

Joint Stock Company "GROBIȚA"

(Unified registration number 40003017297)

NON-AUDITED

FINANCIAL STATEMENTS FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER, 2014

Dubești, Grobița district

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General Information

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

Management Report

Core Business Activity

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

Operations during the reporting year

On first 9 months of year 2014 the average number of employees in JSC "Grobiņa" was 96, where in the first 9 months of year 2013 it was 83.

The net turnover of first 9 months of 2014 is EUR 2 534 154 and it has decreased by 29 % comparing with the first 9 months of 2013. In the first 9 months of 2014 have been sold 88 304 mink skins with the average price 27,94 EUR/piece. In the first 9 months of year 2013 there were sold 53 821 mink skins with the average price 64,91 EUR/piece. Although JSC "Grobiņa" realized production prices exceeded the average auction price, JSC "Grobiņa" production where sold below it's cost price. By this, the losses of first 9 months of year 2014 are 961 564 EUR. Net losses per share are 1,923 EUR. On the first 9 months of year 2013 net earnings per share were 2,288 EUR.

Despite the global fur price drop on year 2014, which also is an objective reason for JSC "Grobiņa" year 2014 losses, company on this year has realized 2 extensive long term investment projects:

- On February 2014 there was put into exploitation a new fur farm at "Ceļmalnieki", Vērgales pagasts, Pāvilostas novads, where is imported high quality mink herd;

- Are finished part 1 and 2 construction works of project "Centralized fur animal food factory" and in result at the time are made all the necessary operations and formalities to put the factory into exploitation.

In circumstances when the year of crisis matches the JSC "Grobiņa" investment period and the production amount increase, has declined the company financial indicators. The management of JSC "Grobiņa" is active working with the current cooperation partners on the accrued liability restructuring and also to attract additional external funding.

Financial results

Total liquidity ratio = 0.54

Current liquidity ratio = 0.04

Quick liquidity ratio = 0.006

Specific weight of liabilities in the balance sheet = 0.88

Debt/equity ratio = 7,65

Inventory turnover ratio = 0,87

Asset turnover ratio = 0,14

Profit on sales (%) = -37,94 %

Return on equity (%) = -45,70 %

Future perspective

Both investment projects are preconditions for further company development strategy, which is directed to grow the production amounts, quality of achieved skins and production cost decrease. By the mentioned conditions JSC "Grobiņa" with its production will achieve high competitiveness between world leading companies and will work with high profitability as soon as the market will recover. Therefore, already on year 2014 JSC "Grobiņa" will produce 120 000 mink skins what is about 40 % more comparing with year 2013. Thanks to the investments made in the next few years JSC "Grobiņa" will increase its production volumes till 200 000 mink skins.

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Member of the Board _____ Andris Vītoliņš

24 October 2014

Statement of Management's responsibility

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

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

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

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

Chairman of the Board_____

Gundars Jaunsleinis

Member of the Board_____

Gunta Isajeva

Member of the Board_____

Andris Vītoliņš

24 October 2014

BALANCE SHEET

ASSETS	30.09.14. EUR	30.09.13. EUR
II Tangible assets		
Land, building and construction	6 092 298	640 304
Equipment and machinery	92 800	109 406
Other fixed assets and equipment	788 195	312 253
Construction in progress	1 281 972	470 033
Advance payments for tangible assets	273 543	2 991 030
Total tangible assets	8 528 808	4 523 026
III Biological assets		
Breeding animals	6 303 282	2 284 152
Advance payments for breeding animals	4 000	4 000
Total biological assets	6 307 282	2 288 152
Total non-current assets	14 836 090	6 811 178
Current assets		
I Inventories		
Raw materials and consumables	229 268	190 659
Unfinished production	0	1 726
Finished production and goods for sale	749 493	417 627
Prepayments for goods	0	22 459
Food-producing animals	2 209 719	2 402 367
Total inventories	3 188 480	3 034 838
III Receivables		
Trade receivables	118 014	42 005
Other receivables	63 838	133 969
Prepaid expenses	17 823	8 554
Total receivables	199 675	184 528
III Cash (total)	40 440	874 656
Total current assets	3 428 595	4 094 022
Total assets	18 264 685	10 905 200

BALANCE SHEET (continued)

EQUITY AND LIABILITIES		30.09.14. EUR	30.09.13. EUR
I Equity			
Share capital (equity)		711 436	711 436
Reserves:			0
d) other reserves		77 481	77 481
<i>Total reserves</i>		77 481	77 481
Retained earnings			0
a) retained earnings for the previous year		2 276 944	1 493 525
b) retained earnings for the reporting year		-961 564	1 143 808
<i>Total retained earnings</i>		1 315 380	2 637 333
<i>Total equity</i>		2 104 297	3 426 250
II Provisions			
Other provisions		69 782	43 930
<i>Total provisions</i>		69 782	43 930
III Liabilities			
I Long-term liabilities			
Loans from credit institutions		6 703 041	4 177 500
Other loans		715 915	41 963
Further period income		2 276 048	1 326 296
Deferred tax liabilities		35 852	0
<i>Total long-term liabilities</i>		9 730 856	5 545 759
II Short-term liabilities			
Loans from credit institutions		257 661	127 003
Other loans		351 343	10 195
Prepayments received from customers		1 761 714	1 066 524
Trade payables		3 760 831	544 721
Taxes and state social insurance payables		165 547	32 225
Other payables		35 051	34 910
Further period income		25 468	73 683
Accrued liabilities		2 135	0
<i>Total short-term liabilities</i>		6 359 750	1 889 261
<i>Total liabilities</i>		16 090 606	7 435 020
<i>Total equity and liabilities</i>		18 264 685	10 905 200

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24 October 2014

INCOME STATEMENT

	2014	EUR	2013	EUR
Net turnover		2 534 154		3 545 232
Cost of sales		2 947 793		1 874 839
Gross profit or loss		-413 639		1 670 393
Sales expenses		110 069		61 604
Administrative expenses		321 160		346 922
Other operating income		126 101		108 794
Other operating expenses		39 367		40 274
Profit or loss from operations		-758 134		1 330 387
Interest payable and similar expenses		196 360		177 246
Profit or loss before extraordinary items and taxes		-954 494		1 153 141
Profit or loss before taxes		-954 494		1 153 141
Other taxes		7 070		9 333
Profit or loss of the reporting year		-961 564		1 143 808
Earnings (loss) per share (EPS)		-1,923		2,288

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24 October 2014

CASH FLOW STATEMENT (indirect method)

	2014	2013
	EUR	EUR
I Cash flow from operating activities		
1 Profit or loss before extraordinary items and taxes	-954 494	1 153 141
Adjustments:		
a) depreciation costs of tangible assets;	269 756	79 429
b) profit or loss from foreign currency exchange rate fluctuations;	11	22 133
c) subsidies, grants, endowments, donations;	-126 051	-35 010
d) interest payable and similar expenses.	196 360	177 246
2 Profit or loss before corrections of changes in the balances of current assets and short-term liabilities	-614 418	1 396 939
Adjustments:		
a) (increase)/decrease in biological assets;	-3 774 115	231 796
b) (increase)/decrease in receivables balances;	-115 667	-105 465
c) (increase)/decrease in inventories balances;	420 324	-1 215 521
d) increase/(decrease) in suppliers, contractors and other creditors payables balances.	2 647 470	1 530 541
3 Gross cash flow from operating activities	-1 436 406	1 838 290
4 Interest payable	-196 360	-177 246
5 Immovable property tax expenses	-7 070	-9 333
6 Cash flow before extraordinary items	-1 639 836	1 651 711
7 Net cash flow from operating activities	-1 639 836	1 651 711
II. Cash flow from investing activities		
1 Additions in tangible and intangible assets	-2 131 008	-3 876 231
8 Cash flow from investing activities	-2 131 008	-3 876 231
III. Cash flow from financing activities		
1 Loans received	3 785 412	4 861 882
2 Subsidies, grants, endowments and donations received	126 051	35 010
3 Loans repaid	-680 910	-1 814 440
4 Dividends paid	0	-426 862
9 Net cash flow from financing activities	3 230 553	2 655 590
IV. Result of foreign currency exchange rate fluctuation	-11	-22 133
V. Net cash flow in the reporting year	-540 302	408 937
VI. Cash and its equivalents at the beginning of the reporting year	580 742	465 719
VII. Cash and its equivalents at the end of the reporting year	40 440	874 656

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24 October 2014

STATEMENT OF CHANGES IN EQUITY

	2014 EUR	2013 EUR
I. Share capital (equity)		
1. Amount in the balance sheet of the previous year	711436	711436
4. Amount in the balance sheet at the end of the reporting year	711436	711436
V. Reserves		
1. Amount in the balance sheet of the previous year	77481	77481
4. Amount in the balance sheet at the end of the reporting year	77481	77481
VI. Retained earnings		
1. Amount in the balance sheet of the previous year	2276944	1493525
3. Increase/decrease in retained earnings	-961564	1143808
4. Amount in the balance sheet at the end of the reporting year	1315380	2637333
VII. Equity		
1. Amount in the balance sheet of the previous year	3065861	2282442
3. Amount in the balance sheet at the end of the reporting year	2104297	3426250

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24 October 2014

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICY

I. General Principles

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

Income statement has been prepared by turnover cost method.

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

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

Financial statements period is 9 month .

Accounting principles used

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

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

Subsequent events

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

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

Accounting policies are changed only if the regulatory framework has changed or if the existing accounting policy no longer meets the true and fair view requirements of the law due to changed circumstances. If a change in accounting policy is caused by normative framework, the impact is disclosed in the financial statements in accordance with established transitional procedures. If the transitional procedures have not been established, the impact of change in accounting policy is evaluated to all respective items of the financial statements of the previous period. Changes in accounting policies are explained in the notes to the financial statements.

Information about the change in accounting estimates is provided in the notes to the financial statements.

Accounting estimates are changed only when subsequent events will change the circumstances that gave rise to the estimate so far, or if there is new information.

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

II. Recognition of revenues and net turnover

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

Other revenues are recognized as following:

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

In accordance with principle of accrual basis of accounting 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. Inventories

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

V. Trade receivables

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

VI. Foreign Currency Revaluation to euro

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

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

VII. Cash and Cash 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.