates and assumptions are based on the expectations, they may not reflect actual results and may have a material effect on the revenue and financial result of the period.

(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.

(19) 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.

(20) Current and deferred corporate income tax

Corporate income tax is calculated in accordance with the tax legislation that is in force at the moment of the end of the reporting period. The current legislation sets the 20% tax rate of the calculated taxable base, which is divided by a coefficient of 0.8 before the tax rate is applied. Corporate income tax calculated on the distribution of profits in dividends is presented in the income statement, but in other cases - under the other business operating expenses.

(21) 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.

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(22) 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.

(23) Events after the balance-sheet date

The financial statements reflect such events after the end of the reporting year that provide additional information about the Company's financial position at the balance sheet date (adjusting events). If the events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

(24) Critical accounting estimates and judgements

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

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the property, plant and equipment, determination of 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 7 533 151 (31.12.2018. - EUR 8 109 575).

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 2019 is required.

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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 four geographical segments, which are sales in Latvia, Netherlands, Lithuania, USA and 4 more countries. Distribution of sales among these segments is as follows:

	2019 EUR	2018 EUR
Poland		9 200
Lithuania	1 351 879	105 135
Estonia		11 850
Latvia	463 611	568 627
Netherlands	314 928	27 505
USA		148 628
Other countries	5 150	13 343
	<u>2 135 568</u>	<u>884 288</u>

(c) Major customers

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

Client No. 1	790 597	148 628
Client No. 2	452 548	105 135
Client No. 3	382 979	
Client No. 4	276 092	
Other customers	233 352	630 525
	<u>2 135 568</u>	<u>884 288</u>

(2) Cost of sales

The purchase of goods and delivery charges	1 850 342	945 149
Transportation costs	11 962	28 050
Salary expenses	128 178	77 103
Social insurance costs	30 874	19 808
Depreciation of fixed assets	546 623	541 594
Laboratory services (milk analysis)	15 795	5 822
Production of equipment for cleaning and disinfection costs	38 012	6 672
Costs of electricity	101 577	48 236
Depreciation of low value inventory	28 562	
Other costs	22 033	4 817
	<u>2 773 958</u>	<u>1 677 251</u>

(3) Distribution expenses

Transportation costs	15 230	16 819
Intermediation services commission	191	76
Other sales expenses		2 500
	<u>15 421</u>	<u>19 395</u>

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(4) Administrative expenses	2019	2018
	EUR	EUR
Salary expenses	75 771	65 468
Social insurance costs	18 253	14 531
Office expenses	10 590	3 601
Cash turnover expenses	572	1 427
Transportation costs	4 964	11 165
Business trip expenses	972	4 224
Professional services costs	7 580	11 265
Real estate tax	6 120	6 120
Communication expenses	2 928	3 561
Depreciation of fixed assets	19 412	19 901
Company Certification costs	720	1 405
Other administrative expenses	17 440	12 596
	<u>165 322</u>	<u>155 264</u>
 (5) Other income		
Proceeds from sale of fixed assets		45 935
Reduction of liabilities under the agreement (bonds and coupon)	1 187 286	
Reduction of liabilities under the agreement (loan repayment)	570 000	-
Other income	72 587	27 089
Funds received from LIAA project	74 306	67 479
Funds received from research projects	12 714	80 519
	<u>1 916 893</u>	<u>221 022</u>
 (6) Other expenses		
	2019	2018
	EUR	EUR
Research expenses	993	39 275
Property maintenance, security and management costs	74 987	82 196
Representation costs	1 231	873
Net loss from exchange rate fluctuations	1 276	1 426
Natural resource tax	2 598	1 730
Corporate income tax	4 426	21
Other expenses	89 535	6 902
	<u>181 747</u>	<u>132 423</u>
 (7) Expenses by Nature		
	2019	2018
	EUR	EUR
The purchase of goods and delivery charges	1 850 342	945 149
Transportation costs	32 156	56 034
Salary expenses	203 949	142 571
Research expenses	993	39 275
Depreciation of fixed assets	566 035	561 495
Social insurance costs	49 127	34 339
Laboratory services (milk analysis)	15 795	5 822
Production of equipment for cleaning and disinfection costs	38 012	6 672
Costs of electricity	101 577	48 236
Company Certification costs	720	1 405
Property maintenance, security and management costs	74 987	82 196
Office expenses	10 590	3 601
Cash turnover expenses	572	1 427
Representation costs	1 231	873
Business trip expenses	972	4 224
Professional services costs	7 580	11 265
Sales costs	191	2 576
Real estate tax	6 120	6 120
Communication expenses	2 928	3 561
Net loss from exchange rate fluctuations	1 276	1 426
Natural resource tax	2 598	1 730
Other expenses	133 434	24 336
	<u>3 107 886</u>	<u>1 984 333</u>

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(8) Finance income

Interest received from loans		1 953
	-	1 953

(9) Finance expenses

Interest expenses on bonds	256 676	218 678
Interest expense on limited partnership ZGI-3 loan	143 857	143 856
Interest expense on bank loans, factoring, overdraft	24 707	66 745
Interest expense on MAAG group loan	17 704	
Finance charges on finance lease	162	953
Penalties paid	393 813	123 352
	836 919	553 584

(10) Fixed assets	Lands and EUR	Equipment and EUR	Other assets EUR	Assets under EUR	Advances paid for EUR	Total EUR
31.12.2017						
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
2018						
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			(196 272)		(5 809)	(202 081)
Reclassified from other balance sheet item						
Depreciation	(101 023)	(396 465)	(63 958)			(561 446)
Depreciation written-off			144 504			144 504
Closing book value	2 075 256	5 911 913	119 039	3 367	0	8 109 575
31.12.2018						
Initial cost	2 377 356	7 325 367	291 032	3 367	0	9 997 122
Accumulated depreciation	(302 100)	(1 413 454)	(171 993)	-	-	(1 887 547)
Net book value	2 075 256	5 911 913	119 039	3 367	0	8 109 575
2019						
Opening net book value	2 075 256	5 911 913	119 039	3 367	0	8 109 575
Disposed			(40 525)			(40 525)
Depreciation	(101 101)	(414 624)	(50 310)			(566 035)
Depreciation written-off			30 136			30 136
Net book value	1 974 155	5 497 289	58 340	3 367	-	7 533 151
31.12.2019						
Initial cost	2 377 356	7 325 367	250 507	3 367	-	9 956 597
Accumulated depreciation	(403 201)	(1 828 078)	(192 167)	0	-	(2 423 446)
Net book value	1 974 155	5 497 289	58 340	3 367	-	7 533 151

Pledge of fixed assets

Information on pledged fixed assets is disclosed in the Note 31 to the financial statements.

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(11) Inventories	31.12.2019	31.12.2018
	EUR	EUR
Materials and other	8 923	36 857
Raw materials	53 948	68 252
Finished goods and goods for sale	24 468	249 356
	87 339	354 465
(12) Trade receivables		
Trade receivables in Latvia	35 578	8 674
Trade receivables in EU	82 210	
	117 788	8 674
(13) Other current assets		
Advance payments for works and services	15 554	15 946
Deferred company's certificate expenses	572	
Deferred insurance expenses	936	339
Deferred media and IT service subscriptions expenses	268	
Overpaid entrepreneurship risk duty	218	
Loan to a legal person		69 174
Caution money	298	298
	17 846	85 757
(14) Cash and cash equivalents		
Cash at bank on current accounts	7 495	4 702
	7 495	4 702

(15) 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.

(16) Provision	31.12.2019	31.12.2018
	EUR	EUR
Provision for expected costs, according to the court decision	350 824	-
Total	350 824	-

On February 24, 2020, three decisions of the Zemgale District Court satisfied the claims of Luminor Banka AS against the Company, for undisputed compulsory performance of obligations, for outstanding loan agreements No.2014-48-A, No.2015-70-A and overdraft agreement No. .2015-26-OD-R basic amount, interest on loans and penalties for late payment. Based on these court decisions, the Company established a provision for expected costs for default penalties totaling EUR 350 824.

(17) Debenture loans (long-term)

	The effective interest rate, %	Maturity of liabilities term	31.12.2019	31.12.2018
			EUR	EUR
Bonds nominal value	18	28.10.2024	436 042	1 341 002
			436 042	1 341 002

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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 April 10, 2019, the Management Board of the Company decided not to pay the April 28 coupon payment, but to increase the nominal value of one bond from EUR 1295.03 to EUR 1538.62. On October 2, 2019, the Board of the Company decided not to pay the October 28 coupon payment, but to increase the nominal value of one bond. On October 28, 2019, JSC "Latvijas Centrālais depozitārijs", based on the Company's application, made a decision to register changes in the characteristics of the issued bonds, changing the nominal value of the bonds from 1538.62 to 1677.10 EUR. On December 20, 2019, in accordance with the agreement No. 20122019 / OBL - one of the bondholders waived the claim for 690 bonds in the amount of EUR 1,157,199.00 and the accumulated coupon payment in the amount of EUR 30,087.17. 690 bonds will be transferred to the financial instruments account of SIA "Baltic Dairy Board" by 31.12.2020.

(18) Deferred revenue	31.12.2019	31.12.2018
	EUR	EUR
Long-term part	1 311 471	1 405 730
Short-term part	87 431	67 479
Total	1 398 902	1 473 209

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

(19) Finance lease liabilities	31.12.2019	31.12.2018
	EUR	EUR
Non-current		
Liabilities according to the finance lease agreements, payable from 2 to 5 years	0	896
	0	896
Current		
Liabilities according to the finance lease agreements, payable within 1 year	1 274	7 256
	1 274	7 256

During the reporting year, the Company terminated the lease agreement by returning the car to the leasing company.

	31.12.2019	31.12.2018
	EUR	EUR
In accordance with the agreements the minimum finance lease payments are:		
Payable within 1 year	0	923
Payable from 2 to 5 years	1 312	7 474
Total finance lease gross liabilities	1 312	8 397
Future finance costs	(38)	(245)
Present value of finance lease liabilities	1 274	8 152

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

	31.12.2019	31.12.2018
	EUR	EUR
At beginning of the year	8 152	72 617
Entered into finance lease obligations during the year		
Repaid finance lease obligations during the year	(6 878)	(64 465)
At the end of the year	1 274	8 152

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(20) Advances received for factoring invoices	31.12.2019	31.12.2018
	EUR	EUR
Payments received for factoring invoices	24 244	23 536
	<u>24 244</u>	<u>23 536</u>

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 anual report signing, the contract has not been extended.

(21) Borrowings	31.12.2019	31.12.2018
	EUR	EUR
Non-current		
Other borrowings - repayable in 2-5 years (KS "ZGI-3")	a) 0	746 767
	<u>0</u>	<u>746 767</u>
Current		
Luminor Bank AS *	a) 3 108 243	3 108 243
Luminor Bank AS - overdraft	b) 400 000	466 773
	<u>3 508 243</u>	<u>3 575 016</u>
Other borrowings (KS "ZGI-3")	c) 746 767	0
	<u>746 767</u>	<u>0</u>
Total borrowings	<u>4 255 010</u>	<u>4 321 783</u>
At beginning of the year	4 321 783	4 392 359
Borrowings received during the year	144 359	120 440
Borrowings repaid during the year		(191 016)
At the end of the year	<u>4 466 142</u>	<u>4 321 783</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 until 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 31.12.2019 the outstanding loan amount - EUR 2 481 903 (31.12.2018.- 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 31.12.2019 is EUR 746 767.

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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.

* On February 24, 2020, three decisions of the Zemgale District Court satisfied the claims of Luminor Banka AS against the Company. Notes (16).

(22) Trade payables	31.12.2019	31.12.2018
	EUR	EUR
Debts to farmers for milk - Latvia	570 011	590 405
Debts to other suppliers for goods and services	1 136 888	1 075 879
	1 706 899	1 666 284
(23) Corporate income tax liabilities	31.12.2019	31.12.2018
	EUR	EUR
Corporate income tax	4 426	0
	4 426	-
(24) Advances from customers	31.12.2019	31.12.2018
	EUR	EUR
Advances from customers	359 099	190 784
	359 099	190 784
(25) Other liabilities	31.12.2019	31.12.2018
	EUR	EUR
Accrued liabilities for services	11 705	9 727
Accrued liabilities for interest on bonds	14 581	40 232
Accrued unused for interest on borrowings	311 712	146 168
Accrued unused annual leave expenses	38 587	24 315
Salaries	16 852	18 610
VAT	58 485	74 332
Personal income tax	61 529	36 797
Social insurance tax	82 210	66 222
Motor vehicle duty		1 002
Natural resource tax	5 254	2 954
Risk duty		66
Settlement of debts to staff	826	17 938
Borrowings from co-owner*	23 640	616 640
Loan from legal person	117 704	68 500
Loan from natural persons		10 200
	743 085	1 133 703

*In 2018 the Company received a loan from the co-owner with a maturity 31.12.2019. Interest-free loan, without security. Interest-free,

(26) Cash granted from operations	31.12.2019	31.12.2018
	EUR	EUR
Cash flow from operating activities		
Income from sales of goods and services	1 275 324	1 025 619
Payments to suppliers, employees, other operating expenses	(1 325 070)	(1 143 563)
Gross cash flow from operating activities	(49 746)	(117 944)
(27) Average number of employees		
Average number of people employed during the financial year	13	12

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(28) Remuneration to personnel

Salaries and mandatory State social insurance contributions for production personnel	165 177	96 912
Salaries and social insurance contributions for administration personnel	87 898	79 999
	253 075	176 911
Including Board members and key management		
salary expenses	30 010	26 628
mandatory State social insurance contributions	7 229	6 415

Council members did not receive any remuneration in 2019 and the state social insurance contributions were not made.

(29) Transactions with related parties

a) claims and liabilities

Notes	31.12.2019.		31.12.2018.	
	Debtors EUR	Creditors EUR	Debtors EUR	Creditors EUR
Related parties				
Company's Board and co-owners (15)	-	23 640	-	622 840
Related Company	-	-	75 948	-
	-	23 640	75 948	622 840

The amount of goods and services purchased from related Company in 2019 was EUR 8 572, in 2018 - EUR 68 912. The amount of services sold in 2019 was EUR 464 502, in 2018 - EUR 5 496. Loan issued in 2019 amounts EUR 1250, 2018 - 77 874. Loan received in 2019 amounts EUR 147 566, in 2018 - EUR 18500, loan repaid -EUR 166 057.

(30) Contingent liabilities in connection with legal proceedings

There is a risk that in legal proceedings against Luminor Banka AS will be obliged to indemnify losses in the amount of EUR 350 824. Provisions have been made for contingent losses from litigation for the amount of claims. See Annex no. 16.

(31) Loans and guarantee issuance agreements, assets collateral

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, amendments 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 31.12.2019 outstanding loan amount - EUR 626 339 (31.12.2018.- 626 339). 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%. According to the amendments to the agreement of 04.04.2018., the date of repayment of the loan was 15.05.2018. In 2020, the loan has not been repaid on the date of drawing up the annual report. The amount of the outstanding loan is EUR 626 339 (on 31.12.2018. EUR 626 339).

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 31.12.2019 the outstanding loan amount - EUR 2 481 903 (31.12.2018.- EUR 2 481 903). The date of repayment of the loan according to the amendments to the Agreement of 04.04.2018. is 15.05.2018. In 2019, the loan has not been repaid on the date of drawing up the annual report. The amount of the outstanding loan is EUR 2 481 903 (on 31.12.2018. EUR 2 481 903).

The Company has pledged its real estate and all of its movable property as an aggregation of property existing at the time of pledging and any future components of the aggregation of property (including product storage tanks, technological line – a set of bioreactors, and a set of innovative equipment for deep whey processing) with Nordea Bank AB as collateral for any claims that may arise out of these loan and guarantee agreements made with Nordea Bank AB. A pledge agreement has been made between Nordea Bank AB and an agricultural co-operative union "Sigilo", to provide additional security. According to the terms and conditions of the loan agreement, the agricultural co-operative union "Sigilo" has pledged its movable property with the Company as an aggregation of property existing at the time of pledging as well as any future components of the aggregation of property. The maximum amount of claims secured by means of the mortgage and the commercial pledge in connection with the loan agreement is EUR 5 377 399.

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(32) 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.

	31.12.2019	31.12.2018
	EUR	EUR
Financial assets with variable interest rate, EUR	(748 041)	(8 152)
Open position, net	(748 041)	(8 152)

(b) Credit risks

Trade receivables	117 788	8 674
Other claims	16 910	85 418
Cash	7 495	4 702
	142 193	98 794

The Company exposed to the credit risk associated with its trade receivables, cash and cash equivalents. The Company manages its credit risk constantly, reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also is monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts.

The Company has no significant credit risk concentration related to a single counterparty or group of counterparties with similar characteristics.

Maturity analysis of trade receivables (non-related parties):

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables net amount	from them: in due term	Past due
					< 90 days 90-180 days > 180 days
31.12.2019.	117 788	-	117 788	117 788	
31.12.2018.	1 901	-	1 901		1 901

(c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

On 31 December 2019	Total	<1 year	1-2 years	2-5 years	>5 years
	EUR	EUR	EUR	EUR	EUR
Debtenture loans	436 042	-	-	-	436 042
Borrowings from credit institutions	3 508 243	3 508 243	-	0	-
Other liabilities	746 767	746 767	-	0	-
Long-term financial lease liabilities	0	-	-	0	-
Short-term financial lease liabilities	1 274	1 274	-	-	-
Trade payables	1 706 899	1 706 899	-	-	-
Other liabilities	105 365	105 365	-	-	-
	6 504 590	6 068 548	-	0	436 042

On 31 December 2018	Total	<1 year	1-2 years	2-5 years	>5 years
	EUR	EUR	EUR	EUR	EUR
Debtenture loans	1 341 002	-	-	-	1 341 002
Borrowings from credit institutions	3 575 016	0	-	0	-
Other liabilities	746 767	-	-	746 767	-
Long-term financial lease liabilities	896	-	-	896	-
Short-term financial lease liabilities	7 256	7 256	-	-	-
Trade payables	1 666 284	1 666 284	-	-	-
Other liabilities	709 524	709 524	-	-	-
	8 046 745	2 383 064	0	747 663	1 341 002

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(d) Capital Management

According to the Latvian Commercial Law requirements if the Company's losses exceed half of the Company's share capital, the Management is required to evaluate and to make a decision on Company's going concern. Share capital of the Company meets the Latvian legal requirements. Company's Management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Company's Management controls its liquidity risk, by providing an adequate financing, by using related parties debts, overdrafts and bonds. Equity to total assets at the end of the year is -20% (2018: -19%).

	31.12.2019.	31.12.2018.
	EUR	EUR
Long-term and short-term liabilities	7 880 903	8 685 244
Cash and its equivalents	(7 495)	(4 702)
Liabilities excess over cash and its equivalents	7 873 408	8 680 542
Equity	(1 515 986)	(1 595 080)
Total capital	<u>6 357 422</u>	<u>7 085 462</u>
Total assets	7 763 819	8 563 373
Net liabilities to equity	-519%	-544%
Equity ratio on total assets	-20%	-19%

(33) The concept of going concern application

The year then ended on 31 December 2019 the Company has finished with a profit of EUR 79 094. Equity of the Company on 31.12.2019 is negative. At the balance sheet date Company's current liabilities exceeded current assets in amount of EUR 7 301 824. The continuation of operation of the Company depends on financial performance in future periods and the management's ability to ensure cost-effective operation and investment attraction. The activities carried out and planned by the Company in 2019 are described in Note 32. The Company's financial statements are prepared in accordance with the operating principle of the company.

(34) Subsequent events

1. KOCHER and HALAL certificates were renewed and extended.
2. The Energy Management System was extended, certified in accordance with the requirements of ISO 50001.
3. The Company's organic processing certificate was renewed and extended.
4. COVID-19

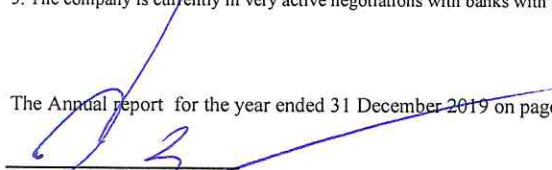
Following the World Health Organization's announcement on 11 March 2020 that COVID-19 had reached pandemic proportions, on 12th of March the Latvian government decided to declare a state of emergency, thus limiting and trying to reduce the rapid spread of the virus, recommending movement and social contact reduction. Procedures have been implemented in the territory and premises of Baltic Dairy Board Ltd. factory to prevent the spread of the virus, protect employees and continue production work. The company performs daily health monitoring (measurement of body temperature) of employees and all other authorized persons before entering the production area. Cleaning and disinfection activities are intensified in the company's office and production premises, as well as hand washing and disinfection facilities are available in several places.

The company has sufficient stock of raw materials and auxiliary materials to ensure production processes, as well as the company is in constant contact with raw material suppliers outside Latvia, concerning future production planning. The buyer of our company's GOS products has confirmed that the order volumes of the products will not be affected by the COVID-19 situation in the world and the production and delivery of these products will take place without changes. Organic product orders, on the other hand, fell by 75% in April, due to the culmination of COVID-19 uncertainty at the end of March / beginning of April and huge congestions on borders, which forced our suppliers and customers to significantly reduce their supply of organic raw materials and finished product orders in April. This situation will have a negative impact on the turnover and profit of April 2020, but it is already known and organized that in May the production of organic products will return to the previous level.

At present, it can be concluded that the negative impact on the production process was only for one month (April), but it is not possible to predict how the situation could develop in the future, thus there is uncertainty about economic development. The company's management believes that Baltic Dairy Board Ltd. will be able to overcome the emergency situation, however, this conclusion is based on information that is currently available.

5. The company is currently in very active negotiations with banks with the aim of restructuring and/or refinancing bank loans.

The Annual report for the year ended 31 December 2019 on pages 1 to 28 confirm:


Kaspars Kazāks
Member of the Board

Bauska, 29 April 2020



Independent Auditor's Report

To the shareholders of "Baltic Dairy Board" SIA

Our Adverse Opinion on the Financial Statements

We have audited the accompanying financial statements of "Baltic Dairy Board" SIA ("the Company") set out on pages 7 to 28 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December 2019,
- the income statement and statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, taking into account the materiality of the circumstances described in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements doesn't give a true and fair view of the financial position of "Baltic Dairy Board" SIA as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Adverse Opinion

The term of the Company's financing agreement with the credit institution has expired and the loans had to be repaid by 15 May 2018. The Company has not been able to agree on the terms of the refinancing or to obtain substitutional funding. This situation is subject to material uncertainty, which may rise to significant doubt about the Company's ability to continue as a going concern.

Note 33 describes applied management's assumption of the going concern in preparation of this financial statements and the justification for applying this assumption, although the going concern assumption would not be applied to the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The going concern assumption is in contradiction with International Accounting Standard 1 "Presentation of Financial Statements". If the financial statements were prepared using an alternative assumption that the Company will not continue as a going concern, substantial adjustments to the financial situation statements and statement of comprehensive income, as well as changes to the notes of the financial statements would be required.

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

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

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



Key Audit Matters

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

Except for the matters described in the “*Basis for Adverse Opinion*” section, we have determined that there is no other key audit matters to be communicated in our report.

Reporting on Other Information

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

- information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 4-5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,
- the Statement of Corporate Governance, which is planned to be submitted to “Nasdaq Riga” along with the Annual Report

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

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

If, based on the work we have performed and in light of the knowledge and understanding of the business entity and its working environment obtained in the course of our audit, we conclude that there is a significant misstatement in other information we are required to report such circumstances. As described in Basis for Adverse Opinion section, if the financial statements were prepared using an alternative assumption that the Company will not continue as a going concern, material adjustments to the financial situation statements and statement of comprehensive income, as well as changes in the notes to the financial statements would be required. We have concluded that, for the same reason, other information contains significant mistakes in the amounts or other items specified in other information.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

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

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

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

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



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

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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



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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and the European Union when providing audit services to public interest entities

We were appointed by those charged with governance on January 16, 2020 to audit the financial statements of "Baltic Dairy Board" SIA for the year ended 31 December 2019. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2014 to 31 December 2019.

We confirm that:

- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASS) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

Member of the Board of SIA "Orient's Audit & Finance"
Commercial Company License No.28

Rīga, Latvia
29 April 2020



Natalija Zaiceva
Certified Auditor
Certificate No.138