

Joint Stock Company
GROBIŃA

2006 Annual report

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GENERAL INFORMATION

| | |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company name | Joint-stock company "Grobiņa" |
| Legal form | Public joint-stock company |
| Registration number, place, date in commercial register | Unified registration number: 40003017297 Riga July 12, 2004 |
| Legal address | Lapsu Street 3, Dubeni, Grobina district, Liepaja region, Latvia, LV- 3438 |
| Principal activities | Fur-farming, agricultural produce production, refinement and realization, trade and mediation, transport services, premises rental |
| Joint-stock company "Grobiņa" chairman of council | Andris Upenieks |
| Joint-stock company "Grobiņa" councillors | Jānis Siliņš Agris Nagliņš Ojārs Petrēvics Jānis Briedis |
| Joint-stock company "Grobiņa" chairman of board | Laimonis Laugalis |
| Joint-stock company "Grobiņa" regents | Anatolijs Gorbunovs Gunta Isajeva |
| Financial period | 2006.gada 01.janvāris – 2006.gada 31.decembris |
| Auditor | "Auditorfirma Grāmatvedības un revīzijas birojs" SIA Brīvības street 85, Riga, LV-1001, Latvia Certified auditor Aija Kurta Certificate No. 128 |

MANAGEMENT REPORT

Basic activity direction of joint-stock company "Grobiņa" is mink, silver fox breeding for furry extraction.

In year 2006 the extraction indices was higher that year before, -from one mink mother raised 5,3 puppies and from one silver fox mother raised 4,5 puppies. To raise animal productivity, to raise a quality of skins in 2006 has been bought breeding animals for 67,6 thousand LVL.

Net turnover in year 2006 was 1,98 million LVL. In compared to last year it has increase for 48%. It is the result of interpellation increase in Scandinavian auction houses.

In year 2006 there was made 183,0 thousands LVL investments in production machine and buildings. The renew work has been made in farm, food kitchen, freezers. The new food machine has been purchase, also clarification and new pelting machinery was purchased.

In JSC "Grobina" in year 2006 the average staff amount was 130 employees.

Joint stock company "Grobiņa" regularly and without obstruction has paid all taxes, salaries and other payments. In year 2006 average earnings has grow for 29% and was 291,49 LVL. In taxes paid 237,0 thousands LVL.

Main financial risk is borrowing in EUR. Since most part of companies proceeds are in DKK and EUR, that has been stable currency, company management in nearest future does not see serious financial risks.

In 2006 net earnings per stock are 0,572 LVL or 0,814 EUR; 2005 – 0,274 LVL or 0,390 EUR.

In year 2007 there is a plan to continue to renew breeding animals, that will cost about 70 thousands LVL

Investments in production machine, buildings and machinery planed to spend 200 thousands LVL.

In next financial period plan to have 1,9 million LVL sales proceed.

Join stock company "Grobina" board recommends year 2006 profit leave undivided for manufacture development and modernisation.

Laimonis Laugalis
Chairman of board

Dubeni, 27 March 2007

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| | Attachment | 2006 LVL | 2005 LVL |
|--------------------------------------------------|------------|-----------------------------|-----------------------------|
| 1. Net turnover | 1 | 1983610 | 1333996 |
| 2. Cost of sales | 2 | (1465175) | (1010020) |
| 3. Gross profit | | <u>518435</u> | <u>323976</u> |
| 4. Sales distribution costs | 3 | (59783) | (55635) |
| 5. Administration costs | 4 | (110637) | (94332) |
| 6. Other operating income | 5 | 43549 | 43395 |
| 7. Other operating expenses | 6 | (21260) | (40435) |
| 10. Other interest receivable and similar income | 7 | 7 | 755 |
| 12. Interest payable and similar expenses | 8 | (17234) | (6122) |
| 16. Profit before tax | | <u>353077</u> | <u>171602</u> |
| 17. Tax on profit for financial period | 9 | (45696) | (16197) |
| 18. Suspended enterprise income tax | 10 | (21328) | (18226) |
| 18. Other Taxes | 11 | (188) | (125) |
| 19. Profit for the financial period | | <u><u>285865</u></u> | <u><u>137054</u></u> |

Attachments from page 10 till page 19 are unalienable constituent of this annual report.

Laimonis Laugalis
Chairman of board

Dubeni, 27 March 2007

BALANCE ON 31 OF DECEMBER, 2006

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| | Attac hment | 2006 LVL | 2005 LVL |
|----------------------------------------------------------------------------|----------------|-----------------|-----------------|
| Assets | | | |
| Long – term investments | | | |
| I. Intangible investments | | | |
| 2. Concessions, patents, licenses, trade-marks and similar rights | 12 | 600 | 764 |
| Intangible investments totally: | | 600 | 764 |
| II. Fixed assets: | | | |
| 1. Lands, buildings, constructions and perennial plantations | 13 | 411138 | 325897 |
| 3. Technological equipments and machines | | 213513 | 266827 |
| 4. Other fixed assets and inventory | | 113199 | 53478 |
| 5. Forming of fixed assets and costs of unfinished objects of construction | | 12579 | 19897 |
| 6. Advance payments for fixed assets | | 13761 | 9566 |
| Fixed assets totally: | | 764190 | 675665 |
| IV. Biological assets | 14 | 496591 | 406899 |
| V. Long-term financial investments | | | |
| 5. Other securities and investments | 15 | 352 | 352 |
| 7. Own stocks and shares | | 2500 | - |
| Long term financial investments totally: | | 2852 | 352 |
| Long-term investments totally: | | 1264233 | 1083680 |
| Current assets | | | |
| I. Stocks: | | | |
| 1. Raw materials, direct materials and auxiliary materials | | 113770 | 74429 |
| 3. Complete products and goods for sale | | 1384808 | 1075898 |
| 5. Advance payments for goods | | - | 64 |
| Stocks totally: | | 1498578 | 1150391 |
| II. Debtors: | | | |
| 1. Costumers and clients debts | 16 | 83073 | 56029 |
| 4. Other debts | 17 | 10292 | 47229 |
| 7. Expenses of next period | 18 | 1144 | 1498 |
| Debtors totally: | | 94509 | 104756 |
| IV. Cash assets | 19 | 477348 | 123712 |
| Current assets totally: | | 2070435 | 1378859 |
| Assets totally | | 3334668 | 2462539 |

Attachments from page 10 till page 19 are unalienable constituent of this annual report.

BALANCE ON 31 OF DECEMBER, 2006

| | Attac hment | 2006 LVL | 2005 LVL |
|--------------------------------------------|----------------|-----------------|-----------------|
| <u>Liabilities</u> | | | |
| Equity capital: | 20 | | |
| 1. Stock or share capital | | 500000 | 500000 |
| 5. Reserves | | | |
| d) Other reserves | | 54454 | 54454 |
| 6. Retained profit | | | |
| a) Retained profit for previous year | | 1331264 | 1194210 |
| b) Retained profit for the year accountant | | 285865 | 137054 |
| Equity capital totally: | | 2171583 | 1885718 |
| Stockpiles: | | | |
| 3. Other stockpiles | | 38934 | 24540 |
| Stockpiles totally: | 21 | 38934 | 24540 |
| Creditors: | | | |
| Long-term debts: | | | |
| 3. Suspended tax liabilities | 22 | 39554 | 18226 |
| 4. Other borrowings | 23 | 251920 | 278710 |
| 12. Deferred income | 24 | 3159 | 6317 |
| Long-term debts totally: | | 294633 | 303253 |
| Short-term debts: | | | |
| 3. Borrowings from credit institution | | 139858 | 54271 |
| 5. Costumers advanced payments | | 446956 | 30614 |
| 6. Debts to suppliers and contractors | 25 | 107729 | 91409 |
| 10. Tax and social security payments | | 81423 | 35372 |
| 11. Other creditors | 27 | 44595 | 19633 |
| 12. Deferred income | 28 | 3158 | 12483 |
| 15. Accrued liabilities | 29 | 5799 | 5246 |
| Short-term debts totally: | | 829518 | 249028 |
| Creditors totally: | | 1124151 | 552281 |
| <u>Liabilities totally</u> | | 3334668 | 2462539 |

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Laimonis Laugalis
Chairman of board

Dubeni, 27 March 2007

STATEMENT OF CHANGES IN EQUITY 2006

| | Equity capital | Reserves prescribed by enterprise | Retained profit | Totally |
|---------------------------------|----------------|-----------------------------------------|--------------------|----------------|
| | LVL | LVL | LVL | LVL |
| January 1, 2005 | 500000 | 54454 | 1194210 | 1748664 |
| Profit for the financial period | | | 137054 | 137054 |
| December 31, 2005 | 500000 | 54454 | 1331264 | 1885718 |
| Profit for the financial period | | | 285865 | 285865 |
| December 31, 2006 | 500000 | 54454 | 1617129 | 2171583 |

Attachments from page 10 till page 19 are unalienable constituent of this annual report.

Laimonis Laugalis
Chairman of board

Dubeni, 27 March 2007

CASH FLOW STATEMENT 2006

| | Attac hment | 2006 | 2005 |
|--------------------------------------------------------------------------------------------------------|------------------------|-----------------|-----------------|
| | | LVL | LVL |
| Business activities cash flow | | | |
| 1. Profit or loss before tax | | 353077 | 171602 |
| <u>Corrections:</u> | | | |
| a) wear of fixed assets | | 93310 | 76573 |
| b) amortization of immaterial investment assets | | 236 | 517 |
| c) liquidation of fixed assets | | 1099 | - |
| d) formation of accumulations | | 14394 | 11582 |
| e) profit of loss from foreign currency exchange rate fluctuation | | 3317 | 24307 |
| f) received subsidies endowments, grants and donation | | (28792) | (31697) |
| g) other tax income and other income | | (7) | (755) |
| h) percentage payments | | 17234 | 6122 |
| i) donations | | 2000 | 1200 |
| 2. Profit of loss before current assets and short-term liabilities residue correction influence | | 455868 | 259451 |
| a) Biological asset (increase)/ decrease | | (89692) | (86125) |
| b) Stock residue (increase)/ decrease | | (348187) | (196554) |
| c) Debtors debt residue (increase)/ decrease | | 10247 | (6749) |
| d) To suppliers, contractors and other creditors payable debt residue increase/ (decrease) | | 513073 | (41453) |
| 3. Gross basic activities cash flow | | 541309 | (71430) |
| 4. expenses for percentage payments | | (17234) | (6122) |
| 5. expenses for enterprise income tax | | (45696) | (16197) |
| 6. Suspended enterprise income tax | | (21328) | (18226) |
| 7. Realty tax costs | | (188) | (125) |
| 8. Basic activity net cash flow | | 456863 | (112100) |
| Investments action cash flow | | | |
| 1. Company stock or share purchase. | | (2500) | - |
| 2. Fixed assets and intangible investments purchase | | (183006) | (177539) |
| 3. Percentage benefit | | 7 | 755 |
| 9. Investments activity net cash flow | | (185499) | (176784) |
| Financing activity cash flow | | | |
| 1. Received borrowings | | 196482 | 590418 |
| 2. Received subsidies endowments, grants and donation | | 28792 | 31697 |
| 3. Costs about credit repayment | | (137685) | (257437) |
| 4. Expenses for donations | | (2000) | (1200) |
| 10. Financing activity net cash flow | | 85589 | 363478 |
| Foreign currency exchange rate fluctuation result | | (3317) | (24307) |
| Financial period net cash flow | | 353636 | 50287 |
| Cash and its equivalents residue in the beginning of financial period | | 123712 | 73425 |
| Cash and its equivalents residue in the end of financial period | 19 | 477348 | 123712 |

Attachments from page 10 till page 19 are unalienable constituent of this annual report.

Laimonis Laugalis
Chairman of board
Dubeni, 27 March 2007

ATTACHMENT

I. Accountancy politics

1. General principle

Financial report is produced according to laws of Republic of Latvia "About accountancy", "About annual reports" and Latvia accountancy standards.

Profit or loss statement produced according to turnover expenses scheme.

Cash flow statement produced, basic activities cash flow determine by indirect method.

2. Net turnover

Net turnover is sold production in financial period- mink, silver foxes, polar foxes furry- and total sum of service value with out any assigned discounts and value added tax.

3. Exchange foreign currency in LVL

Accountancy in enterprise is done in LVL. All deals with foreign currency are converted in LVL according to official foreign currency rate to The Bank of Latvia in day when deal is managed.

Assets and obligations in foreign currency are converted in LVL according to the bank of Latvia given rates in the last day of financial period. Foreign currency exchange rate fluctuation profit of loss is showed in respectively profit or loss statement.

| | 2006 LVL | 2005 LVL |
|-------|---------------------------|---------------------------|
| 1 USD | 0,536 | 0,593 |
| 1 EUR | 0,702804 | 0,702804 |
| 1 DKK | 0,0943 | 0,0942 |
| 1 LTL | 0,204 | 0,204 |
| 1 RUB | 0,0203 | 0,0206 |

4. Intangible investments and fixed assets

In intangible investments was showed value of computer program licences, with the exception of value decrease. Intangible investments are planed to include in expenses in five years.

All fixed assets are showed same as purchase value, with the exception of abrasion. Abrasion is calculated according to linear method accordingly of useful exploitation of fixed assets, using rates to each fixed asset given by direction:

| Category of fixed assets | Rate of wear % |
|---------------------------------------|-----------------------|
| Lands and buildings | 1,7% - 8,5% |
| Technological equipments and machines | 5,3% - 25% |
| Other fixed assets | 9,1% - 33,33% |

5. Biological assets

According to changes in "Law about annual report" new position classification has been made correspondig to 4.LGS „Change of accountancy politics, accountancy calculation changes and previous period mistakes”. Fur animals is acknowledge in composition of biological assets. In previous financial period they were included in composition of stocks in balance position "Work animals and productive animal".

6. Stocks

Stocks valued using FIFO method.

Stocks showed in the lowest of their market value or their first cost. Remains of raw materials and materials valued in purchase costs. Remains of finished product and remains of furry are valued in actual cost price. If necessary in case of outdated, slow turnover or defective stock value is amortize or set accumulation that is discharge from stock balance value.

7. Debtor liability

In balance sheet debtor liability is showed in net value, with the exception of doubtful debt accumulation. Special accumulations of doubtful debt is done when direction of enterprise decides that this detach debtors liability restoration is doubtful.

8. Cash and its equivalents

In cash flow statement cash and its equivalents component cash from booking office, current account residuals and guarantee deposit of debit card.

9. Taxes

Enterprise income tax costs in financial period are included in annual report according to calculations made by management based on legislation of Republic of Latvia.

Suspended tax is calculated according to obligation method on all temporary differences between assets and liabilities value in annual reports and its goals to taxes calculation value. Temporary differences originate mostly by using different wear of fixed assets rates and also from unused vacations. In case when total suspended tax result should be included in balance assets, it is included in annual report only then when returns is trust worth.

According to changes in "Law about annual report" new position classification has been made corresponding to 4.LGS „Change of accountancy politics, accountancy calculation changes and previous period mistakes". Suspended tax is acknowledged in composition of long-term. In previous financial period it was included in composition of stocks in balance position "Reserves to prospective taxes".

10. Stockpiles of unused vacation

Vacation stockpiles is calculated as joint accumulation for all staff, considering each employee average day payment and stockpiles of vacation.

11. Endowment

Received endowment for purchasing fixed assets is enumerate as next period income which includes step by step in income about endowments in period of useful operating with fixed assets.

II. Explanation of several "Profit or loss statement" positions

(1) Net turnover

Net turnover divisional in basic activity mode

| | 2006 | 2005 |
|------------------|----------------|----------------|
| | LVL | LVL |
| Mink skins | 1880358 | 1295795 |
| Silver fox skins | 23372 | 6968 |
| Polar fox skins | 15700 | 1805 |
| Various utility | 64180 | 29428 |
| | 1983610 | 1333996 |
| | 1983610 | 1333996 |

Net turnover breakdown by geographical sale

| | | |
|------------|----------------|----------------|
| Latvia | 249591 | 152967 |
| Russia | 152568 | 169868 |
| AAE | 26785 | - |
| Kazakhstan | - | 33351 |
| Finland | 321591 | 240261 |
| Lithuania | 99551 | - |
| Denmark | 1041214 | 695864 |
| Greece | 85597 | 41685 |
| Ukraine | 6713 | - |
| | 1983610 | 1333996 |
| | 1983610 | 1333996 |

(2) Sold production operating costs

| | | |
|------------------------|----------------|----------------|
| Forage | 711959 | 454383 |
| Personnel costs | 417639 | 305375 |
| Wear of fixed assets | 72855 | 56226 |
| Medication | 61853 | 50719 |
| Electricity | 43808 | 38569 |
| Other production costs | 157061 | 104748 |
| | 1465175 | 1010020 |
| | 1465175 | 1010020 |

(3) Cost of sales

| | | |
|--------------------------------|--------------|--------------|
| Commission to auction houses | 58760 | 54253 |
| Media advertising expenditures | 1023 | 1382 |
| | 59783 | 55635 |
| | 59783 | 55635 |

(4) Administration costs

| | | |
|-----------------------------------------------------------------|---------------|--------------|
| Office maintenance expenses | 6832 | 9350 |
| Wage | 51816 | 44934 |
| State social security compulsory payments | 10434 | 11042 |
| Various utility | 4826 | 5447 |
| Wear and amortization of fixed assets and immaterial investment | 6293 | 7115 |
| Business trip | 7810 | 5809 |
| Other expenses | 22626 | 10635 |
| | 110637 | 94332 |
| | 110637 | 94332 |

(5) Other enterprise income from commercial activities

| | 2006 | 2005 |
|--------------------------------------------------------------------------------------------------------|--------------|--------------|
| | Ls | Ls |
| Income from difference between value of certificate invested in land privatisation and its sales costs | 9325 | 9326 |
| Subsidy for breeding animals purchasing | 25634 | 28539 |
| ES SAPARD program financial support | 3158 | 3158 |
| Various income | 329 | 2372 |
| Sold fixed assets | 5103 | - |
| | 43549 | 43395 |
| | 43549 | 43395 |

(6) Other enterprise costs from commercial activities

| | | |
|---------------------------------------|--------------|--------------|
| Loss from currency rate decline | 3317 | 24307 |
| Donation | 2000 | 1200 |
| Various expenses | 118 | 210 |
| Surcharge | 332 | 3136 |
| Sold fixed assets calculation value | 1099 | - |
| Payment stockpiles of unused vacation | 14394 | 11582 |
| | 21260 | 40435 |
| | 21260 | 40435 |

(7) Other percentage income and such income

| | | |
|-------------------------------------|----------|------------|
| Percentage for cash residue in bank | 7 | 755 |
| | 7 | 755 |

(8) Percentage payments and such costs

| | | |
|------------------------------|--------------|-------------|
| Advance payments percentage | 12013 | 3567 |
| Short-term credit percentage | 5221 | 2555 |
| | 17234 | 6122 |
| | 17234 | 6122 |

(9) Enterprise income tax in financial period

| | | |
|----------------------------------------|--------------|--------------|
| Financial period enterprise income tax | 45696 | 16197 |
| | 45696 | 16197 |

Enterprise income tax differs from theoretical tax sum, which would be paid if enterprise profit before taxes accommodate in law established 15%rate.

(10) Suspended enterprise income tax

In calculation of suspended tax used effectual 15% tax rate.

Suspended enterprise income tax is calculated from temporary differences between assets and balance liabilities value and its enterprise income tax value goals:

| | 2006 | 2005 |
|--------------------------------------------------|--------------|--------------|
| | LVL | LVL |
| Temporary differences in fixed assets wear | 21328 | 18226 |
| Suspended tax liabilities (+), assets (-) | 21328 | 18226 |
| | 21328 | 18226 |

(11) Other taxes

| | | |
|---------------------------------|------------|------------|
| Realty tax for financial period | 188 | 125 |
| | 188 | 125 |

III. Explanation for separate balance positions

(12) Intangible investments

| | Concessions, patents, licenses, trade-marks and similar costs LVL | Totally LVL |
|-------------------------------------------|----------------------------------------------------------------------------|-------------------|
| Initial cost | | |
| 31.12.2005. | 2681 | 2681 |
| Purchased | 468 | 468 |
| Disposed | (1012) | (1012) |
| 31.12.2006. | <u>2137</u> | <u>2137</u> |
| Obsolescence | | |
| 31.12.2005. | 1917 | 1917 |
| Calculated about year 2006 | 236 | 236 |
| Eliminated | (616) | (616) |
| 31.12.2006. | <u>1537</u> | <u>1537</u> |
| Residual balance value 31.12.2005. | <u>764</u> | <u>764</u> |
| Residual balance value 31.12.2006. | <u><u>600</u></u> | <u><u>600</u></u> |

(13) Fixed assets

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| | Lands, buildings, constructions and perennial plantations | Technological equipments and machines | Other fixed assets and inventory | Forming of fixed assets and costs of unfinished objects of construction | Advance payments for fixed assets | Totally |
|-------------------------------------------|-----------------------------------------------------------|---------------------------------------|----------------------------------|-------------------------------------------------------------------------|-----------------------------------|----------------|
| | LVL | LVL | LVL | LVL | LVL | LVL |
| Initial cost | | | | | | |
| 31.12.2005. | 990207 | 441548 | 95261 | 19897 | 9566 | 1556479 |
| Purchased | 102615 | 2769 | 80277 | 178810 | 87377 | 451848 |
| Disposed | (10830) | (495) | (4112) | (186128) | (83182) | (284747) |
| 31.12.2006. | 1081992 | 443822 | 171426 | 12579 | 13761 | 1723580 |
| Obsolescence | | | | | | |
| 31.12.2005. | 664310 | 174721 | 41783 | - | - | 880814 |
| Calculated about year 2006 | 17374 | 56083 | 19853 | - | - | 93310 |
| About disposal | (10830) | (495) | (3409) | | | (14734) |
| 31.12.2006. | 670854 | 230309 | 58227 | - | - | 959390 |
| Residual balance value 31.12.2005. | 325897 | 266827 | 53478 | 19897 | 9566 | 675665 |
| Residual balance value 31.12.2006. | 411138 | 213513 | 113199 | 12579 | 13761 | 764190 |

The value of land own by enterprise is LVL 84 600; building cadastre value is LVL 68 275

(14) Biological assets

| | LVL |
|-------------------------------------------------|---------------|
| Fur animal balance value | |
| 31.12.2005. | 406899 |
| Purchased breeding animals | 64883 |
| Sold breeding animals | (19187) |
| Value increase because of reproduction | 1689381 |
| Value decrease because of degeneracy | (45482) |
| Decrease because of finished product extraction | (1599903) |
| 31.12.2006. | 496591 |

(15) Long-term financial investments

| | Other securities LVL | Own stock or share capital LVL | Totally LVL |
|-------------------------------------------|-------------------------|-----------------------------------------|----------------|
| Initial cost | | | |
| 31.12.2005. | 352 | | 352 |
| Purchased | | 2500 | 2500 |
| Disposed | | | |
| 31.12.2006. | 352 | 2500 | 2852 |
| Residual balance value 31.12.2005. | 352 | 0 | 352 |
| Residual balance value 31.12.2006. | 352 | 2500 | 2852 |

(16) Customer debts

| | | |
|-------------------------------------|-------|-------|
| Calculation value of customer debts | 83073 | 56029 |
|-------------------------------------|-------|-------|

In financial period accumulation to doubtful liability has not set.

(17) Other debtors

| | | |
|-------------------------|--------------|--------------|
| Unpaid 12% compensation | 533 | 751 |
| VAT overpayment | 9759 | 46406 |
| Residue on fuel card | - | 72 |
| | 10292 | 47229 |

(18) Next period costs

| | | |
|-------------------------------------|-------------|-------------|
| Press subscriber | 28 | 84 |
| Regulation document scriber | - | 280 |
| Insurance indemnity advance payment | 518 | 483 |
| Advertisement in catalogues | 598 | 651 |
| | 1144 | 1498 |

(19) Cash in box-office and bank

| | | |
|--------------------|---------------|---------------|
| Cash in bank | 474478 | 121294 |
| Cash box-office | 708 | 256 |
| Debit card residue | 2162 | 2162 |
| | 477348 | 123712 |

(20) Own capital

Enterprise equity capital from 500 000 stock, that splits in 497 500 ordinary word stocks with right of voting and 2 500 ordinary word stocks without right of voting that is enterprise property. Nominal value of one stock is 1 LVL. Enterprise equity capital is full paid.

In balance position "Reserves prescribed by enterprise" shows reserves that has developed from allocations from financial period profit.

According to shareholders' meeting decision profit from previous financial year is left undivided.

(21) Other accumulation

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| | 2006 | 2005 |
|--------------------------------------------------------------------------------|--------------|--------------|
| | Ls | Ls |
| Increase in payment about unused vacation in the beginning of financial period | 24540 | 12958 |
| Increase | 14394 | 11582 |
| Increase in payment about unused vacation in the end of financial period | 38934 | 24540 |

(22) Suspended tax liabilities in composition of long term creditors

Suspended enterprise income tax is calculated from temporary differences between assets and balance liabilities value and its enterprise income tax value goals:

| | | |
|---------------------------------|--------------|--------------|
| Suspended enterprise income tax | 39554 | 18226 |
|---------------------------------|--------------|--------------|

(23) Other borrowings

| | 2006 | 2006 | 2005 | 2005 |
|-----------------------------------------------------|---------------|---------------|---------------|---------------|
| | USD | Ls | USD | Ls |
| Borrowings in USD with repayment date in year 2015. | 470000 | 251920 | 470000 | 278710 |

(24) Deferred income component from long term creditors

In balance position "Deferred income" showed from ES SAPARD program received financial support for purchasing food preparation machinery, that according to accountancy politics (8. Endowment) will be included in financial period income in rest of valuable utilization time till year 2008- sum LVL 3159

| | | |
|-----------------------------|-------------|-------------|
| ES SAPARD financial support | 3159 | 6317 |
| | 3159 | 6317 |

(25) Debts to suppliers and contractors

| | | |
|------------------------------------|---------------|--------------|
| Debts to suppliers and contractors | 107729 | 91409 |
|------------------------------------|---------------|--------------|

(26) Taxes and social securities payments

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| | VAT* | Social securities payments | Resident income tax | Enterprise income tax | Natural resources tax | Realty tax | Risk Fee | Totally |
|----------------------------------------|----------------|----------------------------------|---------------------------|-----------------------------|-----------------------------|---------------|-------------|----------------|
| | LVL | LVL | LVL | LVL | LVL | LVL | LVL | LVL |
| Liability | | | | | | | | |
| 31.12.2005 | | 12011 | 6970 | 16197 | 148 | 0 | 46 | 35372 |
| (Overcharge) | | | | | | | | |
| 31.12.2005 | (46406) | | | | | | | (46406) |
| Calculated in 2006 | (118604) | 147549 | 88338 | 45696 | 918 | 188 | 387 | 283076 |
| Paid in 2006 | 155251 | 135066 | 79825 | 20697 | 845 | 180 | 402 | 237015 |
| Paid surcharge and delayed money | | | | | 10 | | | 10 |
| Liability | | | | | | | | |
| 31.12.2006 | | 24494 | 15483 | 41196 | 211 | 8 | 31 | 81423 |
| (Overcharge) | | | | | | | | |
| 31.12.2006 | (9759) | | | | | | | (9759) |

* VAT overcharge displayed in "Other debtors" position.

(27) Other debts to debtors.

| | 2006 | 2005 |
|-------------------------------------|---------------------|---------------------|
| | LVL | LVL |
| Liabilities to employees about wage | 44107 | 19633 |
| Residue on fuel card | 488 | - |
| | <u>44595</u> | <u>19633</u> |

(28) Deferred income component from short term creditors

In balance position "Deferred income" showed:

(a) In year 2002 differences between obtained land compensation privatisation certificate purchase value and land sales value, that will be included as income in year 2006 – sum LVL 9325;

(b) Program received financial support for purchasing food preparation machinery, that according to accountancy politics (8. Endowment) will be included in financial period income in rest of valuable utilization time till year 2007- sum LVL 3158.

| | | |
|-----------------------------------------------------------------------------------------------|--------------------|---------------------|
| Difference between value of certificate invested in land privatisation and its sales costs | - | 9325 |
| ES SAPARD financial support | 3158 | 3158 |
| | <u>3158</u> | <u>12483</u> |

(29) Accumulated liabilities

| 2006 | 2005 |
|-------------|-------------|
|-------------|-------------|

| | LVL | LVL |
|------------------------------------|-------------|-------------|
| Communication expenses in December | 128 | 163 |
| Electricity in December | 4871 | 4383 |
| Annual report audit | 800 | 700 |
| | 5799 | 5246 |

IV. Other explanations

(30) Enterprise average staff amount

| | 2006 | 2005 |
|------------------------------------------|------------|------------|
| Average staff amount in financial period | 130 | 127 |

(31) Councillors and regents reward in financial period

| | Councillor | Regent |
|----------------------------------------------------------------|------------|--------|
| Calculated wage, LVL | - | 14153 |
| Calculated reward for councillor, regent duties pursuance, LVL | 1100 | 13036 |
| Calculated state social securities payments, LVL | 253 | 6485 |

(32) Assets bother

According to caution against loan policy the enterprise movable property is pledge up to 300 000 LVL.

(33) Events after the end of financial period

In period after the end of financial period last day there has not been any events that could substantially have an effect on Enterprise financial situation on December 31, 2006.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Grobiņa JSC.

Report on the financial statements

We have audited the accompanying financial statements of the joint stock company "Grobiņa" for the year 2006, set out on pages 5 to 19. The audited financial statements comprise the Balance Sheet as of 31 December 2006, the Statement of Profit and Loss for the year 2006, the Statement of Changes in Equity and the Cash Flow Statement, as well as a summary of the most significant accounting policies applied and other explanatory information in the notes.

Management's responsibility for the preparation of the financial statements

The management is responsible for the preparation of the financial statements and for the fair presentation of the information in compliance with the International Financial Reporting Standards and the law of the Latvian Republic "On Companies' Annual Reports". This responsibility includes creation, introduction and maintenance of such an internal control system, which can insure preparation of the financial statements free of fraud or significant misstatements.

The financial statements are the responsibility of the management of the joint stock company "Grobiņa". Our responsibility is to express an opinion on the company's financial statements based on our audit. The management's responsibility includes creation, introduction and maintenance of such an internal control system, which can insure preparation and fair presentation of the financial statements free of fraud, error caused misstatements, selection and application of appropriate accounting policy, as well as making calculations according to circumstances.

Auditor's responsibility

We are responsible for the auditor's opinion, which we express on the financial statements based on our audit. We have conducted our audit in compliance with International Auditing Standards recognized in Latvia. Those standards imply that we are to follow ethical requirements and that we have to plan and conduct our audit in such a way as to obtain satisfactory evidence that there are no significant misstatements in the financial statements.

The audit includes procedures performed in order to obtain auditing evidence about the amounts and information presented in the financial statements. The procedures are selected basing on the auditor's professional evaluation including risk evaluation of significant misstatements caused by fraud or errors in the financial statements. While evaluating the risks, the auditor takes into account the internal control system, created to insure preparation of the financial statements and fair presentation of the information, in order to determine auditing procedures adequate to circumstances rather than expressing opinion about the effectiveness of the control system. Auditing includes also evaluation of accounting principles applied and validity of the significant assumptions made by the management, as well as overall presentation of the information in the financial statements.

We believe our evidence is sufficient and appropriate for expressing our opinion on auditing.

Opinion

In our opinion, the above-mentioned financial statements present fairly, in all material aspects, the financial situation of "Grobiņa" JSC as at 31 December 2006, as well as the results of its operations in the year 2006 in accordance with International Financial Reporting Standards and the law of the Latvian Republic "On Company's Annual Reports".

Report on the validity of the management report

We have got acquainted also with the Management Report about the year 2006 set out on page 4. We have not established any significant misstatements between the information presented in the Management Report and the financial statements for the year 2006.

Mrs. Aija Kurta,
Certified Auditor Riga, April 12