# Joint Stock Company "GROBIŅA"

(Unified registration number 40003017297)

**Unaudited**
**Financial Statements**
**for 12 Months Period**
**of Year 2015**

***Dubeņi, Grobiņa district***

***Contents***

***General Information***

| | |
|---|---|
| Name of the Company | Joint stock company "GROBIŅA" |
| Legal status of the Company | Public joint stock company |
| Registration number, place, date | 40003017297<br>Riga, 12 July 2004 |
| Address | Lapsu Street 3, Dubeņi, Grobiņa district<br>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<br>Farm animal food production<br>NACE 10.91<br>Owned or rented property rent or administration,<br>NACE 68.20 |

| | | |
|---|---|---|
| Names and positions of the Board members: | | duration in accordance with data from the Register of Enterprises |
| Chairman of the Board | Gundars Jaunsleinis | |
| Member of the Board | Gunta Isajeva | |
| Member of the Board | Andris Vītoliņš | (until 2 April, 2015) |
| Member of the Board | Ireneusz Sajewicz | (from 2 April, 2015) |

| | | |
|---|---|---|
| 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 | (until 18 August, 2015) |
| Member of the Council | Silvija Neimane | |
| Member of the Council | Linda Elsberģe | (until 18 August, 2015) |
| Member of the Council | Ģirts Mīlgrāvis | (from 18 August, 2015) |
| Member of the Council | Jānis Liepiņš | (from 18 August, 2015) |

| | |
|---|---|
| Reporting year | 01 January 2015 – 31 December 2015 |

## *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 2015 company has worked with neto turnover of EUR 6 220 362, wich is 116%, compared with year 2014. In year 2015 in 12 months were sold 113 521 mink skins at an average price 40,18 Eur/pcs. In 2014, were produced 94 849 mink skins at an average price 28,39 Eur/pcs.Proceedings in 2015 is 1 223 693 EUR, in 2015 neto proceeding per share was 2,447 EUR, when in 2014, neto loss per share was 3,315 EUR. In 2015 the average nuber of employees were 97, in 2014 - 95 employees.

Although the fur market in 2015 showed a positive trend, what is evidenced by the JSC "Grobiņa" product prices increase of 41.5% .Also JSC "Grobina" in 2015 increased production sales by 20% and, thanks to investments made in advance, also in 2015 company has increased its production volumes.

However, in 2015 occurred fur auctions in Finnish auction house Saga Furs (March, June, September) were sharp fluctuations in the price of fur, which showed still unstable situation in the market of fur. Although in general there was a fur prices growth compared with 2014, but prices in 2015 still did not reached the expected level, and was 26% behind of the average prices, which were in the industry pre-crisis years (2012, 2013 average JSC "Grobina" product sales price was 54.70 euros for mink).

In response to market fluctuations, the two Scandinavian auction houses in 2015 changed the procedure for implementation mink i.e. mink collection was completely removed from the December 2015 auction, for which JSC "Grobiņa" management was forced to review existing contracts and future payment arrangements with their suppliers and service providers , to transfer payments to March and June 2016 auctions, where alreadywill be realized output of 2015. However, despite in season 2015 un stable fur market situation , JSC "Grobina" as far as possible deleted part of in crisis year accumulated debts, as well as cooperation with major creditors of the company in 2015 was implemented the JSC "Grobiņa" commitment restructuring plan within which part of short-term liabilities are restructured in the long term.

Also at the end of 2015 has been realized in 2014 launched project, under which has been upgraded fur animal feed production in Dubeņi, Lapsu street 3 and completed the centralized feed production factory in Liepaja, Brivibas street 119a. The project is implemented in cooperation with the Rural Support Service, attracting public funding within EU EFF event "Fishery and aquaculture products" program.

### Financial Risk Management

The Company's operations are exposed to various financial risks, including credit risk and interest rate fluctuation risks. The Company's management seeks to minimize potential financial risks of negative impact on the Company's financial position. On December 31, 2015, the Company's current liabilities exceeded current assets, what is related to the fact that the Rural Support Service did not pay the suppliers pulisko funding, resulting in a significant impact on the Company's liquidity indicators.

**Financial results**

Total liquidity ratio = 0.59

Current liquidity ratio = 0.07

Quick liquidity ratio = 0.0002

Specific weight of liabilities in the balance sheet =0.89

Debt/Equity Ratio = 7.99

Inventory turnover ratio = 0.98

Asset turnover ratio = 0.26

Profit on sales (%) = 19.67%

Return on equity (%) = 46.49%

**Subsequent events**

In February 2016 The Rural Support Service has paid approved public financing for suppliers who were involved in the EFF event "Fishery and aquaculture products" implementation of the project. Thanks to the realisation of the project, the JSC "Grobiņa" in 2016 will begin sales of finished fur animal feed for other fur farms in both- the domestic market and exporting.

**Future perspective**

JSC "Grobiņa" the 2015/2016 growing season will produce ~ 130,000 mink, thereby increasing production by 15% compared with the previous year. As the JSC "Grobiņa" take all necessary measures in order to obtain high-quality leather, which is confirmed by the fact that the JSC "Grobiņa" skin selling price in all auctions is up to 20% higher than the auction house average skin selling price - JSC "Grobiņa" management believes that the skin's revenues in the coming auctions will cover accrued liabilities to suppliers and service providers.

Chairman of the Board___________________________Gundars Jaunsleinis

Member of the Board_______________________________Gunta Isajeva

Member of the Board_______________________________Ireneusz Sajewicz

26 February 2016

***Statement of Management's resposibility***

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 2015 has been prepared in accordance with the requirements of the applicable laws and regulatons 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______________________________ Ireneusz Sajewicz

26 February 2016

## *BALANCE SHEET*

| | ASSETS | 31.12.2015. EUR | 31.12.2014. EUR |
|---|---|---|---|
| ***Non-current assets*** | | | |
| ***I*** | ***Intangible assets*** | | |
| | Concessions, patents, licences, trade marks and similar rights | 0 | 0 |
| | ***Total intangible assets*** | **0** | **0** |
| ***II*** | ***Tangible assets*** | | |
| | Land, building and construction | 6,612,026 | 6,015,305 |
| | Equipment and machinery | 5,345,949 | 87,282 |
| | Other fixed assets and equipment | 990,875 | 762,132 |
| | Construction in progress | 0 | 1,371,393 |
| | Advance payments for tangible assets | 148,222 | 273,543 |
| | ***Total tangible assets*** | **13,097,072** | **8,509,655** |
| ***III*** | ***Biological assets*** | | |
| | Breeding animals | 5,203,458 | 6,709,772 |
| | Advance payments for breeding animals | 0 | 4,000 |
| | ***Total biological assets*** | **5,203,458** | **6,713,772** |
| | ***Total non-current assets*** | **18,300,530** | **15,223,427** |
| ***Current assets*** | | | |
| ***I*** | ***Inventories*** | | |
| | Raw materials and consumables | 83,122 | 230,243 |
| | Unfinished production | 884 | 1,084,582 |
| | Finished production and goods for sale | 4,735,363 | 2,104,264 |
| | Prepayments for goods | 26,248 | 0 |
| | ***Total inventories*** | **4,845,617** | **3,419,089** |
| ***II*** | ***Receivables*** | | |
| | Trade receivables | 326,096 | 109,931 |
| | Other receivables | 17,313 | 37,398 |
| | Prepaid expenses | 12,049 | 11,347 |
| | Accumulated proceedings | 224,707 | 0 |
| | ***Total receivables*** | **580,165** | **158,676** |
| ***III*** | ***Cash (total)*** | **1,802** | **43,778** |
| | ***Total current assets*** | **5,427,584** | **3,621,543** |
| | ***Total assets*** | **23,728,114** | **18,844,970** |

Chairman of the Board__________________________Gundars Jaunsleinis

Member of the Board______________________________Gunta Isajeva

Member of the Board______________________________Ireneusz Sajewicz

26 February 2016

## *BALANCE SHEET (continued)*

| | EQUITY AND LIABILITIES | 31.12.2015. EUR | 31.12.2014. EUR |
|---|---|---|---|
| ***I*** | ***Equity*** | | |
| | Share capital (equity) | 711,436 | 711,436 |
| | Reserves: | | |
| | d) other reserves | 77,481 | 77,481 |
| | *Total reserves* | 77,481 | 77,481 |
| | Retained earnings | | |
| | a) retained earnings for the previous year | 619,503 | 2,276,944 |
| | b) retained earnings for the reporting year | 1,223,693 | -1,657,441 |
| | *Total retained earnings* | 1,843,196 | 619,503 |
| | ***Total equity*** | **2,632,113** | **1,408,420** |
| ***II*** | ***Provisions*** | | |
| | Other provisions | 58,517 | 71,106 |
| | ***Total provisions*** | **58,517** | **71,106** |
| ***III*** | ***Liabilities*** | | |
| ***I*** | ***Long-term liabilities*** | | |
| | Loans from credit institutions | 5,656,571 | 6,957,041 |
| | Other loans | 2,163,318 | 915,573 |
| | Trade payables | 1,669,903 | 2,015,425 |
| | Taxes and state social insurance payables | 117,355 | 0 |
| | Further period income | 2,140,024 | 2,199,191 |
| | Deferred tax liabilities | 0 | 112,278 |
| | ***Total long-term liabilities*** | **11,747,171** | **12,199,508** |
| ***II*** | ***Short-term liabilities*** | | |
| | Loans from credit institutions | 806,193 | 196,567 |
| | Other loans | 333,143 | 186,309 |
| | Prepayments received from customers | 2,489,419 | 2,302,548 |
| | Trade payables | 4,785,071 | 2,073,482 |
| | Taxes and state social insurance payables | 217,858 | 226,643 |
| | Other payables | 538,711 | 58,709 |
| | Further period income | 98,317 | 95,617 |
| | Accrued liabilities | 21,601 | 26,061 |
| | ***Total short-term liabilities*** | **9,290,313** | **5,165,936** |
| | ***Total liabilities*** | **21,037,484** | **17,365,444** |
| | ***Total equity and liabilities*** | **23,728,114** | **18,844,970** |

Chairman of the Board__________________________Gundars Jaunsleinis

Member of the Board______________________________Gunta Isajeva

Member of the Board______________________________Ireneusz Sajewicz

26 February 2016

## *INCOME STATEMENT*

| | 2015<br>EUR | 2014<br>EUR |
|---|---|---|
| Net turnover | 6,220,362 | 2,879,362 |
| Cost of sales | 4,035,601 | 3,514,908 |
| ***Gross profit or loss*** | **2,184,761** | **-635,546** |
| Sales expenses | 199,649 | 119,644 |
| Administrative expenses | 513,256 | 417,056 |
| Other operating income | 237,604 | 157,057 |
| Other operating expenses | 54,258 | 74,210 |
| ***Profit or loss from operations*** | **1,655,202** | **-1,089,399** |
| Interest payable and similar expenses | 534,446 | 482,189 |
| ***Profit or loss before extraordinary items and taxes*** | **1,120,756** | **-1,571,588** |
| ***Profit or loss before taxes*** | **1,120,756** | **-1,571,588** |
| Company income tax for the accounting year | 0 | 0 |
| Deferred corporate income tax | -112,278 | 76,426 |
| Other taxes | 9,341 | 9,427 |
| ***Profit or loss of the reporting year*** | **1,223,693** | **-1,657,441** |
| ***Earnings (loss) per share (EPS)*** | **2.447** | **-3.315** |

Chairman of the Board__________________________Gundars Jaunsleinis

Member of the Board______________________________Gunta Isajeva

Member of the Board______________________________Ireneusz Sajewicz

26 February 2016

## *CASH FLOW STATEMENT (indirect method)*

| | | 2015 EUR | 2014 EUR |
|---|---|---|---|
| ***I*** | ***Cash flow from operating activities*** | | |
| 1 | Profit or loss before extraordinary items and taxes | **1,120,756** | **-1,571,588** |
| | *Adjustments:* | | |
| a) | depreciation costs of tangible assets; | 511,172 | 382,869 |
| b) | disposals of tangible assets; | 11,851 | 21,648 |
| c) | accruals (other than accruals for doubtful debts); | -12,589 | 1,324 |
| d) | profit or loss from foreign currency exchange rate fluctuations; | 0 | 11 |
| e) | subsidies, grants, endowments, donations; | -159,663 | -154,956 |
| f) | interest payable and similar expenses. | 523,423 | 466,679 |
| 2 | Profit or loss before corrections of changes in the balances of current assets and short-term liabilities | **1,994,950** | **-854,013** |
| | *Adjustments:* | | |
| a) | (increase)/decrease in biological assets; | 1,510,314 | -4,180,605 |
| b) | (increase)/decrease in receivables balances; | -421,489 | -74,669 |
| c) | (increase)/decrease in inventories balances; | -1,426,528 | 189,715 |
| d) | increase/(decrease) in suppliers, contractors and other creditors payables balances. | 2,983,132 | 3,620,859 |
| **3** | **Gross cash flow from operating activities** | **4,640,379** | **-1,298,713** |
| 4 | Interest payable | -523,423 | -466,679 |
| 5 | Immovable property tax expenses | -4,435 | -4,596 |
| 6 | Company income tax expenses | 0 | -7,337 |
| **7** | **Cash flow before extraordinary items** | **4,112,521** | **-1,777,325** |
| **7** | **Net cash flow from operating activities** | **4,112,521** | **-1,777,325** |
| ***II.*** | ***Cash flow from investing activities*** | | |
| 1 | Additions in tangible and intangible assets | -5,110,440 | -2,246,616 |
| **8** | **Cash flow from investing activities** | **-5,110,440** | **-2,246,616** |
| ***III.*** | ***Cash flow from financing activities*** | | |
| 1 | Loans received | 1,442,522 | 4,030,923 |
| 2 | Subsidies, grants, endowments and donations received | 159,663 | 154,956 |
| 3 | Loans repaid | -646,242 | -698,893 |
| **9** | **Net cash flow from financing activities** | **955,943** | **3,486,986** |
| ***IV.*** | ***Result of foreign currency exchange rate fluctuation*** | 0 | -11 |
| ***V.*** | ***Net cash flow in the reporting year*** | **-41,976** | **-536,966** |
| ***VI.*** | ***Cash and its equivalents at the beginning of the reporting year*** | **43,778** | **580,744** |
| ***VII.*** | **Cash and its equivalents at the end of the reporting year** | **1,802** | **43,778** |

Chairman of the Board___________________________

Member of the Board_______________________________

Member of the Board_______________________________

26 February 2016

## *STATEMENT OF CHANGES IN EQUITY*

| | 2015<br>EUR | 2014<br>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 | **619503** | **2276944** |
| 2. Calculated dividends | 0 | 0 |
| 3. Increase/decrease in retained earnings | 1223693 | -1657441 |
| 4. Amount in the balance sheet at the end of the reporting year | **1843196** | **619503** |
| ***VII. Equity*** | | |
| 1. Amount in the balance sheet of the previous year | **1408420** | **3065861** |
| 3. Amount in the balance sheet at the end of the reporting year | **2632113** | **1408420** |

The accompanying notes from 12 to 28 page form an integral part of these financial statements.

Chairman of the Board___________________________Gundars Jaunsleinis
Member of the Board_______________________________Gunta Isajeva
Member of the Board_______________________________Ireneusz Sajewicz

26 February 2016

***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 folowing 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 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% |
| 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 differencies 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 transfered to subsequent tax periods. A diferred 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 differencies.

## 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 measurment 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 contructors 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.