

Joint Stock Company "GROBIŃA"

(Unified registration number 40003017297)

NON-AUDITED

**FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD ENDED
30 JUNE, 2014**

DubeŃi, GrobiŃa district

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General Information

Name of the Company	Joint stock company "Grobiņa"
Legal status of the Company	Public joint stock company
Registration number, place, date	40003017297 Riga, 12 July 2004
Address	Lapsu Street 3, Dubeņi, Grobiņa district Latvia, LV-3438
Names and legal addresses of related and associated companies (indicating the Company's percentual share in the equity of these companies)	Not applicable
Core Business Activities of the Company	Raising of other animals, NACE 01.49 Farm animal food production NACE 10.91
Names and positions of the Board members:	Owned or rented property rent or administration NACE 68.20
Chairman of the Board	Gundars Jaunsleinis
Member of the Board	Gunta Isajeva
Member of the Board	Andris Vītoliņš
Names and positions of the Council members:	duration in accordance with data from the Register of Enterprises
Chairman of the Council	Ojārs Osis
Member of the Council	Argita Jaunsleine
Member of the Council	Gunārs Laugalis
Member of the Council	Linda Elsberģe
Member of the Council	Silvija Neimane
Reporting year	01 January 2014 – 30 June 2014

Management Report

Core Business Activity

Core business activity of JSC "Grobiņa" is fur-farming of minks and animal feed producing.

Operations during the reporting year

In the first half year of 2014 the average number of employees in JSC "Grobiņa" was 101, where in the first half year of 2013 it was 81. At the start of 2014 second quarter continued the worldwide price decline in all fur segments, including the mink skin production, so in result, year 2014 marks it self as a crisis year for the industry. As we already have mentioned, the reasons for the global price decline is a combination of factors – untypically warm winter, changes in the biggest fur buyer and consumer – China's import policy etc. By analysing the previous period statistic of fur market, it can be concluded that the price drop in the fur industry is cyclical - 2002/2003, 2008/2009, 2013/2014 (in every 5-7 years).

Considering the above mentioned, JSC "Grobiņa" net turnover of the 1st half year of 2014 is EUR 2 424 510 and it has decreased by 31 % comparing with the 1st half year of 2013. In the first half year of 2014 have been sold 81 518 mink skins with the average price 29.47 EUR per piece, where in 1st half year of 2013 there were sold 53 625 minks skins with the average price 65.04 EUR per piece.

Although JSC „Grobiņa” realized production prices are above the average auction prices, the price drop has reached its lowest point, so in result the production was realized below the self costs. By this, the losses of the first half year are 670 238 EUR. Net losses per share are 1.340 EUR. On the first half year of 2013 net earnings per share were 2.618 EUR.

Also it shall be noted, that the current price drop has been as a grounding to reduce the company's raw material costs for the food, which, as we consider, will affect the production costs of the produced furs on this breeding season. Also we are planning to reduce the self costs thanks to the fact, that the work has started the new - automated fur animal farm in Vērgale parish, Pāvilosta district "Ceļmalnieki". By those circumstances we believe that JSC "Grobiņa" realization prices on season 2014/2015 will definitely exceed the achieved skin self costs.

Financial results

Total liquidity ratio = 0.49

Current liquidity ratio = 0.02

Quick liquidity ratio = 0.003

Specific weight of liabilities in the balance sheet = 0.85

Debt/Equity Ratio = 5.87

Inventory turnover ratio = 0.92

Asset turnover ratio = 0.15

Profit on sales (%) = - 27.64%

Return on equity (%) = - 27.98 %

Future perspective

As shows the fur market statistics, after every price drop, what usually causes the production amount decrease in the global fur market, always follows a price increase. Contrary to the overall mood of the industry, JSC "Grobiņa" on the year 2014 has increased the production amounts by 40 %, and is planning to achieve 120 000 mink skins.

On August 2014, the management of JSC „Grobiņa” is planning to finish the 1st layer of the independent food preparation kitchen in Liepāja, Brīvības street 119A and 119B. As a priority will be ensured the newly built farm in „Ceļmalnieki”, Vērgales parish, Pāvilosta district and already on autumn it will be able to offer the food to other fur farms in Latvia and Lithuania.

To develop this direction of prepared food production sales, the management of JSC „Grobiņa” is working on the capacity expansion. For the 2nd part of the project realization it has been submitted an application to attract the public funding within European Fisheries Fund (EFF) section “Processing of fishing and aquaculture products”. By realizing the second part of the project, the factory will be able to produce till 24 000 tons of ready fur animal feed per year. By this, fur animal food sales in the future will make additional income and it will diversify (supplement) the main operation of JSC "Grobiņa" - mink breeding and skin achievement.

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Member of the Board _____ Andris Vītoliņš

21 August 2014

Statement of Management's responsibility

The Management of Joint Stock Company "Grobiņa" is responsible for the preparation of the Company's Financial Report.

The Management of Joint Stock Company "Grobiņa" confirms that the Financial Report for the six months of 2014 has been prepared in accordance with the requirements of the applicable laws and regulations and gives a true and fair view on the JSC "Grobiņa" assets, liabilities, financial position and loss. The Management Report contains true information.

Internal risk control procedures are effective, risk management and internal control during the reporting year were performed in accordance with internal control procedures.

The Management of Joint Stock Company "Grobiņa" is responsible for the compliance with the requirements of laws and regulations of the Republic of Latvia.

Chairman of the Board _____

Gundars Jaunsleinis

Member of the Board _____

Gunta Isajeva

Member of the Board _____

Andris Vītoliņš

21 August 2014

BALANCE SHEET

ASSETS	30.06.14. EUR	30.06.13. EUR
II Tangible assets		
Land, building and construction	6 166 232	652 987
Equipment and machinery	98 319	115 095
Other fixed assets and equipment	808 091	167 217
Construction in progress	535 099	149 927
Advance payments for tangible assets	431 086	1 006 423
Total tangible assets	8 038 827	2 091 649
III Biological assets		
Breeding animals	6 303 282	2 301 622
Advance payments for breeding animals	4 000	4 000
Total biological assets	6 307 282	2 305 622
Total non-current assets	14 346 109	4 397 271
Current assets		
I Inventories		
Raw materials and consumables	538 429	441 392
Unfinished production	140 071	8 793
Finished production and goods for sale	397 303	41 185
Prepayments for goods	0	11 787
Food-producing animals	1 007 457	1 308 729
Total inventories	2 083 260	1 811 886
III Receivables		
Trade receivables	24 563	32 686
Other receivables	49 381	95 711
Prepaid expenses	9 955	8 386
Total receivables	83 899	136 783
III Cash (total)		
Total current assets	2 180 910	2 043 210
Total assets	16 527 019	6 440 481

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21 August 2014

BALANCE SHEET (continued)

EQUITY AND LIABILITIES	30.06.14. EUR	30.06.13. EUR
<i>I Equity</i>		
Share capital (equity)	711 436	711 436
Reserves:		0
d) other reserves	77 481	77 481
<i>Total reserves</i>	77 481	77 481
Retained earnings		0
a) retained earnings for the previous year	2 276 944	1 493 525
b) retained earnings for the reporting year	-670 238	1 309 037
<i>Total retained earnings</i>	1 606 706	2 802 562
<i>Total equity</i>	2 395 623	3 591 479
<i>II Provisions</i>		
Other provisions	69 782	43 930
<i>Total provisions</i>	69 782	43 930
<i>III Liabilities</i>		
<i>I Long-term liabilities</i>		
Loans from credit institutions	6 603 041	1 897 500
Other loans	715 915	41 963
Further period income	2 276 048	135 001
Deferred tax liabilities	35 852	0
<i>Total long-term liabilities</i>	9 630 856	2 074 464
<i>II Short-term liabilities</i>		
Loans from credit institutions	257 508	254 000
Other loans	420 003	17 800
Prepayments received from customers	507 625	0
Trade payables	2 998 998	385 748
Taxes and state social insurance payables	151 733	37 113
Other payables	35 568	28 447
Further period income	57 188	7 500
Accrued liabilities	2 135	0
<i>Total short-term liabilities</i>	4 430 758	730 608
<i>Total liabilities</i>	14 061 614	2 805 072
<i>Total equity and liabilities</i>	16 527 019	6 440 481

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21 August 2014

INCOME STATEMENT

	2014	EUR	2013	EUR
Net turnover	2 424 510		3 517 121	
Cost of sales	2 631 883		1 784 940	
Gross profit or loss	-207 373		1 732 181	
Sales expenses	99 125		61 327	
Administrative expenses	215 583		231 070	
Other operating income	57 188		7 500	
Other operating expenses	27 792		18 139	
Profit or loss from operations	-492 685		1 429 145	
Interest payable and similar expenses	172 839		110 775	
Profit or loss before extraordinary items and taxes	-665 524		1 318 370	
Profit or loss before taxes	-665 524		1 318 370	
Other taxes	4 714		9 333	
Profit or loss of the reporting year	-670 238		1 309 037	
Earnings (loss) per share (EPS)	-1,340		2,618	

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21 August 2014

CASH FLOW STATEMENT (indirect method)

	2014 EUR	2013 EUR
I Cash flow from operating activities		
1 Profit or loss before extraordinary items and taxes	-665 524	1 318 370
<i>Adjustments:</i>		
a) depreciation costs of tangible assets;	155 590	49 976
b) profit or loss from foreign currency exchange rate fluctuations;	11	15 741
c) subsidies, grants, endowments, donations;	-57 188	-7 500
d) interest payable and similar expenses.	172 839	110 775
2 Profit or loss before corrections of changes in the balances of current assets and short-term liabilities	-394 272	1 487 362
<i>Adjustments:</i>		
a) (increase)/decrease in biological assets;	-3 774 115	214 326
b) (increase)/decrease in receivables balances;	109	-57 720
c) (increase)/decrease in inventories balances;	1 525 544	7 430
d) increase/(decrease) in suppliers, contractors and other creditors payables balances.	649 971	-954 009
3 Gross cash flow from operating activities	-1 992 763	697 389
4 Interest payable	-172 839	-110 775
5 Immovable property tax expenses	-4 714	-9 333
6 Cash flow before extraordinary items	-2 170 316	577 281
7 Net cash flow from operating activities	-2 170 316	577 281
II. Cash flow from investing activities		
1 Additions in tangible and intangible assets	-1 526 861	-1 415 400
8 Cash flow from investing activities	-1 526 861	-1 415 400
III. Cash flow from financing activities		
1 Loans received	3 684 464	2 568 927
2 Subsidies, grants, endowments and donations received	57 188	7 500
3 Loans repaid	-611 455	-1 666 883
4 Dividends paid	0	-426 862
9 Net cash flow from financing activities	3 130 197	482 682
IV. Result of foreign currency exchange rate fluctuation		
	-11	-15 741
V. Net cash flow in the reporting year	-566 991	-371 178
VI. Cash and its equivalents at the beginning of the reporting year	580 742	465 719
VII. Cash and its equivalents at the end of the reporting year	13 751	94 541

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21 August 2014

STATEMENT OF CHANGES IN EQUITY

	2014	2013
	EUR	EUR
I. Share capital (equity)		
1. Amount in the balance sheet of the previous year	711436	711436
4. Amount in the balance sheet at the end of the reporting year	711436	711436
V. Reserves		
1. Amount in the balance sheet of the previous year	77481	77481
4. Amount in the balance sheet at the end of the reporting year	77481	77481
VI. Retained earnings		
1. Amount in the balance sheet of the previous year	2276944	1493525
2. Correction of the amount in the balance sheet of the previous year	0	0
3. Increase/decrease in retained earnings	-670238	1309037
4. Amount in the balance sheet at the end of the reporting year	1606706	2802562
VII. Equity		
1. Amount in the balance sheet of the previous year	3065861	2282442
3. Amount in the balance sheet at the end of the reporting year	2395623	3591479

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21 August 2014

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICY

I. General Principles

The financial statements of the Company have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports, Regulations No.488 issued by the Cabinet of Ministers of the Republic of Latvia "Law on annual reports enforcement policies", Regulations No.481 issued by the Cabinet of Ministers of the Republic of Latvia "Regulations on the cash flow statement and statement of changes in equity content and preparation procedures".

Income statement has been prepared by turnover cost method.

Cash flow statement has been prepared using indirect method to calculate cash flow from operating activities.

Accounting policy, accounting and evaluation methods used by the Company have not been changed comparing with the previous reporting year.

Financial statements period is 6 month .

Accounting principles used

Items of the financial statements have been evaluated according to the following accounting principles:

1. Assumption, that a Company is a going concern.
2. The same evaluation methods are used as in the previous reporting year.
3. Evaluation is made with proper precaution, taking into account the following conditions:
 - the report includes profit, that was acquired till the date of the balance sheet;
 - all foreseeable risk amounts and losses that incurred during the reporting year or in the previous years have been taken into account even if they have been found out in the period between the date of balance sheet and the date, when annual report was signed;
 - any value decrease and depreciated amounts have been calculated and taken into account regardless of whether the reporting year is finished with profit or loss.
4. Income and expenses related to the reporting year are taken into account regardless of the date of payment and the date of invoice receipt or issue. Expenses are reconciled with incomes in the reporting year.
5. Elements of the assets and liabilities items are evaluated separately.
6. Opening balances of the reporting year match closing balances of the previous year except the adjusted items.
7. All the items, that significantly affect evaluation and decision-making of the annual report users, are disclosed, non-significant items have been combined and the details are disclosed in the notes.
8. Business transactions are disclosed in the annual report, taking into account its economic contents and nature rather than legal form.

Subsequent events

Favorable or adverse events after the balance sheet date of the reporting year are disclosed in the financial statements by reflecting the adjustments in the amounts of the items or by adding new items. If by the time of the preparation of financial statements there has been adverse event that does not relate to the reporting year, but may significantly impact the financial statement users' assessment of Company's assets, liabilities, financial position, profit or loss and cash flow or decision-making in the future, the Management provides information about such events in the Management Report, disclosing the estimated financial impact of the event or informing that it can not be estimated.

Changes in accounting policies, accounting estimates, correction of errors and its disclosure in the financial statements

Accounting policies are changed only if the regulatory framework has changed or if the existing accounting policy no longer meets the true and fair view requirements of the law due to changed circumstances. If a change in accounting policy is caused by normative framework, the impact is disclosed in the financial statements in accordance with established transitional procedures. If the transitional procedures have not been established, the impact of change in accounting policy is evaluated to all respective items of the financial statements of the previous period. Changes in accounting policies are explained in the notes to the financial statements. Information about the change in accounting estimates is provided in the notes to the financial statements. Accounting estimates are changed only when subsequent events will change the circumstances that gave rise to the estimate so far, or if there is new information.

Error occurred and discovered during the reporting year or by the time of preparation of annual report is corrected before the financial statements are authorised for issue, adjusting the corresponding financial statement's items.

II. Recognition of revenues and net turnover

Net turnover is the total value of the goods (mink, polar fox and silver fox skins and fur skin products) sold and services provided within the year, subtracting discounts, value added tax and other taxes directly related to sales. Revenue from the product sale is recognized when the buyer has accepted the goods according to the terms and conditions of the goods delivery. Revenue from services provided is recognized at the time services are provided.

Other revenues are recognized as following:

- revenue from rent - at the time it occurs;
- revenues from fines and penalty payments - at the receipt time;
- revenues from insurance compensation - at the receipt time;
- revenues from dividends - when legal right appears;
- revenues from interest - on accrual basis of accounting.

In accordance with principle of accrual basis of accounting expenses are recognizes in the period, in which they occur regardless of invoice payment date. Loan costs, which are associated with loans are written-off in the period to which they relate and are shown in the caption "Interest payable and similar expenses".

III. Intangible and tangible assets

Intangible and tangible assets are recorded at purchase value less accumulated depreciation. The purchase value includes expenses, which are directly related to the purchase of the intangible or tangible asset. The purchase value of software licence includes costs of licence purchase and costs, that appeared by the time of implementing it in use. The value of intangible assets is expected to be included in the expenses within five years.

Land is not an object of depreciation. In respect of other assets the depreciation is calculated on a straight-line basis over the estimated useful life of the relevant intangible or tangible asset, in order to write-off the purchase value or the revaluation value of the intangible or tangible asset until its estimated residual value at the end of the useful life using the following rates defined by the Management:

	Depreciation % per year
Buildings and constructions	1.7%-8.5%
Technological equipment	5.3%-25%
Other equipment and facilities, motor vehicles	9.1%-33.33%

The initial value of construction in progress is increased by other direct costs incurred in relation to the object until the new object is put into operation. The initial value of the respective asset is not increased by the interest of the loans used for creation of the new asset in the periods when active development work regarding the construction in progress is not carried out. At the end of the reporting year the construction in progress is evaluated for impairment.

Subsequent costs are included in the balance sheet asset value or recognized as a separate asset only when there is a high probability that future economic benefits, related to this item, will flow to the Company and the costs of this item can be determined credibly. Such costs are written off during the remaining useful life of the tangible asset. When capitalizing the established costs of spare parts, the residual value of the replaced parts is written off in the income statement.

Current repair and maintenance costs of the tangible asset are recorded in the income statement in the period they appeared.

Profit or loss on tangible assets disposals are calculated as the difference between the book value and sales income, and the incomes from the respective tangible asset revaluation reserve written-off, these are recorded in the income statement in the period they appeared.

IV. Inventories

Inventories are recorded at the lower of product cost and market value. Inventories are measured using the FIFO method. Outdated, slow or damaged inventories are written-off. Inventories are recorded using continuous inventory method.

V. Trade receivables

Trade receivables are recorded in the balance sheet in the net value, initial costs less an allowance for any doubtful or uncollectible amounts. The allowance for any doubtful or uncollectible amounts is made in the cases, when the Management supposes, that the collection of these amounts is problematic.

VI. Foreign Currency Revaluation to euro

The accounting in the Company is made in euro. All transactions in the foreign currency are revaluated to euro according to the official exchange rate defined by the European Central Bank at the date of transaction.

Assets and liabilities in the foreign currency are revaluated to lats according to the official exchange rate defined by the European Central Bank at the last day of the reporting year. The profit or loss, that derive from the foreign currency exchange rate fluctuations, are disclosed in the income statement in the corresponding period.

VII. Cash and Cash Equivalent

Cash and cash equivalents for the cash flow statement's purpose consist of the current accounts balances and short-term deposits with initial term up to 90 days.

VIII. Financial Risk Management

The Company's principal financial instrument is cash. The main purpose of this financial instrument is to ensure financing for the Company's operations. The Company has various other financial instruments such as consumers and customers debts and other debtors, debts to suppliers and contractors and other creditors, which arise directly from its operations. The company may grant short-term loans to the Management and employees.

Financial risks

The main financial risks arising from the Company's financial instruments are liquidity risk and credit risk.

Interest rate risk

The Company's policy is to ensure that the majority of its borrowings are at fixed rate.

Credit risk

The Company is exposed to credit risk through its trade receivables, other receivables, as well as cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimised.

The partners in cash transactions are home and foreign financial institutions with a respective credit history.

Liquidity risk

The Company manages its liquidity risk by maintaining an appropriate financing.

IX. Subsidies

Subsidies received for specific types of capital investment are recognized as deferred income, which is gradually included in the revenues during the useful life of the tangible assets received or purchased with the subsidy. Subsidy to cover expenses is recognized in revenues in the same period when the relevant expenditure appeared, provided all the terms and conditions in respect of receiving the subsidy are fulfilled.

X. Loans

Initially loans are recognized in fair value less costs, related to the loan. In the subsequent periods loans are recorded as the depreciated purchase value, which is calculated using the effective interest rate on the loan. The difference between the amount of cash received excluding the expenses related to receiving the loan and the value of loan repayment is included gradually in the income statement.

XI. Taxes

The Corporate income tax costs of the reporting year are included in the financial statements basing on the Management's calculations in accordance with the laws and regulations on taxes of the Republic of Latvia.

Deferred tax is calculated using the liability method on all temporary differences between assets and liabilities in the financial statements and its values for the tax calculation purposes. Deferred tax is calculated using the tax rates, that are in force at the date of the balance sheet, which are expected during the periods, when temporary differences smooth out. Temporary differences primarily arise from the use of different rates of depreciation of the fixed assets, as well as tax losses that are transferred to subsequent tax periods. A deferred tax asset is recognized if there is a high probability, that a taxable profit will be acquired, which will be object to the deductible temporary differences.

XII. Provisions

Provisions are recognized if the Company has present legal or practice obligation that was a result of past events, there is a high probability, that for the completion of the obligation economic benefits outflow will be necessary and the amount may be credibly estimated.

Provisions for unused annual leaves and state social insurance payments for unused leaves are calculated as total provisions for all employees taking into account each employee's average daily salary and accumulated leave days at the end of the reporting period.

XIII. Related parties

Related parties are considered to be participants of the Company, members of the Board, members of the Council, their close relatives and the companies, in which mentioned persons have control or significant influence.

XIV. Biological assets

The Company's biological assets are fur animals. The biological assets are measured at fair value. Fair value is determined by the cost calculation. The changes in the amount of biological assets, which results from the measurement at fair value less estimated impairment due to degeneration and increase in value due to reproduction and impairment due to skin production are included in the income statement of the reporting period. The skins produced are included in the inventories and initially measured at fair value according to the cost calculation.

XV. Investment properties

The Company has no investment property.

XVI. Accrued liabilities, contingencies

Accrued liabilities are certain amounts payable to suppliers and contractors for goods or services received in the reporting year which at the balance sheet date has not yet been billed according to supply, sales or business contracts or other reasons. These obligations amounts are calculated on the basis of the contract price and the supporting documents of actual receipt of goods or services. A contingent liability disclosures are provided in the notes to the financial statements and - where appropriate - in the Management report. The likely financial impact is indicated where possible and if any expected.

Contingent assets which may arise in connection with certain past events (eg, intention to conclude a contract or option), are not included in the balance sheet. If it is expected that the Company receives future economic benefits from contingent assets, the information is provided in the Management report.

XVII. Earnings per share

Earnings per share are determined by dividing the net profit or loss attributable to company shareholders by the weighted average number of shares during the reporting year.