

**Joint Stock Company "Kurzemes ciltslietu un
mākslīgās apsēklošanas stacija"**

(Unified registration number 40003017085)

ANNUAL REPORT
FOR THE PERIOD
01 JANUARY 2014 -
31 MARCH 2014

The items of the financial statements were converted to EUR according to the exchange rate defined by the Bank of Latvia
as at 31 March 2013: LVL 1 = EUR 0.702804

and it is only for informative purposes.

JAUNPILS DISTRICT

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General Information

| | |
|--|--|
| Name of the Company | Joint stock company "Kurzemes ciltslietu un mākslīgās apsūklošanas stacija" |
| Legal status of the Company | Public joint stock company |
| Registration number, place, date | 000301708 Riga, 6.August, 1991 |
| Re-registered in the Commercial Register | 40003017085 Riga, 7 April, 2004 |
| Address | Jaunpils, Jaunpils parish, Jaunpils region, LV-3145 |
| 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 | NACE 01.50 Mixed farming (crops and animal) |
| Names and positions of the Board members: | |
| Chairman of the Board | GATIS KAĶIS |
| Member of the Board | SIGITA LUKAŽE |
| Member of the Board | DAIGA LIELPINKA |
| Names and positions of the Council members | duration in accordance with data from the Register of Enterprises |
| Chairman of the Council | INDRA MARTINSONE |
| Member of the Council | JĀNIS LEIMANIS |
| Member of the Council | INĀRA KANSKA |
| Member of the Council | MAIJA BRUNOVSKA |
| Member of the Council | HARALDS MOZGIRS |
| Reporting year | 01 January 2014 – 31 March 2014 |
| Name and address of the auditor | Marija Jansone Sworn auditor (LACA Certificate No.25) SIA AUDIT ADVICE Sworn auditors company's licence No.134 Riga, Grecinieku Street 9-3, Latvia, LV-1050 |

Management report

Types of activities

JSC „Kurzemes ciltslietu un mākslīgā apsēklošanas stacija” (hereinafter – the Company) principal activities are producing and sale of the semen from high-quality breeding animals (boars, bulls) , animal breeding and artificial insemination related services, collection of milk control samples, as well as grain cultivation.

Company activity during reporting year

The company's turnover in three months 2014 amounted to EUR 290429, which is 9.7 % higher than in three months 2013. Company's after-tax earnings amounted to EUR 56913, which is less than 3.5 % than in the previous reporting year. Earnings per share (EPS) are EUR 0.114.

During the reporting period the company has received LVL EUR 2344 as national and EU subsidies. The subsidies have been received for the maintenance of breeding animals.

In three months 2014, the joint stock company has acquired fixed assets totalling EUR 27459 including 5.72 ha of agricultural land for EUR 24139 to be used for grain cultivation.

From the European Union Structural Funds co-financing by the 2013, the LVL 13147 (EUR 18706) revenue.

In 2013, the company continue sale of feed additives to herd owners.

Twice a year, a review of the need for existing stocks in accordance with current market trends is carried out and surplus (self-produced) bio products are written off. The bio products with a high genetic quality can be stored and marketed for several years. The production cost of the written-off bio products is taken into account in pricing of the current products for sale.

Research and development activities

Non

Branches and representative offices abroad

Non

Financial risk management

Company activity is subject to a variety of financial risks including credit risk, foreign exchange rate and interest rate fluctuation risks. Company management seeks to minimize adverse effect of potential financial risks on Company's financial position.

The Company is exposed to foreign exchange rate fluctuation risk arising from differences in currencies. As with 1 January 2005 lat rate was pegged to euro rate, the lat/euro fluctuations would be limited and a significant influence on financial results in future periods is not expected. Company management considers possibility to apply hedging instruments to reduce the influence of U.S. dollar exchange rate fluctuations.

Financial resources which potentially expose Company to a certain concentration of credit risk are primarily cash and trade receivables. At the end of reporting period the Company was not subjected to significant degree of concentration of credit risk, because no customer debt exceeded 5% of total amount of trade receivables. The Company has established and respect credit policy by selling goods on credit only to customers with good credit history and within the credit amount specified for each customer. Trade receivables are specified in recoverable value. Company's partners in cash transactions are local financial institutions with an appropriate credit history.

The Company follows the prudent liquidity risk management, ensuring that the appropriate credit resources are available to meet obligations within specified time. Company's management believes that the Company will have sufficient cash resources so its liquidity is would not be jeopardized.

Circumstances and events after the end of reporting year

In the time period since last day of the reporting year up to signing of the present report there have been no significant events which considerably affect the result of reporting year.

Distribution of profit proposed by the Board

The Board of the Company has a proposal to pay LVL 77870 (EUR 110799) from the profit of year 2013 in dividends to the shareholders of the Company in the amount of LVL 0.05 (five santimes) per one share, the rest of profit switching for development requirements of the Company

Future prospects

1. Complete the on going breeding boars barn reconstruction project after the project to sell the old an unnecessary building.
2. With the European Union structural funds will be buying a new agricultural technique of grain industry needs, a semen processing laboratory equipment technologic and modernization of housing bulls internal conversion.
3. Take office building partial interior renovation.
4. Improve product and service sales by pricing improvements and new attraction.
5. Purchase or lease of agricultural land in grain production industry.

Chairman of the Board _____

G.Kaķis

Member of the Board _____

S.Lukaže

Member of the Board _____

D.Lielpinka

April 30, 2014

STATEMENT ABOUT MANAGEMENT LIABILITY

The Management of Joint Stock Company "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" is responsible for the preparation of the Company's Financial Report for the period from 01.01.2014. to 31.03.2014.

The Management of Joint Stock Company "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" in accordance with information available confirms that the Annual Report for the financial year 2013 has been prepared in accordance with the requirements of the applicable laws and regulations and gives a true and fair view on the JSC "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" assets, liabilities, financial position and loss. The Management Report provides true review of JSC "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" growth and performance results.

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

The Management of Joint Stock Company "Kurzemes ciltslietu un mākslīgās apsēklošanas stacija" is responsible for the compliance with the requirements of laws and regulations of the Republic of Latvia.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014

BALANCE SHEET

| ASSETS | Notes | 31.03.2014. EUR | 31.03.2013. EUR |
|--|-------|--------------------|--------------------|
| Non-current assets | | | |
| I Intangible assets | | | |
| Concessions, patents, licences, trade marks and similar rights | | 1 456 | 1 109 |
| Total intangible assets | 3 | 1 456 | 1 109 |
| II Tangible assets | | | |
| Land, building and construction | | 735 468 | 717 526 |
| Equipment and machinery | | 65 746 | 77 371 |
| Other fixed assets and equipment | | 13 186 | 13 890 |
| Construction in progress | | | |
| Total tangible assets | 4 | 814 400 | 808 787 |
| III Biological assets | | | |
| Breeding bulls | | 21 230 | 30 865 |
| Breeding boars | | 12 186 | 10 860 |
| Total biological assets | 5 | 33 416 | 41 725 |
| IV Long-term financial investments | | | |
| Other loans and long-term receivables | | 3529 | 3 529 |
| Total long-term financial investments | 6 | 3 529 | 3 529 |
| Total non-current assets | | 852 801 | 855 150 |
| Current assets | | | |
| I Inventories | | | |
| Raw materials and consumables | 7 | 60 960 | 75 721 |
| Unfinished production | 8 | 27 560 | 8 622 |
| Finished production and goods for sale | 9 | 590 132 | 585 980 |
| Total inventories | | 678 652 | 670 323 |
| II Receivables | | | |
| Trade receivables | 10 | 103 004 | 124 762 |
| Other receivables | 11 | 8 133 | 7 966 |
| Prepaid expenses | 12 | 5 851 | 1 529 |
| Total receivables | | 116 988 | 134 257 |
| III Cash (total) | | | |
| | 13 | 244 204 | 193 260 |
| Total current assets | | 1 039 844 | 997 840 |
| Total assets | | 1 892 645 | 1 852 990 |

The accompanying notes from 12 to 23 page form an integral part of these financial statements.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014

BALANCE SHEET (continued)

| PASĪVS | Notes | 31.03.2014. EUR | 31.03.2013. EUR |
|---|-------|--------------------|--------------------|
| I Equity | | | |
| Share capital (equity) | 14 | 623 218 | 623 218 |
| Retained earnings | | | |
| a) retained earnings for the previous year | | 1 040 065 | 966 652 |
| b) retained earnings for the reporting year | | 56 913 | 59 025 |
| <i>Total retained earnings</i> | | 1 096 978 | 1 025 677 |
| Total equity | | 1 720 196 | 1 648 895 |
| II Provisions | | | |
| Other provisions | 15 | 20 828 | 22 599 |
| Total provisions | | 20 828 | 22 599 |
| III Liabilities | | | |
| I Long-term liabilities | | | |
| Deferred income | | 59 291 | 77 998 |
| Total long-term liabilities | | 59 291 | 77 998 |
| II Short-term liabilities | | | |
| Advances from customers | | 22 942 | 53 935 |
| Trade payables | | | |
| Taxes and state social insurance payables | 16 | 43 443 | 31 118 |
| Other payables | 17 | 16 466 | 13 616 |
| Accrued liabilities | 18 | 9 479 | 4 829 |
| Total short-term liabilities | | 92 330 | 103 498 |
| Total liabilities | | 151 621 | 181 496 |
| Total equity and liabilities | | 1 892 645 | 1 852 990 |

The accompanying notes from 12 to 23 page form an integral part of these financial statements.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014

INCOME STATEMENT

| | Notes | 31.03.2014. EUR | 31.03.2013. EUR |
|--|-------|--------------------|--------------------|
| Net turnover | 19 | 290 429 | 264 724 |
| Cost of sales | 20 | 120 547 | 115 261 |
| Gross profit or loss | | 169 882 | 149 463 |
| Sales expenses | 21 | 51 432 | 45 542 |
| Administrative expenses | 22 | 62 179 | 61 544 |
| Other operating income | 23 | 5 649 | 21 114 |
| Other operating expenses | 24 | 210 | 263 |
| Profit or loss from operations | | 61 710 | 63 228 |
| Other interest receivable and similar income | | | |
| Interest payable and similar expenses | | 0 | 0 |
| Profit or loss before extraordinary items and taxes | | 61 710 | 63 228 |
| Extraordinary income | | | |
| Profit or loss before taxes | | 61 710 | 63 228 |
| Corporate income tax | | 0 | 0 |
| Other taxes | 25 | 4 797 | 4 203 |
| Profit or loss of the reporting year | | 56 913 | 59 025 |
| Earnings (loss) per share (EPS) | | 0.114 | 0.135 |

The accompanying notes from 12 to 23 page form an integral part of these financial statements.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014

CASH FLOW STATEMENT (indirect method)

| | Notes | 31.03.2014. EUR | 31.03.2013. EUR |
|--|---|--------------------|--------------------|
| I Cash flow from operating activities | | | |
| 1 | Profit or loss before extraordinary items and taxes | 61 710 | 63 228 |
| | <i>Adjustments:</i> | | |
| a) | depreciation costs of tangible assets; | 4 10 696 | 0 |
| b) | write-offs of intangible assets; | 3 0 | 0 |
| c) | disposals of tangible assets; | 4 0 | 0 |
| d) | accruals (other than accruals for doubtful debts); | 16 0 | 0 |
| e) | profit or loss from foreign currency exchange rate fluctuations; | 28 387 | -121 |
| f) | subsidies, grants, endowments, donations; | 27 3 555 | 0 |
| g) | other interest receivable and similar income; | 29 0 | 0 |
| h) | interest payable and similar expenses. | 30 0 | 0 |
| 2 | Profit or loss before corrections of changes in the balances of current assets and short-term liabilities | 76 348 | 63 107 |
| | <i>Adjustments:</i> | | |
| a) | (increase)/decrease in long-term financial investments; | 0 | 0 |
| b) | (increase)/decrease in biological assets; | 6 321 | 0 |
| c) | (increase)/decrease in receivables balances; | 22 782 | 28 846 |
| d) | (increase)/decrease in inventories balances; | 15 213 | 3 133 |
| e) | increase/(decrease) in suppliers, contractors and other creditors payables balances. | -28 540 | 24 658 |
| 3 | Gross cash flow from operating activities | 92 124 | 119 744 |
| 4 | Interest payable | 30 | |
| 5 | Immovable property tax expenses | 32 | |
| 6 | Cash flow before extraordinary items | -4 797 | -81 823 |
| 7 | Cash flow from extraordinary items | 31 | |
| 8 | Net cash flow from operating activities | 87 327 | 37 921 |
| II. Cash flow from investing activities | | | |
| 1 | Acquisitions of fixed assets | 3,4 -26 570 | -7 491 |
| 2 | Proceeds obtained from fixed assets | 4 1 707 | 0 |
| 3 | Interest receivable and similar income | 29 | |
| 6 | Cash flow from investing activities | -24 863 | -7 491 |
| III. Cash flow from financing activities | | | |
| 1 | Loans received | | |
| 2 | Subsidies, grants, endowments and donations received | 27 3 555 | 0 |
| 3 | Dividends paid | 0 | 0 |
| 7 | Net cash flow from financing activities | 3 555 | 0 |
| IV. Result of foreign currency exchange rate fluctuation | | 387 | |
| V. Net cash flow in the reporting year | | 66 406 | 30 430 |
| VI. Cash and its equivalents at the beginning of the reporting year | | 177 798 | 162 830 |
| VII. Cash and its equivalents at the end of the reporting year | | 244 204 | 193 260 |

The accompanying notes from 12 to 23 page form an integral part of these financial statements.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014

STATEMENT OF CHANGES IN EQUITY

| | 31.01.2014. | 31.01.2013. |
|---|--------------------|--------------------|
| | EUR | EUR |
| I. Share capital (equity) | | |
| 1. Amount in the balance sheet of the previous year | 623218 | 623218 |
| 4. Amount in the balance sheet at the end of the reporting year | 623218 | 623218 |
| V. Reserves | | |
| 1. Amount in the balance sheet of the previous year | 0 | 0 |
| 4. Amount in the balance sheet at the end of the reporting year | 0 | 0 |
| VI. Retained earnings | | |
| 1. Amount in the balance sheet of the previous year | 1040065 | 966652 |
| 2. Increase/decrease in retained earnings | 56913 | 59025 |
| 3. Dividends paid | 0 | 0 |
| 4. Amount in the balance sheet at the end of the reporting year | 1096978 | 1025677 |
| VII. Equity | | |
| 1. Amount in the balance sheet of the previous year | 1663283 | 1589870 |
| 3. Amount in the balance sheet at the end of the reporting year | 1720196 | 1648895 |

The accompanying notes from 12 to 23 page form an integral part of these financial statements.

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

GATIS KAĶIS
SIGITA LUKAŽE
DAIGA LIELPINKA

April 30, 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, comparative indicators are accordingly reclassified.

In order to improve comparability of the data, comparative indicators of Income Statement and complementing comment's classification in annual report section Notes to the Financial Statements have been changed.

Classification have been changed in the following captions:

| Financial information | Initially shown in caption | Reclassified to the caption | Amount, LVL |
|-----------------------|-------------------------------------|----------------------------------|-------------|
| Balance | Accrued liabilities (leave reserve) | Other provisions (leave reserve) | 22599 |

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
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 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 expenses are recognized in the period, in which they occur regardless of invoice payment date. Loan costs, which are associated 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% |
| Technological equipment | 14.3%-25% |
| Other equipment and facilities, motor vehicles | 10%-25% |

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. Stocks

Raw materials the company evaluate accordingly purchase value. Production in progress is evaluated accordingly cost price. Finished goods are evaluated accordingly cost price. To evaluate the stock value, average weight value method is used (FIFO method). Old, slow turnover or faulty stock value decrease is written off in costs of the annual report.

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. Prepaid expenses

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

VII. 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 the European Central Bank at the last day of the reporting period. The profit or loss, that derive from the foreign currency exchange rate fluctuations, are disclosed in the income statement in the

| | 31.03.2014. | 31.03.2013. | |
|--------------|--------------------|--------------------|-------|
| | EUR | EUR | |
| 1 USA dollar | 1.3788 | 1.281 | (USD) |

VIII. 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.

IX. 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.

X. 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.

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

Biological assets of the company are getter animals belonging to the company (getter bulls, boars), that are kept to get agriculture products for sale. Biological assets are recorded accordingly purchase cost.

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.

NOTES TO THE FINANCIAL STATEMENTS

GENERAL NOTES

| | 31.03.2014. | 31.03.2013. |
|---|---------------|---------------|
| 1. Average number of employees in the reporting year | | |
| Average number of employees | <u>36</u> | <u>36</u> |
| | EUR | EUR |
| 2. Total personnel expenses | 87 114 | 92 112 |
| - salaries | 70 756 | 74 595 |
| - state social insurance payments | 16 358 | 17 517 |
| - including: | | |
| Remuneration of employees engaged in production (core activity) | | |
| - salaries | 44 887 | 47 760 |
| - state social insurance payments | 10 350 | 11 149 |
| - total | 55 237 | 58 909 |
| Remuneration of administration | | |
| - salaries | 25 869 | 26 835 |
| - state social insurance payments | 6 008 | 6 368 |
| - total | 31 877 | 33 203 |
| including Reward to the Council | | |
| - reward | 3 430 | 3 449 |
| - state social insurance payments | 767 | 789 |
| - total | 4 197 | 4 238 |
| including Reward to the Board | | |
| - salary for the board member duties | 6 657 | 7 284 |
| - salary for the professional duties | 7 681 | 7 542 |
| - state social insurance payments | 3 382 | 3 532 |
| - total | 17 720 | 18 358 |

3. Statement of intangible assets flow

| | Company's development expenses | Concessions, patents, licences, trade marks and similar rights, incl. computer software | Other intangible assets | Goodwill | Advance payments | Total intangible assets |
|--|--------------------------------------|---|----------------------------|----------|---------------------|----------------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Purchase value as at 31.12.2012. | | | 3 481 | | | 3 481 |
| Purchase (+) | | | | | | 0 |
| Disposal (-) | | | | | | 0 |
| Purchase value as at 31.03.2013. | 0 | 0 | 3 481 | 0 | 0 | 3 481 |
| Depreciation as at 31.12.2012. | | | 2 372 | | | 2 372 |
| Calculated (+) | | | | | | 0 |
| Written off (-) | | | | | | 0 |
| Depreciation as at 31.03.2013. | 0 | 0 | 2 372 | 0 | 0 | 2 372 |
| Net carrying amount as at 31.12.2012. | | 0 | 1 109 | 0 | 0 | 1 109 |
| Net carrying amount as at 31.03.2013. | | 0 | 1 109 | 0 | 0 | 1 109 |

| | Company's development expenses | Concessions, patents, licences, trade marks and similar rights, incl. | computer software | Other intangible assets | Goodwill | Advance payments | Total intangible assets |
|--|--------------------------------------|---|----------------------|----------------------------|----------|---------------------|----------------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Purchase value as at 31.12.2013. | | | 3 283 | | | | 3 283 |
| Purchase (+) | | | 889 | | | | 889 |
| Disposal (-) | | | | | | | 0 |
| Purchase value as at 31.03.2014. | 0 | 0 | 4 172 | 0 | 0 | 0 | 4 172 |
| Depreciation as at 31.12.2013. | | | 2 596 | | | | 2 596 |
| Calculated (+) | | | 120 | | | | 120 |
| Written off (-) | | | | | | | 0 |
| Depreciation as at 31.03.2014. | 0 | | 2 716 | 0 | 0 | | 2 716 |
| Net carrying amount as at 31.12.2013. | 0 | 0 | 687 | 0 | 0 | 0 | 687 |
| Net carrying amount as at 31.03.2014. | 0 | 0 | 1 456 | 0 | 0 | 0 | 1 456 |

4. Statement of tangible assets and investment property flow

| | Land, building and construction (EUR) | Long-term investm. in rented fixed assets (EUR) | Equipment and machinery (EUR) | Other fixed assets and equipment (EUR) | Construction in progress (EUR) | Advance payments for fixed assets (EUR) | Total (EUR) |
|---|---|--|-------------------------------------|--|-----------------------------------|--|-------------|
| Purchase or revaluated value as at 31.12.2012. | 757 225 | 0 | 533 339 | 41 431 | | 0 | 1 331 995 |
| Purchased in the reporting year (+) | | | 5 055 | 2 436 | | | 7 491 |
| Reclassified (+/-) | | | | | | | 0 |
| Disposed in the reporting year (+/-) | | | | | | | 0 |
| Purchase or revaluated value as at 31.03.2013. | 757 225 | 0 | 538 394 | 43 867 | 0 | 0 | 1 339 486 |
| Accumulated depreciation as at 31.12.2012. | 39 699 | 0 | 461 023 | 29 976 | 0 | 0 | 530 698 |
| Calculated in the reporting year (+) | | | | | | | 0 |
| Reclassified (+/-) | | | | | | | 0 |
| Disposed in the reporting year (-) | | | | | | | 0 |
| Accumulated depreciation as at 31.03.2013. | 39 699 | 0 | 461 023 | 29 976 | 0 | 0 | 530 698 |
| Net carrying amount as at 31.12.2012. | 717 526 | 0 | 72 316 | 11 455 | 0 | 0 | 801 297 |
| Net carrying amount as at 31.03.2013. | 717 526 | 0 | 77 371 | 13 891 | 0 | 0 | 808 788 |

4. Statement of tangible assets and investment property flow (continued)

| | Land, building and construction (EUR) | Long-term investm. in rented fixed assets (EUR) | Equipment and machinery (EUR) | Other fixed assets and equipment (EUR) | Construction in progress (EUR) | Advance payments for fixed assets (EUR) | Total (EUR) |
|---|---|--|-------------------------------------|--|-----------------------------------|--|------------------|
| Purchase or revaluated value as at 31.12.2013. | 757 747 | 0 | 538 079 | 41 310 | | 0 | 1 337 136 |
| Purchased in the reporting year (+) | 24 139 | | 2 096 | 335 | | | 26 570 |
| Disposed in the reporting year (+/-) | | | 8 093 | 455 | | | 8 548 |
| Purchase or revaluated value as at 31.03.2014. | 781 886 | 0 | 532 082 | 41 190 | 0 | 0 | 1 355 158 |
| Accumulated depreciation as at 31.12.2013. | 44 060 | 0 | 467 115 | 27 555 | 0 | 0 | 538 730 |
| Calculated in the reporting year (+) | 2 358 | | 7 314 | 904 | | | 10 576 |
| Disposed in the reporting year (-) | | | 8 093 | 455 | | | 8 548 |
| Accumulated depreciation as at 31.03.2014. | 46 418 | 0 | 466 336 | 28 004 | 0 | 0 | 540 758 |
| Net carrying amount as at 31.12.2013. | 713 687 | 0 | 70 964 | 13 755 | 0 | 0 | 798 406 |
| Net carrying amount as at 31.03.2014. | 735 468 | 0 | 65 746 | 13 186 | 0 | 0 | 814 400 |

4. Statement of tangible assets and investment property flow (continued)

| Property | Cadastré No. | Cadastral value LVL/EUR | Book value LVL/EUR |
|----------------------------------|--------------|-------------------------|-----------------------|
| <i>Land</i> | (EUR) | 284 203 | 400 233 |
| <i>Building and construction</i> | (EUR) | 104 100 | 335 235 |

Result of written-off, eliminated and disposed tangible assets:

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--|--------------------|-------------------|
| Purchase value | 26 570 | 7 703 |
| Accumulated depreciation (-) | 8 548 | 0 |
| Net carrying amount | 18 022 | 7 703 |
| Spare parts, materials and proceeds obtained from disposal of fixed assets (+) | 1 707 | 0 |
| Profit (+) or loss (-) form disposal of fixed assets | -16 315 | -7 703 |

5. Biological assets

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--|--------------------|-------------------|
| Residual value at the beginning of the year | 28 545 | 37 582 |
| Purchased breeding bulls | 0 | 0 |
| Sold to breeding animals (-) | 7 315 | 6 717 |
| Advance payments for breeding animals | 0 | 0 |
| Residual value at the end of the year | 21 230 | 30 865 |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--|--------------------|-------------------|
| Residual value at the beginning of the year | 11 191 | 9 630 |
| Purchased breeding boars | 995 | 2 867 |
| Sold to breeding animals (-) | 0 | 1 637 |
| Advance payments for breeding animals | 0 | 0 |
| Residual value at the end of the year | 12 186 | 10 860 |

6. Long-term financial investments

| Item | 31.03.2014. | | 31.03.2013. | |
|--|--------------|--------------|--------------|--------------|
| | Amount | LVL | Amount | LVL |
| Share SIA Latvijas šķ. dzīv. audz. savienībā | 2 000 | 2 846 | 2 000 | 2 846 |
| Share SIA Piensaimnieku laboratorija | 16 | 683 | 16 | 683 |
| Total | 2 016 | 3 529 | 2 016 | 3 529 |

7. Raw materials and consumables

| | 31.03.2014. EUR | 31.03.2013 EUR |
|-----------------------------------|--------------------|-------------------|
| Materials | 18 509 | 13 420 |
| Feed additives | 1 166 | 758 |
| Mineral fertilizers and chemicals | 30 465 | 37 323 |
| Grain and seedcorn | 1 745 | 18 033 |
| Fuel and lubricants | 3 887 | 1 813 |
| Spare parts | 1 234 | 1 487 |
| Animal feed | 3 954 | 2 887 |
| Total | 60 960 | 75 721 |

8. Unfinished production

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| Winter crops | 27 560 | 8 622 |
| Total | 27 560 | 8 622 |

9. Finished production and goods for sale

| | 31.03.2014. EUR | 31.03.2013 EUR |
|------------------------|--------------------|-------------------|
| Frozen bulls sperm | 580 093 | 585 956 |
| Boar sperm | 14 | 0 |
| Frozen stallions sperm | 25 | 24 |
| Total | 580 132 | 585 980 |

10. Trade receivables

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------------------------------|--------------------|-------------------|
| Carrying amount of trade receivables | 111 069 | 131 492 |
| Allowance for doubtful receivables | 8 065 | 6 730 |
| Net trade receivables | 103 004 | 124 762 |

11. Other receivables

| | 31.03.2014. EUR | 31.03.2013 EUR |
|----------------------------------|--------------------|-------------------|
| Incom tax | 7 965 | 7 637 |
| Advance person's debt settlement | 168 | 329 |
| Total | 8 133 | 7 966 |

12. Prepaid expenses

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| Insurance | 5 851 | 1 529 |
| Total | 5 851 | 1 529 |

13. Cash

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| Cash on hand | 4 255 | 6 315 |
| Cash in bank | 239 949 | 186 945 |
| Total | 244 204 | 193 260 |

14. Information on the Company's own shares

The issued and fully paid Company's equity consists of 438 000 shares with the par value LVL 1.00 per share.

On the 31th of March 2014 438 000 bearer's shares were publicly traded.

| Class of shares | 31.03.2014. | | | 31.03.2013. | | |
|--|-------------|------------------|---------------|-------------|------------------|----------------|
| | % of equity | Number of shares | | % of equity | Number of shares | |
| | | | EUR | | | EUR |
| Bearer's shares with voting rights - publicly traded | 100% | 438 000 | 623218 | 100% | 438 000 | 623 218 |
| Bearer's shares without voting rights | 0% | 0 | 0 | 0% | 0 | 0 |
| | 100% | 438 000 | 623218 | 100% | 438 000 | 623 218 |

List of shareholders and their position held in the Company on the 31th of December 2013

| Shareholders | Position held in the Company | % from share capital |
|-----------------------------------|------------------------------|----------------------|
| SIA Latvijas šķ. dzīv. audz. sav. | shareholder | 37.25% |
| SIA JL INDEX | shareholder | 11.79% |
| Pēteris Augustovs | shareholder | 11.37% |
| Other shareholder | x | 39.59% |
| Kopā: | x | 100.00% |

Information about limitations concerning share expropriation rights

Restrictions for expropriation of shares or specific consent reception for shares disposal have not been set.

Shareholders' rights and agreements

Regulated by laws and regulations of the Republic of Latvia, the Company's Statutes does not define any special limitations or regulations related to the voting right.

Company does not possess any information about agreements between shareholders.

Powers of the Board Members and special agreements

According to the Statutes of the JSC "Kurzemes ciltslietu un mākslīgās apsūklošanas stacija" each Board member has the right to represent the Company alone.

There is no agreement between the Company and the Board members concerning the compensation of resignation.

Regulations of Board members elections and Statute amendments

Regulated by laws and regulations of the Republic of Latvia, the Company's Statutes does not define any special limitations or regulations related to the elections of Board members and Statute amendments.

15. Provisions

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--|--------------------|-------------------|
| Provisions for leaves in the beginning of the year | 20 828 | 22 599 |
| Increase/(decrease) | 0 | 0 |
| Provisions for leaves in the end of the year | 20 828 | 22 599 |

16. Taxes and state social insurance payables

| | 31.03.2014. EUR | 31.03.2013 EUR |
|---------------------------------|--------------------|-------------------|
| State social insurance payments | 8 206 | 8 783 |
| Personal income tax | 4 284 | 4 748 |
| Unemployment risk duty | 27 | 0 |
| Value added tax | 30 777 | 17 587 |
| Natural resources tax | 149 | 0 |
| Total | 43 443 | 31 118 |

17. Other payables

| | |
|----------------------------------|--|
| Wages and salaries | |
| Advance person's debt settlement | |
| Total | |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| | 16 281 | 13 438 |
| | 185 | 178 |
| Total | 16 466 | 13 616 |

18. Accrued liabilities

| | |
|--|--|
| Fees for sworn auditors company for audit of annual report | |
| The Board and the Council Incentives | |
| Total | |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| | 0 | 0 |
| | 9 479 | 4 829 |
| Total | 9 479 | 4 829 |

19. Net turnover

| | |
|---|--|
| Revenue from bull semen | |
| Revenue from boar semen | |
| Revenue from artificial insemination services | |
| Revenue from livestock and other production | |
| Revenue from grain sale | |
| Revenue from linear evaluation of cows | |
| Revenue from milk sample collection | |
| Revenue from grain kiln service | |
| Other | |
| Total | |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| | 109 829 | 113 451 |
| | 20 319 | 21 234 |
| | 17 520 | 20 256 |
| | 2 773 | 3 203 |
| | 92 379 | 63 612 |
| | 16 992 | 19 158 |
| | 14 169 | 9 438 |
| | 0 | 0 |
| | 16 448 | 14 372 |
| Total | 290 429 | 264 724 |

19a. Net turnover by geographical segments

| | |
|--------------|--|
| Latvia | |
| Total | |

| | | |
|--------------|----------------|----------------|
| | 290 429 | 264 724 |
| Total | 290 429 | 264 724 |

20. Cost of sales

| | |
|---|--|
| Forage | |
| Medication | |
| Wages and salaries | |
| State social insurance payments, unemployment risk duty | |
| Depreciation | |
| Electricity costs | |
| Insurance costs | |
| Materials and spare parts | |
| Utilization and other expenses | |
| Dry waste | |
| Natural resources tax | |
| Fuel costs | |
| Gas costs | |
| Current repair services | |
| Miscellaneous services (transport, etc.) | |
| Fertilizers, seeds and chemicals. | |
| Other | |
| Total | |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| | 3 386 | 3 504 |
| | 274 | 210 |
| | 20 228 | 23 065 |
| | 4 668 | 5 243 |
| | 9 580 | 0 |
| | 2 768 | 2 991 |
| | 1 337 | 1 618 |
| | 12 229 | 10 713 |
| | 86 | 122 |
| | 74 | 66 |
| | 149 | 149 |
| | 10 344 | 7 856 |
| | 8 303 | 9 022 |
| | 10 156 | 13 463 |
| | 10 664 | 10 734 |
| | | 0 |
| | 26 301 | 26 505 |
| Total | 120 547 | 115 261 |

21. Sales expenses

| | |
|--|--|
| Wages and salaries | |
| State social insurance payments, unemployment risk duty | |
| Transport costs | |
| Write-off of ageing and slow-turnover breeding bull' bio product | |
| Advertising costs | |
| Other | |
| Total | |

| | 31.03.2014. EUR | 31.03.2013 EUR |
|--------------|--------------------|-------------------|
| | 24 659 | 24 695 |
| | 5 682 | 5 906 |
| | 16 557 | 10 669 |
| | 0 | 0 |
| | 2 680 | 2 478 |
| | 1 854 | 1 794 |
| Total | 51 432 | 45 542 |

| | 31.03.2014. | 31.03.2013 |
|---|--------------------|-------------------|
| | EUR | EUR |
| 22. Administrative expenses | | |
| Communication expenses | 297 | 193 |
| Office maintenance expenses | 2 351 | 1 078 |
| Annual report expenses | 4 915 | 4 839 |
| Bank services | 221 | 268 |
| Administration salaries | 25 869 | 26 835 |
| State social insurance payments, unemployment risk duty | 6 008 | 6 368 |
| Depreciation | 1 117 | 0 |
| Transport costs | 5 279 | 3 762 |
| Business trip expenses | 1 120 | 1 793 |
| Miscellaneous services | 14 542 | 16 144 |
| Legal services | 460 | 264 |
| Total | 62 179 | 61 544 |
| 23. Other operating income | | |
| Revenue from the sale of fixed asset | 1 707 | 0 |
| Excise tax for diesel fuel used in agriculture | 1 211 | 1 112 |
| Subsidies from Agriculture Ministry | 2 344 | 19 757 |
| Income from foreign currency exchange rate fluctuations | 387 | 0 |
| Others income | 0 | 245 |
| Total | 5 649 | 21 114 |
| 24. Other operating expenses | | |
| Losses from foreign currency exchange rate fluctuations | 0 | 121 |
| Others expenses | 210 | 142 |
| Total | 210 | 263 |
| 25. Other taxes | | |
| Immovable property tax in the reporting year | 4 797 | 4 203 |
| Total | 4 797 | 4 203 |

OTHER NOTES TO FINANCIAL STATEMENTS

26. Guarantees and off-balance-sheet liabilities

Guarantees are not issued

There is non Off-balance-sheet liabilities

27. Received financial assistance and other forms of financial support

During the reporting year the Company has received Government subsidies granted by the Ministry of Agriculture boar breeding industry EUR 1230, bull breeding industry EUR 1114.

For the funds received in previous years all fund providers' requirements have been met.

The Company did not have a refundable amount related to the non-fulfilment of fund providers' requirements.

During the reporting year the Company has not received any State or local government guarantees or investment in share capital.

During the reporting year the Company has not received any gifts or donations.

28. Transactions with related parties

Not transaction.

29. Lease Contracts

During the reporting year the Company has entered into three lease agreements for land lease in Kuldiga region for three years.

30. Liabilities to former employees

The Company has not obligations to former employees.

The financial statements have been signed from page 1 to page 23.

Chairman of the Board _____

GATIS KAČIS

Member of the Board _____

SIGITA LUKAŽE

Member of the Board _____

DAIGA LIELPINKA

April 30, 2014