

Joint Stock Company "GROBIŅA"

(Unified registration number 40003017297)

Unaudited Financial Statements for 12 Months Period of Year 2011

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 2011: LVL 1 = EUR 0.702804 and it is only for informative purposes.

Dubeņi, Grobiņa district

Contents

	Page
General Information	3
Management Report	from 4 to 5
Statement of Management's Responsibility	6
Balance Sheet	from 7 to 8
Income Statement	9
Cash Flow Statement	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

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, Dubēni, 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, trade and mediation, renting out premises
Names and positions of the Board members:	
Chairman of the Board	Gundars Jaunsleinis from 27 May 2011
Chairman of the Board	Daina Kalniņa till 01 March 2011
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 (from 28.04.2011.)
Chairman of the Council	Argita Jaunsleine (from 13.10.2010. till 28.04.2011.)
Member of the Council	Gunārs Laugalis (from 22.03.2010.)
Member of the Council	Jānis Meijubers (from 22.03.2010.)
Member of the Council	Santa Blīgzna (13.10.2010.-10.03.2011.)
Member of the Council	Sarmīte Ziediņa (13.10.2010.-10.03.2011.)
Member of the Council	Argita Jaunsleine (from 28.04.2011.)
Member of the Council	Linda Elsberģe (from 28.04.2011.)
Reporting year	01 January 2011 – 31 December 2011
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, Brīvības 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

Net turnover of 2011 amounts LVL 2 436 282, it has increased by 23% comparing with 2010. Sales prices for auction houses increased by 56% this year, so inspite of the decrease in the amount of skins sold, net turnover has increased. Within 12 months of 2011 103 086 mink skins were sold at an average sales price of LVL/pc 23,02 and 491 fox skins were sold at the average sales price of LVL/pc 27,69. In 12 months of 2010 118369 mink skins were sold at the average sales price of LVL/pc 16,42 and 2012 fox skins were sold at the average sales price of LVL/pc 13,61.

The average number of employees of JSC Grobiņa within 12 months of 2011 is 84, in the same period of 2010 - 87 employees.

Profit of 2011 is LVL 166 383. Net earnings per share is LVL 0.332 or EUR 0.473. Net earnings per share in 2010 were LVL 0.04 or EUR 0.06.

The Board of JSC "Grobiņa" has prepared a Report on Corporate Governance in 2011. 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 implementing the recommended principles of corporate governance in the JSC "Grobiņa" pro rata, thus improving the quality of the governance.

Financial Risk Management

The Company's operations are exposed to various financial risks, including credit risk, currency risk and interest rate risk. The Company's Management seeks to minimize negative impact of potential financial risks on the Company's financial position.

The Company is exposed to the foreign currency exchange rate fluctuation risk incurring due to different currencies. The majority of the Company's loans are in EUR. As the goods are exported to the markets where the dominating currency is euro and Danish krone, which had been stabil currencies, the Company's Management does not foresee serious financial risks in the nearest future. Sales trends of recent years shows that the Company is well established in the markets where it sells its goods and the goods produced are competitive.

The Company's loans are at EUR floating interest rate. The Company's Management is considering the possibilities to use financial instruments to minimize interest rate risk.

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 31 December 2011 the Company's current assets exceeded short-term liabilities by LVL 714 006. Long-term liabilities include long-term loan from bank, the maturity is 31 March 2015. Within 12 month of 2011 the Company repaid the loan in the amount of EUR 77 700. The Company's Management believes that the Company will have sufficient cash resources and its liquidity will not be compromised. Due to agreement, made on January, 2012, the loan and loans interest to physical entity are repaid fully.

Financial results

Total liquidity ratio = 2.78

Current liquidity ratio = 0.25

Quick liquidity ratio = 0.12

Specific weight of liabilities in the balance sheet = 0.26

Debt/Equity Ratio = 0.35

Inventory turnover ratio = 1.71

Asset turnover ratio = 1.23

Profit on sales (%) = 6.83%

Return on equity (%) = 11.56 %

Subsequent events

As of the last day of the reporting year until the date of signing this report, there have been no major events requiring adjustments or disclosure in these financial statements.

Management's proposals on profit sharing

The Board recommends to use the profit of the year 2011 to cover the losses incurred in the year 2009.

Future perspective

So far JSC "Grobiņa" was producing basically so-called long-haired minks whose fur products every year were losing their positions relative to the short-haired mink's fur. Short-haired mink's skins are on average 30% more expensive and, due to fashion trends in China, industry experts are predicting a growing demand, as well as growing prices on short-haired mink's fur. Therefore JSC "Grobiņa" aim is starting from 2012 to abandon completely the hitherto farmed long-haired minks, changing completely animal herds to high quality Scandinavian type of short-haired minks. To achieve this aim, JSC "Grobiņa" Management had fully slaughtered all existing animals, including breeding animals. Using the opportunity for fur farms where there are no animals, there had been a complex cleaning of farm and industrial spaces, as well as disinfection of premises to prevent and limit the widespread disease that had been in the farm, which was the main reason so far to the large proportion of the fallen animals.

So in the spring of 2012 in the already cleaned and disinfected fur farm, an Aleutian disease free, high quality Scandinavian type short-haired mink breeding herd will come from the Polish fur farms. All the above mentioned measures will lead to reduced disease caused animal falling for up to 3% per year and an increase in both birth rates above the planned 4.5 kits per breeding mother and derived skin quality. At the same time JSC "Grobiņa" also plans to increase production in 2012 by growing more than 100 000 animals, that will increase the profitability of the Company and provide a better return in the future. Preparing the Annual report, The Board of the company has decidable question about the usefulness and necessity of shareholders and Council members' proposal to reevaluate the company's fixed assets.

Chairman of the Board _____ Gundars Jaunsleinis

Member of the Board _____ Gunta Isajeva

Member of the Board _____ Andris Vītoliņš

24 February 2012

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 2011 has been prepared in accordance with the requirements of the applicable laws and regulations and gives a true and fair view on the JSC "Grobiņa" assets, liabilities, financial position and loss. The Management Report contains true information.

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

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

Chairman of the Board_____

Gundars Jaunsleinis

Member of the Board_____

Gunta Isajeva

Member of the Board_____

Andris Vītoliņš

24 February 2012

BALANCE SHEET

ASSETS	31.12.11. LVL	31.12.11. EUR	31.12.10. LVL	31.12.10. EUR
Non-current assets				
I Intangible assets				
Concessions, patents, licences, trade marks and similar rights	0	0	14	20
Total intangible assets	0	0	14	20
II Tangible assets				
Land, building and construction	355 914	506 420	385 683	548 777
Equipment and machinery	102 576	145 952	111 799	159 076
Other fixed assets and equipment	67 911	96 629	67 783	96 447
Construction in progress	25 100	35 714	25 100	35 714
Total tangible assets	551 501	784 715	590 365	840 014
IV Biological assets				
Breeding animals	0	0	601 379	855 685
Advance payments for breeding animals	312 045	444 000	0	0
Total biological assets	312 045	444 000	601 379	855 685
V Long-term financial investments				
Other securities and investments	0	0	352	501
Other loans and long-term receivables	2500	3557	2 500	3 557
Total long-term financial investments	2 500	3 557	2 852	4 058
Total non-current assets	866 046	1 232 272	1 194 610	1 699 777
Current assets				
I Inventories				
Raw materials and consumables	26 925	38 311	105 488	150 096
Unfinished production	0	0	15 993	22 756
Finished production and goods for sale	983 998	1 400 103	1 154 670	1 642 947
Prepayments for goods	691	983	235	334
Total inventories	1 011 614	1 439 397	1 276 386	1 816 134
II Long-term investments held for sale	0	0	0	0
III Receivables				
Trade receivables	30 905	43 974	50 474	71 818
Other receivables	23 020	32 755	24 131	34 335
Prepaid expenses	2 147	3 055	7 487	10 653
Total receivables	56 072	79 783	82 092	116 806
Total short-term financial investments	0	0	0	0
V Cash (total)	47 320	67 330	102 165	145 368
Total current assets	1 115 006	1 586 511	1 460 643	2 078 308
Total assets	1 981 052	2 818 783	2 655 253	3 778 085

BALANCE SHEET (continued)

EQUITY AND LIABILITIES	31.12.11. LVL	31.12.11. EUR	31.12.10. LVL	31.12.10. 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
<i>Total reserves</i>	54 454	77 481	54 454	77 481
Retained earnings				0
a) retained earnings for the previous year	719 076	1 023 153	697 616	992 618
b) retained earnings for the reporting year	166 383	236 742	21 460	30 535
<i>Total retained earnings</i>	885 459	1 259 895	719 076	1 023 153
<i>Total equity</i>	1 439 913	2 048 812	1 273 530	1 812 070
II Provisions				
Other provisions	31 321	44 566	22 448	31 941
<i>Total provisions</i>	31 321	44 566	22 448	31 941
III Liabilities				
I Long-term liabilities				
Loans from credit institutions	108 818	154 834	163 426	232 534
Other loans	0	0	251 450	357 781
<i>Total long-term liabilities</i>	108 818	154 834	414 876	590 315
II Short-term liabilities				
Loans from credit institutions	54 608	77 700	54 608	77 700
Other loans	117 944	167 819	19 599	27 887
Prepayments received from customers	159 242	226 581	614 844	874 844
Trade payables	34 022	48 409	217 731	309 803
Taxes and state social insurance payables	13 982	19 895	18 081	25 727
Other payables	14 121	20 092	11 107	15 804
Accrued liabilities	7 081	10 075	8 429	11 993
<i>Total short-term liabilities</i>	401 000	570 572	944 399	1 343 759
<i>Total liabilities</i>	509 818	725 406	1 359 275	1 934 074
<i>Total equity and liabilities</i>	1 981 052	2 818 783	2 655 253	3 778 085

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Chairman of the Board _____ Gundars Jaunsleinis

Member of the Board _____ Gunta Isajeva

Member of the Board _____ Andris Vītoliņš

24 February 2012

INCOME STATEMENT

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Net turnover	2 436 282	3 466 517	1 980 334	2 817 761
Cost of sales	1 960 507	2 789 550	1 673 369	2 380 990
Gross profit or loss	475 775	676 967	306 965	436 772
Sales expenses	103 182	146 815	108 495	154 374
Administrative expenses	170 507	242 610	128 255	182 490
Other operating income	28 352	40 341	19 627	27 927
Other operating expenses	6 739	9 589	22 282	31 704
Profit or loss from operations	223 699	318 295	67 560	96 129
Other interest receivable and similar income	2	3	267	380
Interest payable and similar expenses	85 584	121 775	32 956	46 892
Profit or loss before extraordinary items and taxes	138 117	196 523	34 871	49 617
Extraordinary income	29 506	41 983	28 177	40 092
Extraordinary expenses	0	0	40 412	57 501
Profit or loss before taxes	167 623	238 506	22 636	32 208
Corporate income tax	0	0	0	0
Deferred tax income (expenses)	0	0	0	0
Other taxes	1 240	1 764	1 176	1 673
Profit or loss of the reporting year	166 383	236 742	21 460	30 535

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24 February 2012

CASH FLOW STATEMENT (indirect method)

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
I. Cash flow from operating activities				
1 Profit or loss before extraordinary items and taxes	138 117	196 523	34 871	49 617
<i>Adjustments:</i>				
a) depreciation costs of tangible assets;	69 940	99 516	78 321	111 441
b) write-offs of intangible assets;	14	20	105	149
c) disposals of tangible assets;	37	53	1 240	1 764
d) accruals (other than accruals for doubtful debts);	8 873	12 625	-612	-871
e) profit or loss from foreign currency exchange rate fluctuations;	-7 431	-10 573	19 064	27 126
f) subsidies, grants, endowments, donations;	-16 591	-23 607	-8 309	-11 823
g) other interest receivable and similar income;	-2	-3	-267	-380
h) interest payable and similar expenses.	85 584	121 775	32 956	46 892
2 Profit or loss before corrections of changes in the balances of current assets and short-term liabilities	278 541	396 328	157 369	223 916
<i>Adjustments:</i>				
a) (increase)/decrease in long-term financial investments;	352	501	0	0
b) (increase)/decrease in biological assets;	289 334	411 685	-358 629	-510 283
c) (increase)/decrease in receivables balances;	26 020	37 023	-60 594	-86 217
d) (increase)/decrease in inventories balances;	264 772	376 737	160 261	228 031
e) increase/(decrease) in suppliers, contractors and other creditors payables balances.	-641 744	-913 119	420 803	598 749
3 Gross cash flow from operating activities	217 275	309 154	319 210	454 195
4 Interest payable	-85 584	-121 775	-32 956	-46 892
5 Immovable property tax expenses	-1 240	-1 764	-1 176	-1 673
6 Cash flow before extraordinary items	130 451	185 615	285 078	405 629
7 Cash flow from extraordinary items	29 506	41 983	-12 235	-17 409
8 Net cash flow from operating activities	159 957	227 598	272 843	388 221
II. Cash flow from investing activities				
1 Additions in tangible and intangible assets	-31 113	-44 270	-88 586	-126 047
2 Interest receivable and similar income	2	3	267	380
6 Cash flow from investing activities	-31 111	-44 267	-88 319	-125 667
III. Cash flow from financing activities				
1 Loans received	80 615	114 705	20 402	29 029
2 Subsidies, grants, endowments and donations received	16 591	23 607	8 309	11 823
3 Loans repaid	-288 328	-410 254	-126 153	-179 500
7 Net cash flow from financing activities	-191 122	-271 942	-97 442	-138 647
IV. Result of foreign currency exchange rate fluctuation	7 431	10 573	-19 064	-27 126
V. Net cash flow in the reporting year	-54 845	-78 037	68 018	96 781
VI. Cash and its equivalents at the beginning of the reporting year	102 165	145 368	34 147	48 587
VII. Cash and its equivalents at the end of the reporting year	47 320	67 330	102 165	145 368

Chairman of the Board _____ Gundars Jaunsleinis
Member of the Board _____ Gunta Isajeva
Member of the Board _____ Andris Vitolīņš

24 February 2012

STATEMENT OF CHANGES IN EQUITY

	2011 LVL	2011 EUR	2010 LVL	2010 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	719076	1023153	697616	992618
2. Correction of the amount in the balance sheet of the previous year	0	0	0	0
3. Increase/decrease in retained earnings	166 383	236742	21460	30535
4. Amount in the balance sheet at the end of the reporting year	885459	1259895	719076	1023153
VII. Equity				
1. Amount in the balance sheet of the previous year	1273530	1812070	1252070	1781535,1
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	1439913	2048812	1273530	1812069,9

Chairman of the Board _____
 Member of the Board _____
 Member of the Board _____

Gundars Jaunsleinis
 Gunta Isajeva
 Andris Vītoliņš

24 February 2012

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.

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%
Technological equipment	5.3%-25%
Other equipment and facilities, motor vehicles	9.1%-33.33%

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

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

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

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

IV. Inventories

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

V. Trade receivables

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

VI. Foreign Currency Revaluation to 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.

	31.12.2011. (lats)	31.12.2010. (lats)	
1 USA dollar	0,544	0,535	(USD)
1 euro	0,702804	0,702804	(EUR)
1 Lithuanian lit	0,204	0,203	(LTL)
1 Danish krone	0,0945	0,0943	(DKK)
1 Russian rouble	0,0170	0,0176	(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 differences smooth out. Temporary differences primarily arise from the use of different rates of depreciation of the fixed assets, as well as tax losses that are transferred to subsequent tax periods. A deferred tax asset is recognized if there is a high probability, that a taxable profit will be acquired, which will be object to the deductible temporary differences.

XII. Provisions

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

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

XIII. Related parties

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

XIV. Biological assets

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

XV. Investment properties

The Company has no investment property.

XVI. Accrued liabilities, contingencies

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

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

XVII. Earnings per share

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