

# **Joint Stock Company "GROBIŃA"**

(Unified registration number 40003017297)

## **Unaudited Financial Statements for 12 Months Period of Year 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 Owned or rented property rent or administration, NACE 68.20
Names and positions of the Board members:	
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	Argīta Jaunsleine
Member of the Council	Gunārs Laugalis
Member of the Council	Linda Elsberģe
Member of the Council	Silvija Neimane
Reporting year	01 January 2014 – 31 December 2014
Name and address of the auditor	Marija Jansone Sworn auditor (LACA Certificate No.25)
	SIA AUDIT ADVICE Sworn auditors company's licence No.134 Riga, Grecinieku Street 9-3, Latvia, LV-1050

## **Management Report**

### **Core Business Activity**

Core business activity of JSC "Grobiņa" is fur-farming of minks for fur production.

### **Operations during the reporting year**

In 2014 regardless of JSC "Grobiņa" reasons, has happened fall in prices in all segments of the global market, including mink production, resulting in 2014 in fur breeders, including JSC "Grobiņa" emerged as an industry crisis year (the reason for the global price drop was unusually warm winter and changes in fur buyer's largest consumer of Chinese import policy). Despite this global fur fall in prices in 2014, JSC "Grobiņa" in 2014 has been able to carry out started investment projects in 2013:

- In February 2014, putted into operation in fur farms Pāvilstas district, parish Vērgales "Ceļmalnieki" which introduced the high quality breeding herd;
- There is finished "centralized fur animal feed plant" 1 and Stage 2 of the project. The production unit in Liepāja, Brīvības Street 119A, 119b put into operation on January 29, 2015.

"Thus, the JSC" Grobiņa "long-term investment to the end of 2014, constitute 15,223,427, -EUR, an increase of 6,022,704, -EUR more than in 2013. Thus, in 2014 work has actually started 2 new JSC "Grobiņa" Unist - Vērgales zvērsaimniecība and centralized fur animal feed factory. In 2014 the average number of employees has grown to 95 employees. Thanks to the investments made in 2014 JSC "Grobiņa" has boosted its production. Overall, the 2014 growing season will be produced 120 000 mink skin, which is 40% more - compared to 2013, of which currently has 111 097 skins were shipped to Finland for sale in auction houses. All conditions set when the crisis in the sector at the same time a year coincided with JSC "Grobiņa" in an investment period of production and increase in production volumes, a negative effect on the total JSC "Grobiņa" financial ratios. 2014 year's net turnover of € 2,879,362, and it has decreased by 23% compared to 2013.

In 12 months of 2014 were sold 94 849 mink skins on the average price of 28.39 EUR / pcs, while - in 12 months of 2013 were sold 58 112 mink skin than the average sales price of 64.05 EUR / pcs. Although in 2014 JSC "Grobiņa" mink average sales price of Finnish mink auction house exceeded the average auction sales price, however, due to the fur industry crisis in the world of JSC "Grobiņa" output in 2014 was sold below cost. Thus, the 2014th loss for the year is € 1,657,441, while the 2014 net loss per share is EUR -3,315 the year 2013 net earnings per share were EUR 1,567. In order to obtain the financial stability of JSC "Grobiņa" management of all assets 2014 worked with the company's existing partners and creditors on reconstructing to accrued liabilities the deferred until 2015, production sales.

As already JSC "Grobiņa" management predicted the 2014 year's price collapse in the world fur was transitory nature, because since the beginning of the new season, fur sales in 2015, according to the January and February 2015 Auction Results in Danish auction house in Copenhagen and in the Canadian auction NAFA's house - the average realization price of mink skin in excess of 50 EUR /skin and reaches 100% of sales. All this confirms that this season the fur market has recovered and returned to the sales price what was in 2011-2013 year's selling season limits, as a result of JSC "Grobiņa" management believes that in 2015 will be able to stabilize the company's cash flow and take the accumulated 2014 creditors' debts.

### **Financial Risk Management**

The Company's operations are exposed to various financial risks, including credit risk and interest rate risk. The Company's management seeks to minimize potential adverse effects of financial risks on the Company's financial situation. 2014 December 31, the Company's current liabilities exceeded current assets by € 10,845,359, as Company's current liabilities are included in long-term bank loans with a maturity of 2019 was 28.janvārisun 19 February 2020.

### Financial results

Total liquidity ratio = 0.25

Current liquidity ratio = 0.01

Quick liquidity ratio = 0.003

Specific weight of liabilities in the balance sheet =0.92

Debt/Equity Ratio = 12.33

Inventory turnover ratio = 1.00

Asset turnover ratio = 0.15

Profit on sales (%) =-57.56%

Return on equity (%) = -117.68 %

### Events after the end of the year

As the largest JSC "Grobiņa" creditors at the end of 2014, a written agreement on the restructuring of liabilities was not made on the JSC "Parex banka" in January 2015 made changes to the credit of the final settlement day time limit setting to 29.01.2015. At the same time, AS "Parex banka" demonstrated their willingness to review the final settlement date where the a / s "Grobiņa" management realize the tenders submitted in respect of part of the loan principal repayment of March this year, the auction proceeds, as well as providing a significant unsecured creditor debt reduction or restructuring. Given the set conditions of JSC "Grobiņa" management objective is to reach an agreement with a / S "Parex banka" for long-term rescheduling application bank liabilities and commitments, as it was on loan at the time of and which also meet the objectives of loans.

AS "Grobiņa" management of tenders submitted deemed to be feasible, because as shown by the new 2015 fur sales season Auction Results in Danish auction house in Copenhagen and in Canadian NAFA auction house average auction price in January Copenhagen auction house reached 52 EUR for the skin, but February - already 56 EUR for the skin. All this confirms that this season the fur market has recovered and returned to the sales price what was in 2011-2013. selling season limits as a result of JSC "Grobiņa" 2014 / 2015 year's sales of season revenue received in 2014 produced, 120 000 mink skins - will be able to pay with their creditors.

At present, the next auction will be held in the Finnish auction house Saga Furs in mid-March, the Saga Furs planned to put on sale about 40-60% of the total sale in this season of the planned volume of the skin. On the basis of the JSC "Grobiņa" management also expects that in March this year will be sold from 40 000 to 60 000 mink skins produced, as a result of the skin proceeds of the realization of JSC "Grobiņa" management intends to cover part of the Saga Furs, advance, part of the JSC "Parex banka" loan and part of the other creditors.

### Future perspective

JSC "Grobiņa" management believes that in 2014 both realized investment projects is a prerequisite for future community development strategy that focuses on the increase in production volumes, while ensuring both the resulting products of high quality and low cost. Since 2014, within the framework of breeding herd increased to 40 000 breeding mothers, company's management in the next few years, plans to acquire up to 200 000 mink skins as a result of the company two years the company plans to increase its turnover to EUR 10 000 000 - 2016. At these conditions the JSC "Grobiņa" with its products will reach a high level of competitiveness among the world's leading industry and work with high profit profitability.

Chairman of the Board \_\_\_\_\_ Gundars Jaunsleinis

Member of the Board \_\_\_\_\_ Gunta Isajeva

Member of the Board \_\_\_\_\_ Andris Vītoliņš

20 February 2015

### *Statement of Management's responsibility*

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

The Management of Joint Stock Company "GROBIŅA" in accordance with information available confirms that the Annual Report for the financial year 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 provides true review of JSC "Grobiņa" growth and performance results.

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

20 February 2015

**BALANCE SHEET**

ASSETS	31.12.14. EUR	31.12.13. EUR
<b>II Tangible assets</b>		
Land, building and construction	6.015.305	666.533
Equipment and machinery	87.282	109.357
Other fixed assets and equipment	762.132	347.674
Construction in progress	1.371.393	5.230.874
Advance payments for tangible assets	273.543	313.118
<b>Total tangible assets</b>	<b>8.509.655</b>	<b>6.667.556</b>
<b>III Biological assets</b>		
Breeding animals	6.709.772	2.529.167
Advance payments for breeding animals	4.000	4.000
<b>Total biological assets</b>	<b>6.713.772</b>	<b>2.533.167</b>
<b>Total non-current assets</b>	<b>15.223.427</b>	<b>9.200.723</b>
<b>Current assets</b>		
<b>I Inventories</b>		
Raw materials and consumables	230.243	553.974
Unfinished production	1.084.582	0
Finished production and goods for sale	2.104.264	3.054.830
<b>Total inventories</b>	<b>3.419.089</b>	<b>3.608.804</b>
<b>II Receivables</b>		
Trade receivables	108.544	2.319
Other receivables	37.398	72.544
Prepaid expenses	11.347	9.144
<b>Total receivables</b>	<b>157.289</b>	<b>84.007</b>
<b>III Cash (total)</b>		
<b>Total current assets</b>	<b>3.620.156</b>	<b>4.273.555</b>
<b>Total assets</b>	<b>18.843.583</b>	<b>13.474.278</b>

Chairman of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

20 February 2015

**BALANCE SHEET (continued)**

EQUITY AND LIABILITIES	31.12.14. EUR	31.12.13. EUR
<b>I Equity</b>		
Share capital (equity)	711.436	711.436
Reserves:		
d) other reserves	77.481	77.481
<i>Total reserves</i>	77.481	77.481
Retained earnings		
a) retained earnings for the previous ye	2.276.944	1.493.524
b) retained earnings for the reporting ye	-1.657.441	783.420
<i>Total retained earnings</i>	619.503	2.276.944
<b><i>Total equity</i></b>	<b>1.408.420</b>	<b>3.065.861</b>
<b>II Provisions</b>		
Other provisions	71.106	69.782
<b><i>Total provisions</i></b>	<b>71.106</b>	<b>69.782</b>
<b>III Liabilities</b>		
<b>I Long-term liabilities</b>		
Loans from credit institutions	0	4.500.541
Other loans	587.073	10.398
Further period income	2.199.191	1.825.366
Deferred tax liabilities	112.278	35.852
<b><i>Total long-term liabilities</i></b>	<b>2.898.542</b>	<b>6.372.157</b>
<b>II Short-term liabilities</b>		
Loans from credit institutions	7.153.608	381.006
Other loans	514.809	31.515
Prepayments received from customers	2.302.548	2.344.865
Trade payables	4.087.520	956.731
Taxes and state social insurance payables	226.643	94.263
Other payables	58.709	37.427
Further period income	95.617	96.072
Accrued liabilities	26.061	24.599
<b><i>Total short-term liabilities</i></b>	<b>14.465.515</b>	<b>3.966.478</b>
<b><i>Total liabilities</i></b>	<b>17.364.057</b>	<b>10.338.635</b>
<b><i>Total equity and liabilities</i></b>	<b>18.843.583</b>	<b>13.474.278</b>

Chairman of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

20 February 2015



**INCOME STATEMENT**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Net turnover	2.879.362	3.722.278
Cost of sales	3.514.908	2.025.515
<b><i>Gross profit or loss</i></b>	<b>-635.546</b>	<b>1.696.763</b>
Sales expenses	119.644	81.918
Administrative expenses	417.056	465.561
Other operating income	157.057	65.639
Other operating expenses	74.210	74.160
<b><i>Profit or loss from operations</i></b>	<b>-1.089.399</b>	<b>1.140.763</b>
Interest payable and similar expenses	482.189	229.963
<b><i>Profit or loss before extraordinary items and taxes</i></b>	<b>-1.571.588</b>	<b>910.800</b>
<b><i>Profit or loss before taxes</i></b>	<b>-1.571.588</b>	<b>910.800</b>
Company income tax for the accounting year	0	82.195
Deferred corporate income tax	76.426	35.852
Other taxes	9.427	9.333
<b><i>Profit or loss of the reporting year</i></b>	<b>-1.657.441</b>	<b>783.420</b>
<b><i>Earnings (loss) per share (EPS)</i></b>	<b>-3,315</b>	<b>1,567</b>

Chairman of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

20 February 2015

**CASH FLOW STATEMENT (indirect method)**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
<b>I Cash flow from operating activities</b>		
1 Profit or loss before extraordinary items and taxes	<b>-1.571.588</b>	<b>910.800</b>
<i>Adjustments:</i>		
a) depreciation costs of tangible assets;	382.869	114.335
b) disposals of tangible assets;	21.648	0
c) accruals (other than accruals for doubtful debts);	1.324	25.852
d) profit or loss from foreign currency exchange rate fluctuations;	11	22.481
e) subsidies, grants, endowments, donations;	-154.956	-37.607
f) interest payable and similar expenses.	466.679	226.283
2 Profit or loss before corrections of changes in the balances of current assets and short-term liabilities	<b>-854.013</b>	<b>1.262.144</b>
<i>Adjustments:</i>		
a) (increase)/decrease in biological assets;	-4.180.605	-13.220
b) (increase)/decrease in receivables balances;	-73.282	-4.944
c) (increase)/decrease in inventories balances;	189.715	-1.789.488
d) increase/(decrease) in suppliers, contractors and other creditors payables balances.	3.619.472	3.749.313
<b>3 Gross cash flow from operating activities</b>	<b>-1.298.713</b>	<b>3.203.805</b>
4 Interest payable	-466.679	-226.283
5 Immovable property tax expenses	-4.596	-9.333
6 Company income tax expenses	-7.337	0
<b>7 Cash flow before extraordinary items</b>	<b>-1.777.325</b>	<b>2.968.189</b>
<b>8 Net cash flow from operating activities</b>	<b>-1.777.325</b>	<b>2.968.189</b>
<b>II. Cash flow from investing activities</b>		
1 Additions in tangible and intangible assets	-2.246.616	-6.055.667
<b>9 Cash flow from investing activities</b>	<b>-2.246.616</b>	<b>-6.055.667</b>
<b>III. Cash flow from financing activities</b>		
1 Loans received	4.030.923	4.287.424
2 Subsidies, grants, endowments and donations received	154.956	37.607
3 Loans repaid	-698.893	-673.185
4 Dividends paid	0	-426.862
<b>10 Net cash flow from financing activities</b>	<b>3.486.986</b>	<b>3.224.984</b>
<b>IV. Result of foreign currency exchange rate fluctuation</b>	<b>-11</b>	<b>-22.481</b>
<b>V. Net cash flow in the reporting year</b>	<b>-536.966</b>	<b>115.025</b>
<b>VI. Cash and its equivalents at the beginning of the reporting year</b>	<b>580.744</b>	<b>465.719</b>
<b>VII. Cash and its equivalents at the end of the reporting year</b>	<b>43.778</b>	<b>580.744</b>

Chairman of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

20 February 2015

**STATEMENT OF CHANGES IN EQUITY**

	<b>2013</b>	<b>2012</b>
	<b>EUR</b>	<b>EUR</b>
<b>I. Share capital (equity)</b>		
1. Amount in the balance sheet of the previous year	<b>711436</b>	<b>711436</b>
4. Amount in the balance sheet at the end of the reporting year	<b>711436</b>	<b>711436</b>
<b>V. Reserves</b>		
1. Amount in the balance sheet of the previous year	<b>77481</b>	<b>77481</b>
4. Amount in the balance sheet at the end of the reporting year	<b>77481</b>	<b>77481</b>
<b>VI. Retained earnings</b>		
1. Amount in the balance sheet of the previous year	<b>2276944</b>	<b>1920386</b>
2. Dividends calculated	0	426862
3. Increase/decrease in retained earnings	-1657441	783420
4. Amount in the balance sheet at the end of the reporting year	<b>619503</b>	<b>2276944</b>
<b>VII. Equity</b>		
1. Amount in the balance sheet of the previous year	<b>3065861</b>	<b>2709303</b>
3. Amount in the balance sheet at the end of the reporting year	<b>1408420</b>	<b>3065861</b>

Chairman of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

Member of the Board \_\_\_\_\_

20 February 2015

## **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 reporting year is 12 month and it is equal to calendar year.

#### **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 expences are recognizes in the period, in which they occur regardless of invoice payment date. Loan costs, which are assoicieted with loans are written-off in the period to which they relate and are shown in the caption "Interest payable and similar expences".

### **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:

	<b>Depreciation % per year</b>
Buildings and constructions	1.7%-8.5%
Technilogical 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. Finance lease**

Leased tangible assets are listed in balance-sheet in the value they could be acquired, if immediate payment were made, only in that case, if fixed assets are under finance lease with purchasing rights and all risks and returns associated with these assets have passed to the Company.

#### **V. 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.

#### **VI. 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.

#### **VII. Prepaid expenses**

Expenses, which occurred after reporting date, but are related to subsequent years, shall be shown in the balance-sheet item "Prepaid expenses"

#### **VIII. 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 euro 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.

#### **IX. Cash and Cash Equivalents**

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.

## **X. 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.

## **XI. 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.

## **XII. 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.

## **XIII 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.

## **XIV. 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.

#### **XV. 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.

#### **XVI. 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.

#### **XVII. Investment properties**

The Company has no investment property.

#### **XVIII. 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.

#### **XIX. 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.