Joint Stock Company "GROBIŅA"

(Unified registration number 40003017297)

Unaudited
Financial Statements
for 12 Months Period
of Year 2012

The items of the financial statements were converted to EUR according to the exchange rate defined by the Bank of Latvia as at 31 December 2012: LVL 1 = EUR 0.702804 and it is only for informative purposes.

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 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	Fur-farming, growing, processing and sales of agricultural products NACE 0149
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	Argita Jaunsleine
Member of the Council	Gunārs Laugalis
Member of the Council	Jānis Meijubers (till 02.10.2012.)
Member of the Council	Linda Elsberģe
Member of the Council	Silvija Neimane (from 02.10.2012.)
Reporting year	01 January 2012 – 31 December 2012
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, Brivibas Street 40-48, Latvia, LV-1050

Management Report

Core Business Activity

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

Operations during the reporting year

The amount of the net turnover of year 2012 is LVL 2 256 002 LVL, it has decreased by 7%, if compared to year 2011. In 2012 the exercise prices at the auction houses increased by 38%, however, the amount of the skins sold decreased by 32%. In 12 months of 2012 there were 68 760 pieces of mink skins sold for the average exercise price LVL 31,88 per piece and 8 pieces of fox skins sold for the average exercise price LVL 9,35 per piece. In 12 months of 2011 there were 103 086 pieces of mink skins sold for the average price LVL 23,02 per piece and 491 pieces of fox skins sold for the average price LVL 27,69 per piece.

In 12 months of 2012 the average number of employees in JSC “Grobina” was 82, where in 12 months of 2011 it was 84. In 2012 there were 352 428 LVL paid in salaries, the average salary per employee per month was LVL 358,16.
In 2011 there were 338 673 LVL paid in salaries, the average salary per employee per month was LVL 335,99.
The profit of 2012 is LVL 464 196. Net earnings per share are LVL 0,928or EUR 1,321, where in 2011 the net earnings per share were LVL 0,333 or EUR 0,473.

As informed before, in the 1st quarter of 2012 all the necessary disinfection measures were carried out in the farm and producing facilities, in order to import 22 000 high quality Scandinavian type short haired pregnant female minks from Poland in April 2012, in already disinfected and clean farm. This project was completed, using the support received from AS “ABLV bank”, which granted a loan for the necessary funding in April 2012.

The worldwide acknowledged and examined method of three-time mink feeding has been established and adapted in the company, in order to obtain mink skins that meet the highest standards of skin size and quality.
Thereby, the skins obtained in 2012 are the highest quality and sold for the highest average price in history of JSC “Grobiņa”, which has increased its profit and profitability.

The Board of JSC "Grobiņa" has prepared the Report on Corporate Governance in 2012. The Report was prepared in accordance with the "Principles of Corporate Governance and Recommendations on Their Implementation" issued by NASDAQ OMX Riga. The Board has been sufficiently implementing the recommended principles of corporate governance in the JSC "Grobiņa", thus improving the quality of the governance.

Financial risks

JSC “Grobiņa” is a subject to various financial risks, including credit risk and foreign currency exchange rate and interest rate fluctuation risks. JSC “Grobiņa” management tries to minimise the negative potential financial risk impact on JSC “Grobiņa” financial situation.

JSC “Grobiņa” is a subject to foreign currency exchange rate fluctuation risks. Most of the JSC “Grobiņa” loans are in euro currency. Since the production mostly is being exported to euro currency markets, which has been a stable currency, the management does not discern serious financial risks in the nearest future. The last years’ tendencies of sales development are showing that JSC “Grobiņa” is in a stable position in its production field and the production obtained in JSC “Grobiņa” is competitive.

The management of JSC “Grobiņa” is considering using financial instruments to minimize the interest rate risks.

Financial resources, which potentially expose the Company to certain credit risk concentration level, are mainly cash and trade receivables. At the end of the reporting period the Company was not exposed to significant credit risk concentration level as no customer's debt exceeded 50% of total trade receivables. The Company has implemented and complies with the credit policy by selling goods on credit only to customers with good credit history and not exceeding the credit limit fixed for each customer. Trade receivables are stated at the recoverable amount. The Company's partners in cash transactions are local financial institutions with appropriate credit history.

The Company follows prudent liquidity risk management ensuring that adequate credit resources are available for fulfilling its liabilities in fixed terms. On December 31, 2012 the Company's current assets exceeded short-term liabilities by LVL 116 200. Long-term liabilities include long-term loan from bank, the maturity is October 10, 2014. The Company's Management believes that the Company will have sufficient cash resources for its liquidity not to be endangered.

Financial results

Total liquidity ratio = 1.08

Current liquidity ratio = 0.25

Quick liquidity ratio = 0.21

Specific weight of liabilities in the balance sheet = 0.51

Debt/Equity Ratio = 1.05

Inventory turnover ratio = 1.26

Asset turnover ratio = 0.57

Profit on sales (%) = 20.58%

Return on equity (%) = 124.38 %

Legal proceedings

The Board of JSC "Grobiņa" informs that in 2012 there were no lawsuits claimed against JSC “Grobiņa”. The legal proceedings of previous years regarding proceedings against the Board and the Supervisory Board members JSC “Grobiņa” are still in progress. Information about the legal proceedings and the decisions made is regularly published on homepage of NASDAQ OMX Rīga.

Subsequent events

In February 2013 there was a loan agreement concluded with CITADELE BANK for re-financing of the existing ABLV Bank loan – amount of 1 278 500 EUR, therefore the payment deadline has been extended from 10.10.2014. to 19.07.2015., providing that the loan is repaid on a monthly basis, according to the repayment schedule. Additionally, the annual fixed interest rate of the loan has been decreased from 5% to 4,2%.

Other financial deals or events, which would cause necessity for corrections to this financial report or which should be explained in this financial report, has not been concluded.

Management’s proposals on profit sharing

Taking into account the profit amount of 2012, the management of JSC “Grobiņa” proposes to the shareholders meeting to discuss the question about the profit part to be paid in dividends.

Future perspective

In May 2012 JSC ''Grobiņa'' began working on new project „Construction of a new fur animal farm". To implement this project a long term lease agreement was concluded with the Council of Pāvilosta in May 2012 for lease of a relevant land with building rights (24,7 ha), which is situated at Pāvilosta district, Vērgale municipality, ''Ceļmalnieki'', where the new farm is planned to be build.

The objective of the above project is to modernize the company, by constructing a modern and a disease-free, fully automatic (approximately 24 employees will be required to ensure a full operation of the farm) fur animal (mink) farm for a herd of 16 500 breeding minks, situated at a distance of 20 km from the present mink farm. The total cost of new farm project is planned to be LVL 4 160 000, where construction costs and costs of fixed installations - approxiametely LVL 2 800 000, costs of equipment and facilities - LVL 200 000, but costs of purchase of a new breeding animal herd - LVL 1 160 000.

Due to the large costs of this Project, the Board of JSC ''GROBIŅA'' submitted the application to the Rural Support Service (hereinafter RSS) to request a co-funding from The European Agricultural Fund for Rural Development within Rural Development programme's Measure ''Modernisation of Agricultural Holdings''.

As the result of this application, the Resolutions from RSS No. 04.3/2-11/1971, dated 28.08.2012, and No. 04.1/2-11/2888, dated 14.11.2012., have been received, which confirm that for the project ''Construction of a new fur animal farm'' JSC ''Grobiņa'' has been granted for the public co-funding for the total amount of LVL 1 680 000. Therefore the rest of the project costs – LVL 1 120 000 – JSC ''Grobiņa'' is planning to cover by financing loan provided from a credit institution.

For implementation of this project there was a loan agreement concluded with CITADELE BANK on February 2013 for amount of 3 984 041 EUR for the period until 19.02.2020. JSC „Grobiņa" is planning to repay Ls 1 680 000 or EUR 2 390 424 of the CITADELE BANK loan, using the granted co-funding received from the Rural Support Service, but the rest of the loan amount is planned to be repaid on a monthly basis according to the repayment schedule.

The implementation of this project is planned to begin in March 2013 and finish in January 2014.
As the result of implementing this project, JSC "Grobina" will increase the production, by growing more than 200 000 animals, and it is planned, that in 3 years' time this will increase the turnover to LVL 6,25 million (in year 2015).

Additionally, in 2012 JSC ''Grobiņa'' has begun working on development and implementation of yet another project – establishment of a brand new facilities for food preperation, which in future could provide animal food not only for JSC ''Grobiņa'', but also for other farms in Latvia and Lithuania. This project is planned to be implemented in several stages over several year time and the amount of investments would accordingly be starting from 1,5 million LVL to 5 million LVL.

The management of JSC ''Grobiņa'' considers that the establishment of the above described facilities for food preparation is one of the vital conditions for development of the industry of mink breeding in Latvia.

Chairman of the Board_____Gundars Jaunsleinis

Member of the Board_____Gunta Isajeva

Member of the Board_____Andris Vītoliņš

20 February 2013

STATEMENT ON 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" confirms that the Annual Report for the financial year 2012 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 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

20 February 2013

BALANCE SHEET

	ASSETS	31.12.12. LVL	31.12.12. EUR	31.12.11. LVL	31.12.11. EUR
Non-current assets					
I	***Intangible assets***				
	Concessions, patents, licences, trade marks and similar rights	0	0	0	0
	Total intangible assets	**0**	**0**	**0**	**0**
II	***Tangible assets***				
	Land, building and construction	326 250	464 212	355 914	506 420
	Equipment and machinery	86 571	123 179	102 576	145 952
	Other fixed assets and equipment	70 400	100 170	67 911	96 629
	Construction in progress	27 172	38 662	25 100	35 714
	Total tangible assets	**510 393**	**726 224**	**551 501**	**784 715**
IV	***Biological assets***				
	Breeding animals	1 768 218	2 515 948	0	0
	Advance payments for breeding animals	2 811	4 000	312 045	444 000
	Total biological assets	**1 771 029**	**2 519 947**	**312 045**	**444 000**
V	***Long-term financial investments***				
	Own stocks and shares	0	0	2500	3 557
	Total long-term financial investments	**0**	**0**	**2 500**	**3 557**
	Total non-current assets	**2 281 422**	**3 246 171**	**866 046**	**1 232 272**
Current assets					
I	***Inventories***				
	Raw materials and consumables	126 449	179 921	26 925	38 311
	Unfinished production	1 212	1 725	0	0
	Finished production and goods for sale	1 150 962	1 637 671	983 998	1 400 103
	Prepayments for goods	0	0	691	983
	Total inventories	**1 278 623**	**1 819 317**	**1 011 614**	**1 439 397**
II	***Long-term investments held for sale***	**0**	**0**	**0**	**0**
III	***Receivables***				
	Trade receivables	10 850	15 438	30 905	43 974
	Other receivables	39 566	56 297	23 020	32 755
	Prepaid expenses	5 150	7 328	2 147	3 055
	Total receivables	**55 566**	**79 063**	**56 072**	**79 783**
	Total short-term financial investments	**0**	**0**	**0**	**0**
V	***Cash (total)***	**327 309**	**465 719**	**47 320**	**67 330**
	Total current assets	**1 661 498**	**2 364 099**	**1 115 006**	**1 586 511**
	Total assets	**3 942 920**	**5 610 270**	**1 981 052**	**2 818 783**

BALANCE SHEET (continued)

	EQUITY AND LIABILITIES	31.12.12. LVL	31.12.12. EUR	31.12.11. LVL	31.12.11. EUR
I	***Equity***				
	Share capital (equity)	500 000	711 436	500 000	711 436
	Reserves:				0
	d) other reserves	54 454	77 481	54 454	77 481
	Total reserves	54 454	77 481	54 454	77 481
	Retained earnings				0
	a) retained earnings for the previous yea	885 459	1 259 895	719 076	1 023 153
	b) retained earnings for the reporting yea	464 196	660 491	166 383	236 742
	Total retained earnings	1 349 655	1 920 386	885 459	1 259 895
	Total equity	**1 904 109**	**2 709 303**	**1 439 913**	**2 048 812**
II	***Provisions***				
	Other provisions	30 874	43 930	31 321	44 566
	Total provisions	**30 874**	**43 930**	**31 321**	**44 566**
III	***Liabilities***				
I	***Long-term liabilities***				
	Loans from credit institutions	449 443	639 500	108 818	154 834
	Other loans	13 196	18 776	0	0
	Total long-term liabilities	**462 639**	**658 276**	**108 818**	**154 834**
II	***Short-term liabilities***				
	Loans from credit institutions	449 093	639 002	54 608	77 700
	Other loans	8 392	11 941	117 944	167 819
	Prepayments received from customers	846 139	1 203 947	159 242	226 581
	Trade payables	178 971	254 653	34 022	48 409
	Taxes and state social insurance payables	27 961	39 785	13 982	19 895
	Other payables	21 422	30 481	14 121	20 092
	Accrued liabilities	13 320	18 953	7 081	10 075
	Total short-term liabilities	**1 545 298**	**2 198 761**	**401 000**	**570 572**
	Total liabilities	**2 007 937**	**2 857 037**	**509 818**	**725 406**
	Total equity and liabilities	**3 942 920**	**5 610 270**	**1 981 052**	**2 818 783**

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LVL 1 = EUR 0.702804 and it is only for informative purposes.

Chairman of the Board_____ Gundars Jaunsleinis

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Member of the Board_____ Andris Vītoliņš

20 February 2013

INCOME STATEMENT

	2012 LVL	2012 EUR	2011 LVL	2011 EUR
Net turnover	2 256 002	3 210 002	2 436 282	3 466 517
Cost of sales	1 447 286	2 059 302	1 960 507	2 789 550
Gross profit or loss	**808 716**	**1 150 699**	**475 775**	**676 967**
Sales expenses	63 065	89 733	103 182	146 815
Administrative expenses	213 692	304 056	170 507	242 610
Other operating income	25 019	35 599	28 352	40 341
Other operating expenses	32 979	46 925	6 739	9 589
Profit or loss from operations	**523 999**	**745 583**	**223 699**	**318 295**
Other interest receivable and similar income	0	0	2	3
Interest payable and similar expenses	58 378	83 064	85 584	121 775
Profit or loss before extraordinary items and taxes	**465 621**	**662 519**	**138 117**	**196 523**
Extraordinary income	0	0	29 506	41 983
Profit or loss before taxes	**465 621**	**662 519**	**167 623**	**238 506**
Corporate income tax	0	0	0	0
Deferred tax income (expenses)	0	0	0	0
Other taxes	1 425	2 028	1 240	1 764
Profit or loss of the reporting year	**464 196**	**660 491**	**166 383**	**236 742**
Earnings per share (EPS)	**0,928**	**1,321**	**0,333**	**0,473**

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20 February 2013

CASH FLOW STATEMENT (indirect method)

		2012 LVL	2012 EUR	2011	LVL	2011 EUR
	I. Cash flow from operating activities					
1	Profit or loss before extraordinary items and taxes	**465 621**	**662 519**		**138 117**	**196 523**
	Adjustments:					
a)	depreciation costs of tangible assets;	64 916	92 367		69 940	99 516
b)	write-offs of intangible assets;	0	0		14	20
c)	disposals of tangible assets;	22 796	32 436		37	53
d)	accruals (other than accruals for doubtful debts);	-447	-636		8 873	12 625
e)	profit or loss from foreign currency exchange rate fluctuations;	15 171	21 586		-7 431	-10 573
f)	subsidies, grants, endowments, donations;	-19 800	-28 173		-16 591	-23 607
g)	other interest receivable and similar income;	0	0		-2	-3
h)	interest payable and similar expenses.	58 378	83 064		85 584	121 775
2	Profit or loss before corrections of changes in the balances of current assets and short-term liabilities	**606 635**	**863 164**		**278 541**	**396 328**
	Adjustments:					
a)	(increase)/decrease in long-term financial investments;	2 500	3 557		352	501
b)	(increase)/decrease in biological assets;	-1 458 984	-2 075 947		289 334	411 685
c)	(increase)/decrease in receivables balances;	506	720		26 020	37 023
d)	(increase)/decrease in inventories balances;	-267 009	-379 920		264 772	376 737
e)	increase/(decrease) in suppliers, contractors and other creditors payables balances.	859 365	1 222 766		-641 744	-913 119
3	**Gross cash flow from operating activities**	**-256 987**	**-365 660**		**217 275**	**309 154**
4	Interest payable	-58 378	-83 064		-85 584	-121 775
5	Immovable property tax expenses	-1 425	-2 028		-1 240	-1 764
6	**Cash flow before extraordinary items**	**-316 790**	**-450 752**		**130 451**	**185 615**
7	Cash flow from extraordinary items	0	0		29 506	41 983
8	**Net cash flow from operating activities**	**-316 790**	**-450 752**		**159 957**	**227 598**
II.	***Cash flow from investing activities***					
1	Additions in tangible and intangible assets	-46 604	-66 312		-31 113	-44 270
2	Interest receivable and similar income	0	0		2	3
6	**Cash flow from investing activities**	**-46 604**	**-66 312**		**-31 111**	**-44 267**
III.	***Cash flow from financing activities***					
1	Loans received	1 049 110	1 492 749		80 615	114 705
2	Subsidies, grants, endowments and donations received	19 800	28 173		16 591	23 607
3	Loans repaid	-410 356	-583 884		-288 328	-410 254
7	**Net cash flow from financing activities**	**658 554**	**937 038**		**-191 122**	**-271 942**
IV.	***Result of foreign currency exchange rate fluctuation***	-15 171	-21 586		7 431	10 573
V.	***Net cash flow in the reporting year***	**279 989**	**398 388**		**-54 845**	**-78 037**
VI.	***Cash and its equivalents at the beginning of the reporting year***	**47 320**	**67 330**		**102 165**	**145 368**
VII.	***Cash and its equivalents at the end of the reporting year***	**327 309**	**465 719**		**47 320**	**67 330**

Chairman of the Board_____ Gundars Jaunsleinis

Member of the Board_____ Gunta Isajeva

Member of the Board_____ Andris Vītoliņš

20 February 2013

STATEMENT OF CHANGES IN EQUITY

	2012 LVL	2012 EUR	2011 LVL	2011 EUR
I. Share capital (equity)				
1. Amount in the balance sheet of the previous year	**500000**	**711436**	**500000**	**711436**
2. Correction of the amount in the balance sheet of the previous year	0	0	0	0
3. Increase/decrease in share capital (equity)	0	0	0	0
4. Amount in the balance sheet at the end of the reporting year	**500000**	**711436**	**500000**	**711436**
V. Reserves				
1. Amount in the balance sheet of the previous year	**54454**	**77481**	**54454**	**77481**
2. Correction of the amount in the balance sheet of the previous year	0	0	0	0
3. Increase/decrease in reserve balance	0	0	0	0
4. Amount in the balance sheet at the end of the reporting year	**54454**	**77481**	**54454**	**77481**
VI. Retained earnings				
1. Amount in the balance sheet of the previous year	**885459**	**1259895**	**719076**	**1023153**
2. Correction of the amount in the balance sheet of the previous year	0	0	0	0
3. Increase/decrease in retained earnings	464 196	660491	166 383	236742
4. Amount in the balance sheet at the end of the reporting year	**1349655**	**1920386**	**885459**	**1259895**
VII. Equity				
1. Amount in the balance sheet of the previous year	**1439913**	**2048812**	**1273530**	**1812070**
2. Correction of the amount in the balance sheet of the previous year	0	0	0	0
3. Amount in the balance sheet at the end of the reporting year	**1904109**	**2709303**	**1439913**	**2048812**

Chairman of the Board_____ Gundars Jaunsleinis
Member of the Board_____ Gunta Isajeva
Member of the Board_____ Andris Vītoliņš

20 February 2013

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.
Error occurred in previous reporting periods is corrected, defining the impact on the financial statement's items of respective year and providing information in the notes to the financial statements.

II. Recognition of revenues and net turnover

Net turnover is the total value of the goods (mink, polar fox and silver fox skins and materials) 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. Revenue from dividends is recognized when legal right appears.
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.

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. 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 Lats

The accounting in the Company is made in Latvian lats. All transactions in the foreign currency are revaluated to lats according to the official exchange rate defined by the Bank of Latvia 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 Bank of Latvia 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.

	31.12.2012. (lats)	**31.12.2011.** (lats)	
1 USA dollar	**0,531**	**0,544**	(USD)
1 euro	**0,702804**	**0,702804**	(EUR)
1 Lithuanian lit	**0,204**	**0,204**	(LTL)
1 Danish krone	**0,0942**	**0,0945**	(DKK)
1 Russian rouble	**0,0174**	**0,0170**	(RUB)

VII. 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.

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 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.

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 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.

XV. Investment properties

The Company has no investment property.

XVI. 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.

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.