ALBALACT SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDING 30 SEPTEMBER 2016

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

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ALBALACT SA

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD ENDING 30 SEPTEMBER 2016

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ALBALACT SA

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD ENDING 30 SEPTEMBER 2016

OVERVIEW

ALBALACT SA ("ALBALACT" or the "Company") was established in 1971 as a state owned company and was privatised in 1999. Its headquarters are located in Oiejdea, DN 1, Km 392+600, Alba county, Romania. The Company's main business is the processing of milk and dairy products.

In September 2007, ALBALACT SA opened a new modern factory in Oiejdea, based on the latest technology available and equipped with fully automated installations and quality control systems.

At the end of 2008, the Company decided to extend its capacity through the acquisition of Raraul SA, which has as main business the processing of milk and cheese. The subsidiary is located in Campulung Moldovenesc, 3 Aeroportului street, Suceava county, Romania, and starting from 31 December 2011, ALBALACT SA holds 99.01% of the share capital in Raraul SA.

In 2009, the logistics warehouse in Afumati, Bucharest, was commissioned, with a purpose of serving the south-east area of the country. In 2010, the Company decided to enter the retail market and establish its own distribution system, and opened two stores in Cluj-Napoca. The retail activity business has been expanding to other areas of the country.

In October 2013, the Company incorporated Albalact Logistic SRL, whose main business is logistics. Albalact Logistic SRL has its headquarters in Oiejdea, DN 1, Km 392+600, Alba County, Romania. In 2014, the logistics activity of the Group was transferred to Albalact Logistics SRL. The Group now intends to sell this business.

The Company's shares were listed on the Bucharest Stock Exchange (BVB) starting with the first half of 2015.

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ALBALACT SA

CONSOLIDATED BALANCE SHEET

AS AT 30 September 2016 AND 31 December 2015
(All amounts in RON unless otherwise stated)

	Note	30 September 2016	31 December 2015
Assets			
Non-current assets			
Tangible assets	4	139,348,270	150,494,271
Intangible assets		1,169,089	1,345,979
Goodwill		4,157,585	4,157,585
Trade and other receivables		224,991	224,438
Advances for tangible assets	6	527,348	226,542
		145,427,283	156,448,815
Current assets			
Inventories	7	27,147,210	27,048,280
Trade and other receivables	6	51,045,768	58,677,501
Cash and cash equivalents (excluding bank overdrafts)	8	2,239,107	10,517,334
Asset group to be ceded	27	-	-
		80,432,085	96,243,115
Total assets		225,859,368	252,691,930
Equity and liabilities			
Own equity attributable to owners of the parent company			
Ordinary shares (including hyperinflation adjustment)	10	188,097,701	188,097,701
Revaluation reserves		17,448,904	17,448,904
Other reserves		818,422	1,747,860
Retained earnings	11	106,716,600	131,962,135
		99,648,427	75,332,330
Non-controlling interests		74,949	62,140
Total equity		99,723,376	75,394,470

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Liabilities			
Non-current liabilities			
Bank borrowings	13	30,263,502	44,873,278
Deferred income tax liabilities	14	2,102,264	2,102,264
Provisions for pensions and similar liabilities	15	274,072	274,072
Investment subsidies		4,027,290	4,311,550
		36,667,128	51,561,164
Current liabilities			
Trade and other payables	12	50,617,502	68,833,858
Current income tax liabilities		155,545	439,820
Borrowings	13	38,695,817	55,997,703
Litigation provisions	15	-	464,915
		89,468,864	125,736,296
Total liabilities		126,135,992	177,297,460
Total equity and liabilities		225,859,368	252,691,930

The consolidated financial statements on pages 1 to 47 were authorised for issue by the Board of Directors on 7 November 2016 by:

Aurelio Antuna Rodriguez
Director

Radovici Adrian
CFO

ALBALACT SA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD ENDING 31 SEPTEMBER 2016 AND 2015
(All amounts in RON unless otherwise stated)

	Note	Period ending 30 September 2016	Period ending 30 September 2015
Revenue	17	366,977,834	312,877,779
Other operating income	19	656,006	591,471
Changes in inventories of finished goods and work in progress		(1,404,362)	(7,131,788)
Capitalised cost of tangible assets		17,130	118,939
Raw materials and consumables		(240,053,895)	(201,812,723)
Wages, salaries and related costs	20	(40,133,080)	(33,325,065)
Rent expenses		(1,268,403)	(832,834)
Other third party services		(7,199,687)	(6,663,604)
Promotion and advertising		(8,764,024)	(8,754,505)
Amortisation		(16,035,304)	(17,411,609)
Other operating expenses	18	(27,309,094)	(26,210,719)
Provisions - net		464,915	2,199,507
Other (losses)/gains – net	16	609,205	(265,870)
Operating profit		**26,557,241**	**13,378,979**
Finance income		44,243	5,376
Financial expenses		(97,673)	(398,258)
Finance result – net	21	(53,430)	(392,882)
Profit before income tax		26,503,811	12,986,097
Income tax expense	22	2,691,258	(3,005,106)
Profit for the period from continuing operations		23,812,553	9,980,991
Profit for the year		23,812,553	9,980,991
Profit attributable to:			
Owners of the parent		23,799,744	9,979,699
Non-controlling interest		12,809	1,292
Total profit for the financial year		23,812,553	9,980,991

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ALBALACT SA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD ENDING 31 SEPTEMBER 2016 AND 2015
(All amounts in RON unless otherwise stated)

	Note	Period ending 30 September 2016	Period ending 30 September 2015
Earnings per share from continuing and discontinued operations attributable to the owners of the parent during the year			
Basic earnings per share			
From continuing operations	10	0,03771	0,01581
From profit for the year		0,03771	0,01581
Profit for the year		23,812,553	9,980,991
Other elements of the comprehensive income:			
Earning from evaluation of lands and buildings		-	-
The impact of the deferred tax on the revaluation reserves movements.		-	-
Other elements of the global earnings related to the financial year, save the tax		-	-
Total comprehensive income for the year		23,812,553	9,980,991
Attributable to:			
– Owners of the parent		23,799,744	9,979,699
– Non-controlling interest		12,809	1,292
Total comprehensive income for the year		23,812,553	9,980,991

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Aurelio Antuna Rodriguez
Director

Radovici Adrian
CFO

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ALBALACT SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2015 AND FOR THE PERIOD ENDING 30 SEPTEMBER 2016
(All amounts in RON unless otherwise stated)

		Attributable to owners of the parent						
	Note	Share Capital (RON)	Revaluation reserves (RON)	Other reserves (RON)	Retained earnings (RON)	Total (RON)	Non-controlling interest (RON)	Total Equity (RON)
Balance as at 1 January 2016	11	188,097,701	17,448,904	1,747,860	(131,962,135)	75,332,330	62,140	75,394,470
Comprehensive income								
Profit for the year		-	-	-	23,799,744	23,799,744	12,809	23,812,553
Other changes in comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	23,799,744	23,799,744	12,809	23,812,553
Transactions with owners								
Employee benefits	27	-	-	(929,438)	929,438	-	-	-
Collection of equity to employees	27	-	-	-	516,353	516,353	-	516,353
Total transactions with owners		-	-	(929,438)	1,445,791	516,353	-	516,353
Balance as at 30 September 2016	11	188,097,701	17,448,904	818,422	(106,716,600)	99,648,427	74,949	99,723,376

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ALBALACT SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2015 AND FOR THE PERIOD ENDING 30 SEPTEMBER 2016
(All amounts in RON unless otherwise stated)

		Attributable to owners of the parent						
	Note	Share Capital (RON)	Revaluation reserves (RON)	Other reserves	Retained earnings (RON)	Total (RON)	Non-controlling interest (RON)	Total Equity (RON)
Balance as at 1 January 2015	11	188,097,701	17,448,904	-	(132,936,431)	72,610,174	87,988	72,698,162
Comprehensive income								
Profit for the year		-	-	-	12,651,553	12,651,553	(25,848)	12,625,705
Other changes in comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	12,651,553	12,651,553	(25,848)	12,625,705
Dividends		-	-	-	(11,677,257)	(11,677,257)	-	(11,677,257)
Employee benefits		-	-	1,747,860	-	1,747,860	-	1,747,860
Total transactions with owners		-	-	1,747,860	(11,677,257)	(9,929,397)	-	(9,929,397)
Balance as at 31 December 2015	11	188,097,701	17,448,904	1,747,860	(131,962,135)	75,332,330	62,140	75,394,470

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ALBALACT SA

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE FINANCIAL PERIOD ENDING 31 SEPTEMBER 2016
(All amounts in RON unless otherwise stated)

	Note	Period ending 30 September 2016	Period ending 30 September 2015
Cash flows used in operating activities			
Cash generated from operations	24	35,541,319	44,379,975
Interest paid		(1,103,761)	(1,823,434)
Income tax paid		(5,540,277)	(2,860,716)
Net cash generated from operating activities		28,897,281	39,695,825
Cash flows from investing activities			
Purchases of property, plant and equipment		(4,891,350)	(6,170,946)
Proceeds from sale of tangible assets		512,344	30,976
Interest received		1,453	5,376
Net cash used in investing activities		(4,377,553)	(6,134,594)
Cash flows from (used in) financing activities			
Proceeds from borrowings		-	4,830,398
Repayments of borrowings		(7,904,985)	(4,526,948)
Repayments of lease liabilities		(9,856,213)	(7,699,545)
Collections from stock options		516,353	-
Dividends paid to company's shareholders		(50,656)	(6,044,204)
Net cash used in financing activities		(17,295,501)	(13,440,299)
Net increase in cash and cash equivalents		7,224,227	20,120,932
Cash and cash equivalents at beginning of year		(24,557,945)	(50,850,350)
Earnings / (losses) on cash and cash equivalents		(192,191)	(66,256)
Cash and cash equivalents at end of year	8	(17,525,909)	(30,795,674)

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, using the significant accounting policies and measurement bases in effect on 30 September 2016, as summarised below. These policies have been consistently applied in preparing the financial statements for all the years presented. An overview of standards, amendments and interpretations to IFRS as endorsed by the EU, issued but not yet effective, and which have not been adopted early by the Group is presented in note 1.2.

The purpose of these financial statements

These consolidated financial statements were prepared with a purpose to inform the shareholders and the investors and were authorised for issued by the Company management.

1.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for land and buildings recorded at revalued amounts.

The preparation of the IFRS consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

1.2 New Accounting Pronouncements

New standards, amendments and interpretations issued but not effective for the financial year starting 1 January 2014 and not early adopted but relevant for the Group's consolidated financial statements are as follows:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.
Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact. Not yet endorsed by the EU.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15. Not yet endorsed by the EU.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements. Not yet endorsed by the EU.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its financial statements. Not yet endorsed by the EU.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Group.

1.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the right to variable returns from its involvement with the entity and has the ability to affect those returns from its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-Group transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured at its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

1.4 Segment reporting

The Group has only one operating segment reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the segment, has been identified as the board that makes strategic decisions.

The board assesses the performance of the operating segment based on a measure of EBITDA and net sales. This measurement basis excludes discontinued operations and the effects of non-recurring expenditure such as legal expenses or non-recurring events.
The measure also excludes the effects of unrealised gains/losses on financial instruments.

1.5 Foreign currency conversion

a) Functional and disclosure currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in “Romanian Lei” (“RON”), which is the Group's presentation currency and functional currency for all the entities within the Group.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re- measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within “finance income or cost“.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Monetary assets and liabilities denominated in foreign currency are stated in RON as at the balance sheet date. As at 31 December 2015, the exchange rates used for translating foreign currency balances were: 1 USD = RON 4.1477) and EUR 1 = RON 4.5245, and as at 30 September 2015: USD 1 = RON 3.9342, and EUR 1 = RON 4.4167, and as at 30 September 2016 : USD 1 = RON 3.9822 LEI, and EUR 1 = RON 4.4523.

1.6 Property, plant and equipment

Land and buildings are shown at fair value, based on regular valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserves directly in equity; all other decreases are charged to the profit or loss. The amounts recorded in the revaluation reserves are transferred to retained earnings at the end of the useful life of the assets or when the assets are derecognized.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land improvements	10 years
Buildings	15-48 years
Machinery	5-34 years
Furniture, fittings and equipment	4-9 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of an asset less estimated cost of disposal, if the asset was already of the age and in conditions expected at the end of its physical life. The residual value is nil if the Group expects to use the asset until the end of its physical life.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “Other (losses)/gains – net” in the profit or loss.

1.7 Intangible assets

a) Goodwill

Goodwill is the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in `intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The costs are amortised over the estimated useful life of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development, employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.9 Financial assets

The Group classifies its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise “trade and other receivables” and “cash and cash equivalents” in the balance sheet (Notes 1.14 and 1.15).

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.11 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the debtor's financial difficulty, grants the debtor a concession that the Group would not otherwise consider;
- it becomes probable that the debtor will initiate bankruptcy or other financial reorganisation procedure;

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated profit or loss. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.14 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. The amounts due from customers but not invoiced at the end of the year are presented net of advances paid to those customers, if the conditions to compensate these amounts are fulfilled.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

1.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

1.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from retained earnings until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. The amounts relating to invoices not received from suppliers at the end of the year are presented net of advances cashed in from the same suppliers, if the conditions to compensate these amounts are fulfilled.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight– line basis over the expected lives of the related assets.

1.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss 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 balance sheet date. The current position of the long term loans is included within current liabilities. Accrued interest as at the balance sheet date is included within “Borrowings”, within current liabilities unless it is not payable within the following 12 months.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General and specific borrowing costs 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 such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

1.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in countries where the company subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority. The income tax assets and liabilities are offset at each consolidated entity level and not at Group level.

1.21 Employee benefits

The entities of the Group, in the normal course of business, make payments to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the entities of the Group are members of the State pension plan. Wages, salaries, contributions to the Romanian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the entities of the Group.

1.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of goods – wholesale

The Group manufactures and distributes a range of dairy products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance procedures have been completed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with the market practice.

b) Sales of goods – retail

The group operates some retail stores for selling milk and other dairy products. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The group does not operate any loyalty programmes.

c) Lease income

See details in note 1.21.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Interest income

Interest income is recognised using the effective interest method.

e) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

1.24 Leases: Accounting by the lessee

The Group leases certain equipment and vehicles. Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

1.25 Accounting for the effect of hyperinflation

Romanian economy has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The amounts expressed in the measuring unit current at 31 December 2003 (hyperinflation cessation date) are treated as the basis for the carrying amounts in these financial statements. The Group assessed the impact of IAS 29 requirements as at 1 January 2012.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The impact of applying IAS 29 in the past is reflected in the current financial statements as restatement of the share capital items originating prior to 31 December 2003.

1.26 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.27 Non-recurring items

Non-recurring items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

2 FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures, as described in note 2.1 a) i).

Risk management is carried out by the top management of ALBALACT Group management identifies and evaluates financial risks in close co-operation with the Group's operating units.

a) Market risk

(i) Foreign exchange risk

The Group operates mainly in Romania and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises mainly from the Group's borrowings which are denominated in EUR currency and from suppliers of raw materials which are denominated in HUF.

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2 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group engages in forward contracts to purchase foreign currency in order to reduce the risk exposure to fluctuations in HUF exchange rates. At the end of each reporting period the Company does not have any open forward contracts.

The Group does not hedge against foreign exchange risk, related to Euro. Since the Group's activities are deployed mainly on the domestic market, it cannot originate financial assets in the same currency as financial liabilities. However, management regularly reviews the forecasts on evolution of RON/EUR exchange rate and incorporates the information in the pricing strategy.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short and long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2016, the Group's borrowings at variable rate were denominated in RON and EUR.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Additionally, the Company is actively involved in the renegotiation of the interest rates associated to the loans from banks.

Based on the simulations performed, in the case of a 200 b.p. increase in interest rates, the post-tax profit of the Group for the six months ended 30 September 2016, would decrease by RON 794 thousand.

b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers for the products sold, including outstanding receivables.

In case of banks and financial institutions, only the parts independently rated with the minimum rating "B" are accepted. For customers, because no independent rating is available, management assess the credit quality of the customers, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. See Note 7 for further disclosure on credit risk.

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2 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and is aggregated by Group management. Group management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 13) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.

Management invests surplus cash in interest bearing current accounts, time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held interest bearing current accounts and time deposits of RON 2,082 (2015: RON 10,338 thousand) that are expected to readily generate cash inflows for managing the liquidity risk (note 8). Moreover, the overdraft contracted from ING Bank in amount of EUR 11 million is a facility "Until further notice". In order to cover the current net debts, the Group will use the cash generated by the current activities and will use the credit line ceilings available as at 30 September 2016.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the respective nominal undiscounted amounts as at the balance sheet date.

	As at 30 September 2016			
	Less than 1 year	**Between 2 and 5 years**	**Over 5 years**	**Total**
Borrowings (except finance lease liabilities)	31,272,339	17,501,386	-	48,773,725
Finance lease liabilities	9,212,963	13,980,415	-	23,193,378
Trade and other payables	44,873,636	-	-	44,873,636
Total	85,358,938	31,481,801		116,840,739

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2 FINANCIAL RISK MANAGEMENT (CONTINUED)

	As at 31 December 2015			
	Less than 1 year	Between 2 and 5 years	Over 5 years	Total
Borrowings (except finance lease liabilities)	46,708,996	25,685,905	-	72,394,902
Finance lease liabilities	11,078,192	20,405,672	-	31,483,864
Trade and other payables	61,839,448	-	-	61,839,448
Total	119,626,636	46,091,578	-	165,718,214

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

	30 September 2016	31 December 2015
Total borrowings (note 13 , 27)	68,959,319	100,870,981
Less: cash and cash equivalents (note 8 , 27)	(2,239,107)	(10,517,334)
Net debt	66,720,212	90,353,647
Total equity	99,723,376	75,394,470
Total capital	166,443,588	165,748,117
Gearing ratio	40.09%	54.51%

The gearing ratio decreased over the two presented periods.

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2 FINANCIAL RISK MANAGEMENT (CONTINUED)

2.3 Fair value evaluation

The Group does not hold significant any financial instruments that are measured in the balance sheet at fair value and therefore no disclosure of fair value measurements by level is applicable. The carrying amount approximates fair value for all financial instruments held.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

a) Impairment of goodwill

In accordance with the accounting policy stated in Notes 1.6 the Group tests annually whether goodwill has incurred any impairment. The recoverable amounts of cash- generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The actual results and the assumptions considered can have a significant impact on the estimated recoverable amount. The Group management assumes that the recoverable amounts computed as at 30 September 2016 and 31 December 2015 represent the best estimate for the goodwill recoverable value.

b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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4 PROPERTY, PLANT AND EQUIPMENT

In order to value tangible assets, as at 31 December 2014, 2013, 2012 and 2011, these were split by the independent valuation expert into two categories: land and buildings, according to the valuation method employed, in order to derive their fair value, as follows:

- Assets valued at market value;
- Assets values at net replacement cost using information collected from the market and depreciated by physical, functional and economic obsolescence, where applicable;

Revaluation differences were recorded for each property and plant item.

Land was valued based on market the comparison approach.
For buildings the replacement cost method was applied.

Equipment and intangible assets were not revalued.
The valuation was carried out in compliance with the International Valuation Standards ("IVS") and relevant provisions of International Accounting Standard 16 "Property, Plant &Equipment ("IAS 16").

The Company had no commitments to purchase property, plant and equipment or other intangible assets at the end of any of the reporting periods.

The Company did not apply the provision of IAS 23 Borrowing Costs in relation to capitalisation of borrowing costs as no conditions were met as required by the standard, namely a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and there were no such assets during the financial years ended 31 December 2015 and 30 September 2016.

The Group's land and buildings were last revalued as at 31 December 2014 by independent valuers. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset were charged in other comprehensive income and debited against revaluation reserves directly in equity, whereas all other decreases were charged to the profit or loss.

Due to limitation in prior period information, in respect of historical amounts the Group does not have a complete list detailing the historical cost and related depreciation for the purposes of the presentation in the financial statements of land and buildings at cost.

No significant acquisitions of non-current assets were made between January and September 2016.

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5 FINANCIAL INSTRUMENTS

Financial instruments by category

	30 September 2016	31 December 2015
Assets as per balance sheet		
Trade and other receivables excluding pre-payments, advances to suppliers and tax receivables	45,480,775	50,977,328
Cash and cash equivalents	2,239,107	10,517,334
Total	47,719,882	61,494,662

	30 September 2016	31 December 2015
Liabilities as per balance sheet		
Borrowings (excluding finance lease liabilities)	47,265,386	70,886,562
Finance lease liabilities	21,693,933	29,984,419
Trade and other payables excluding statutory liabilities, advances from customers and deferred income	44,873,636	61,839,448
Total	113,832,955	162,710,429

All financial liabilities are at amortised cost.

None of the financial assets that are fully performing have been re-negotiated during the last year.

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6 TRADE AND OTHER RECEIVABLES

	30 September 2016	31 December 2015
Trade receivables	46,145,726	53,885,078
Less: provision for impairment of trade receivables	(3,259,465)	(3,404,220)
Trade receivables – net	42,886,261	50,480,858
Of which, with related parties	-	186
Advances to suppliers	1,155,128	3,064,239
Less provision for impairment of advances to suppliers	(330,000)	(330,000)
VAT non chargeable	4,793,638	5,093,798
Prepayments	293,607	323,116
Other receivables	3,082,473	579,470
Less: provision for impairment of other receivables	(83,000)	(83,000)
	51,798,107	59,128,481
Less non-current position:		
Advance payments for property, plant and equipment	(527,348)	(226,542)
Other receivables	(224,991)	(224,438)
Current portion	51,045,768	58,677,501

For all receivables the carrying amount approximates their fair value.

As at 30 September 2016, trade receivables of RON 3,259,465 (31 December 2015: RON 3,404,220) were impaired.

No general provision for these trade receivables was recorded.

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6 TRADE AND OTHER RECEIVABLES (CONTINUED)

Changes in the Group's provision for impairment of trade receivables are as follows:

	30 September 2016	31 December 2015
As at 1 January	3,404,220	2,386,857
Provision for impairment of receivables	-	1,058,363
Unused amounts reversed	(144,755)	(41,000)
As at 30 September/31 December	3,259,465	3,404,220

The movements in provision for impaired receivables have been included in "other loss/gains" in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

7 INVENTORIES

	30 September 2016	31 December 2015
Raw materials and other materials	6,140,612	4,724,751
Work in progress	4,396,503	6,221,143
Finished goods	5,140,077	5,849,470
Goods	2,054,936	-
Packaging materials	9,415,082	10,252,916
	27,147,210	27,048,280

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8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	30 September 2016	31 December 2015
Cash at bank and on hand	2,081,609	10,337,884
Other cash equivalents	157,498	179,450
	2,239,107	10,517,334
Overdraft (Note 13)	(19,765,016)	(35,075,279)
Cash and cash equivalents	(17,525,909)	(24,557,945)

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares (note 11).

	30 September 2016	31 December 2015
Profit from continuing operations attributable to owners of the parent	23,799,744	12,651,553
Weighted average number of ordinary shares in issue (thousands)	631,202,684	631,202,684

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10 SHARE CAPITAL

The total authorised number of ordinary shares as at 31 December 2016 is RON 652,708,867 thousands shares, with a par value RON 0.1 per share. All issued shares are fully paid.

31 December 2015	Number of shares (thousands)	Amount-nominal value (RON)	Amount restated value (RON)	Percentage of ownership (%)
Ciurtin Petru Raul (Crisware Holdings LTD)	175,293,000	17,529,300	50,520,582	26,86
RC2 (CIPRUS) Limited	166,100,478	16,610,048	47,869,472	25,45
Ciurtin Petru Raul (Croniar Holdings LTD – through Lorena Beatrice Ciurtin)	102,276,500	10,227,650	29,474,612	15,67
Others shareholders –individuals	106,713,450	10,671,345	30,753,529	16,35
Others shareholders – companies	102,325,439	10,232,544	29,479,506	15,67
Total	652,708,867	65,270,887	188,097,701	100,00

30 September 2016	Number of shares (mii)	Amount-nominal value (RON)	Amount-restated value (RON)	Percentage of ownership (%)
B,S,A, International Bruxelles BEL	618,771,221	61,877,122	178,316,621	94,80
Others shareholders –individuals	16,977,864	1,697,787	4,890,540	2,60
Others shareholders – companies	16,959,782	1,695,978	4,890,540	2,60
Total	652,708,867	65,270,887	188,097,701	100,00

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11 RETAINED EARNINGS

As at 30 September 2016 the Group included in retained earnings the amount of RON 3,785,651 representing legal reserves which are not distributable to the shareholders (31 December 2015: RON 3,785,651).

As at 30 September 2016 the Group included in its retained earnings a number of 16,336,152 treasury shares in amount of RON 2,588,613 (31 December 2015: 21,499,696 treasury shares in amount of RON 3,396,647).

12 TRADE AND OTHER PAYABLES

	30 September 2016	31 December 2015
Trade payables	33,826,135	58,891,769
Amounts due to related parties	-	9
Amounts due to employees	2,309,503	4,076,048
Social security and other taxes	2,303,358	1,770,644
VAT payable	1,131,005	1,147,718
Expected accounts payable invoices	10,263,867	2,169,609
Other payables	783,634	778,061
Trade and other payables	50,617,502	68,833,858

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13 BORROWINGS

	30 September 2016	31 December 2015
Non-current		
Borrowings	17,010,167	25,194,686
Finance lease liabilities	13,253,335	19,678,592
	30,263,502	44,873,278
Current		
Bank overdrafts	19,765,016	35,075,279
Borrowings	10,490,202	10,616,597
Finance lease liabilities	8,440,599	10,305,827
	38,695,817	55,997,703
Total borrowings	68,959,319	100,870,981

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	30 September 2016	31 December 2015
6 months or less	68,959,319	100,870,981

The fair value of the borrowings equals their carrying amount. The impact of discounting is not significant, as all borrowings bear variable interest rates.

	30 September 2016	31 December 2015
EUR	43,119,303	81,783,849
RON	25,840,016	19,087,132
Total	68,959,319	100,870,981

Bank borrowings and overdrafts are secured by land and buildings and trade receivables of the Group.

The undrawn part of credit facilities for working capital needs and issuance of bank letters of guarantee as at 30 September 2016 amounts to RON 30,998,720 (31 December 2015: RON 31,169,721).

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14 DEFERRED INCOME TAX

The breakdown of deferred tax assets and deferred tax liabilities is as follows:

	30 September 2016	31 December 2015
Deferred tax assets:	613,747	613,747
– Deferred tax asset to be recovered within after more than 12 months	-	-
– Deferred tax asset to be recovered within 12 months	613,474	613,474
Deferred tax liabilities:	2,716,011	2,716,011
– Deferred tax liability to be reversed after more than 12 months	2,716,011	2,716,011
– Deferred tax liability to be reversed within 12 months	-	-
Net deferred tax	(2,102,264)	(2,102,264)
Net deferred tax asset as per consolidated balance sheet	(2,102,264)	(2,102,264)

15 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Termination benefit provision	Taxes and charges	Fines	Total
As at 01 January 2015	274,072	-	2,199,507	2,473,579
As at 31 December 2015	274,072	464,915	-	738,987
As at 01 January 2016	274,072	464,915	-	738,987
As at 30 September 2016	274,072	-	-	274,072

The provision for termination benefit refers to compensatory payments as per collective labour contract, computed as two base salaries for each employee retiring from the Group.
The Group was subject to an investigation performed by the Competition Council for the period 2005 – 2009.

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16 OTHER (LOSSES)/GAINS – NET

	30 September 2016	30 September 2015
Sales of assets:		
– Income	512,344	30,976
– Expenses	(178,937)	(5,542)
	333,407	25,434
Impairment of current assets:		
– Reversals	263,122	1,039,967
– Amounts provided for during the period	-	(330,000)
	263,122	709,967
Net foreign exchange (losses)/gains	12,676	(90,576)
Other (losses)/gains – net	-	(910,695)
Total	609,205	(265,870)

17 REVENUE

	30 September 2016	30 September 2015
Finished goods sold	391,160,626	328,861,168
Outgoing discounts	(25,044,706)	(17,203,791)
Other income	861,914	1,220,402
	366,977,834	312,877,779

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18 OTHER OPERATING EXPENSES

	30 September 2016	30 September 2015
Electricity, heating and water supply	7,905,227	8,071,317
Maintenance and repair expenses	2,336,487	1,603,969
Insurance premiums	994,898	1,100,731
Transport of goods and personnel	11,035,503	9,051,819
Post, telecommunications and bank commissions	1,160,388	1,189,395
Other taxes, charges and similar expenses	1,792,503	1,243,140
Compensations, fines and penalties	1,074,180	3,323,514
Business representation expenses	77,359	179,904
Other operating expenses	932,549	446,930
	27,309,094	26,210,719

19 OTHER OPERATING INCOME

	30 September 2016	30 September 2015
Income from penalties	97,140	79,111
Income from grants	284,260	288,588
Other income	274,606	223,772
	656,006	591,471

20 PAYROLL COSTS

	30 September 2016	30 September 2015
Wages and salaries	30,617,052	25,561,291
Social security costs	7,862,688	6,222,485
Meal tickets	1,653,340	1,541,289
	40,133,080	33,325,065

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21 FINANCE INCOME AND COSTS

	30 September 2016	30 September 2015
Interest expense:		
– Bank borrowings	591,086	1,038,493
– Finance lease liabilities	512,675	784,941
– Outgoing discounts	17,035	-
Net foreign exchange losses / (gains) from financing activities	(1,023,123)	(1,425,176)
Finance costs	97,673	398,258
Finance income:		
– Interest income on short-term bank deposits	1,453	5,376
--Incoming discounts	42,790	-
Finance income	44,243	5,376
Financial expenses - net	53,430	392,882

22 INCOEM TAX EXPENSE

	30 September 2016	30 September 2015
Income tax profit for the period	2,691,258	3,098,358
Deferred tax	-	(93,252)
Income tax expense	2,691,258	3,005,106

23 DIVIDENDS PER SHARE

No dividends were granted during January - September 2016.

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24 CASH GENERATED FROM OPERATIONS

	30 September 2016	30 September 2015
Net profit	23,812,553	9,980,991
Adjustments for:		
– Depreciation and revaluation differences	16,035,304	17,411,609
– Tax on profit	2,691,258	3,005,106
– Profit from fixed asset sales	(333,407)	(25,433)
– Provisions for current assets	(263,122)	(709,967)
– Interest expense (Note 21)	1,103,761	1,823,434
– Interest income (Note 21)	(1,453)	(5,376)
– Income from grants	(284,260)	(288,588)
– Effects of exchange rate changes on cash	192,191	66,256
-- Provisions for risks and expenses	(464,915)	(2,199,507)
– Foreign exchange effect on loans, payables and receivables	(1,224,815)	1,421,182
Changes in working capital (except for the effects of purchase and foreign exchange differences on consolidation):	41,263,095	30,479,707
– Inventories	19,436	8,762,004
– TRADE AND OTHER RECEIVABLES	7,475,130	(18,982)
– Trade and other payables	(13,216,342)	5,157,246
Cash generated from operations	35,541,319	44,379,975

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25 COMMITMENTS AND CONTINGENCIES

(a) Litigation

The Group is subject to legal actions arisen during the normal course of business for which the Group recorded provisions in these financial statements as appropriate.

(b) Taxation

The Romanian taxation system has been undergoing a process of consolidation and harmonization with the European Union legislation.
However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (currently, penalties determined by the duration of delays, plus 0.05% per day of delay). In Romania, tax periods remain open for tax inspection for 5 years. The Group's management considers that the tax liabilities included in these financial statements are fairly stated.

(c) Transfer pricing matters

Romanian tax legislation includes the arm's length principle according to which transactions between related parties should be carried out at market value. Local taxpayers engaged in related party transactions have to prepare and make available upon the written request of the Romanian Tax Authorities their transfer pricing documentation file. Failure to present the transfer pricing documentation file, or presenting an incomplete file, may lead to non-compliance penalties; additionally, notwithstanding the contents of the transfer pricing documentation, the tax authorities may interpret the facts and transactions differently from management and impose additional tax liabilities resulting from transfer price adjustments. The Group's management believes that the Group will not incur losses in the event of a tax inspection on the subject of transfer prices. However, the impact of any challenge by the tax authorities cannot be reliably estimated. It may be significant to the financial condition and/or the overall operations of the entity.

(d) Guarantees awarded to third parties

The group issues letters of guarantee for participation in bids and supplier selection for the purposes of its current business.

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25 COMMITMENTS AND CONTINGENCIES (CONTINUED)

For the credit facilities and letters of guarantees from financial institutions the Group has the following guarantees:

- pledge without dispossession of credit balance accounts / sub-accounts opened by the Group with ING Bank and Transilvania Bank;
- assignment of receivables for commercial contracts entered into by the Company with customers;
- inventories pledged at Group level amounting RON 19,803,215 as of 31 December 2015.

(e) Commitments received

No commitments received by the Group.

26 INVESTMENTS IN SUBSIDIARIES

The Group had the following subsidiaries as at 30 September 2016 and 31 December 2015.

Name	Proportion of ordinary shares held by parent (%)	Proportion of ordinary shares held by non-controlling interests
	(%)	(%)
Rarăul SA	99.01	0.99
Albalact Logistic SRL	100	-

The total non-controlling interest for the period accounts for RON 74,949, and RON 62,140 respectively and is attributed to Rarăul SA branch. There is no non-controlling interest in respect of Albalact Logistic SRL.

The non-controlling interests are not material for the Group.

All subsidiaries are incorporated in Romania and there are no restrictions in respect of them.

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27 STOCK OPTION PLANS

In accordance with decision 1 of the extraordinary GSM of 21 April 2015, the treasury shares purchased by the Group as part of the repurchase programme approved by decision no 3/24 September 2013 of the extraordinary GSM will be allocated as part of a Stock Option Plan to purchase shares for the Company's management (positions 1, 2, and 3 in the Company's organisational chart referred to as 'Eligible Persons').

The plan will be valid for three years from its effective date, the first year when shares will be granted under the Plan being 2015, for which an annual full tranche will be allocated. The effective date is the date of the Plan approval by the extraordinary GSM.

The Company will grant under the Plan the option to acquire a total number of shares representing 2.3733% of its share capital (15.490.632 shares), split in 3 equal annual tranches of 0.7911% (5,163,544 shares), which will be distributed to all the Eligible Persons for a purchase price of RON 0.1. Yearly, the Company will communicate to the Eligible Persons the progress of on the qualifying requirements for granting and the number of shares for which each Eligible Person can opt, based on their position. The options will be granted if the qualifying criteria established in the option plan are fulfilled, with a 3 month period allowed for exercising the option.

Granting date	Expiry date	Exercising price	Number of options
01 May 2016	31 August 2016	RON 0.1	5,163,544
01 May 2017	31 August 2017	RON 0.1	5,163,544
01 May 2018	31 August 2018	RON 0.1	5,163,544
			15,490,632

In determining the fair value the Black-Scholes method was used and the following variables were considered:

- the market value of one Company's share as at 30 April 2015 is RON 0.275;
- the market value of one Company's share as at 31 December 2015 is RON 0.34;
- the risk-free rate used was 1.49% as at 30 April 2015, and 1.81% as at 31 December 2015 respectively;
- volatility determined one basis of historical calculations and comparison against the existing standing of the market amounted to 22.09%.

As at the date of these interim financial statements, the eligible persons have exercised their acquisition right in respect of the first tranche, with a number of 5,163,544 shares being granted.

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28 POST-REPORTING PERIOD EVENTS

In January 2016, Lactalis entered into an agreement to acquire the entire interest of the Company's key shareholders, who hold 70.3% of Albalact SA share capital. Said agreement includes the usual conditions precedent for the completion of such transaction, including but not limited to approval by the Romanian Competition Council and absence of any negative significant changes as contractually agreed by the parties.

During July 2016, the contracting parties found that all the conditions precedent laid down in the agreement had been fulfilled. Thus, Lactalis submitted the bid documentation related to the voluntary takeover through B.S.A. International, a member of the group, and received the approval from the Financial Supervision Authority on such bid on 27 July 2016. The minimum price bid is RON 0.5252 per share. The public voluntary takeover offer was valid during 10 August 2016 – 14 September 2016, and the bidder acquired a number of 618,771,221 Albalact SA shares, which amounts to 94.80% of Albalact SA's share capital.

Upon expiry of the voluntary takeover offer, i.e. on 19 September 2016, the members of the board of directors tendered their resignation, and on 6 October 2016, the Ordinary GSN passed the election of a new Board of Directors including:
Mr Aurelio Antuna Rodriguez – chairman of board of directors;
Mr Gilles Joseph Stephane Meziere- member of board of directors;
Mr Michel Francois Jacques Auguste Peslier – member of board of directors.

There are no other subsequent events to be reported.

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