# JOINT STOCK COMPANY “GROBINA”
**(REGISTRATION NUMBER 40003017297)**

# ANNUAL REPORT
## FOR 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2017

(27TH financial year)
**PREPARED IN ACCORDANCE WITH**
**THE LAW OF THE REPUBLIC OF LATVIA**
**ON THE ANNUAL REPORT AND CONSOLIDATED ANNUAL REPORT**
UNAUDITED

**Liepaja, 2017**

# CONTENTS

# Information on the Company

| | |
|---|---|
| Name of the company | Joint stock company „Grobina” |
| Legal status of the company | Publick joint stock company |
| Number, place and date ot registration | 40003017297<br>Liepaja, 23d of August 1991 |
| Legal address | Lapsu street 3, Dubeni, Grobina district, Latvia, LV-3438 |
| Board of the Company | Gundars Jaunsleinis – chairman of the board, since 01.06.2011<br>Gunta Isajeva – member of the board, since 06.08.2010<br>Ireneusz Sajewicz – member of the board, simce 02.04.2015 |
| Council of the Company | Ojars Osis – chairman of the council, since 01.06.2011<br>Argita Jaunsleine – vice president of the council, since 01.06.2011<br>Janis Liepins – member of the council, since 18.08.2015<br>Girts Milgravis – member of the council, since 18.08.2015<br>Evija Sivare – member of the council, since 18.07.2016 |
| Financial period | 1st of January 2017 to 30st of September 2017 |

# Management report

### *Core Business Activity*

Core business activity of JSC "GROBIŅA" is fur -farming of minks for fur production and the production of animal feed for fur animals.

### *Operations during the reporting year*

During the reporting period, the net turnover is of 3 129 208 EUR. In 2017 nine months there were sold 118 150 skins at an average price of 24.44 EUR / pcs and 2016 in nine months were sold 131 249 mink skins at an average price of € 20.17/ pcs. As a result, the turnover of the 1st 9 months of 2017 compared to the 1 st 9 months of 2016 has increased by 18%. Although in 2017 the JSC "Grobiņa" mink average sales price of Finnish mink auction house exceeded the average auction sales price, however, due to the fur industry crisis in the world, joint stock company "Grobiņa" six months 2017 production was sold below cost.

At the nine months of 2017 the average number of employees was 64 employees, in the same period of 2016 -92 employees.

### *Financial Risk Management*

The Company's operations are exposed to various financial risks, including credit risk and interest rate fluctuation risks. The Company's management try to minimize potential negative effects of financial risks on the Company's financial position. In September 30, 2017, the Company's current liabilities exceeded current assets for EUR 2 645.

### *Future perspective*

So that after 2016 crisis, fur farming industry could gain financial stability of JSC "Grobina" filed an application to court for legal protection proceedings have been initiated. Liepaja Court on 29 June 2016 approved the JSC "Grobiņa" legal protection process action plan, which was amended by Liepaja Court decision of 3 March 2017. Consequently, in 2017 JSC Grobiņa continues its business activities in accordance with the plan.

Liepaja, 30th of November 2017

Gundars Jaunsleinis
Chairman of the board

# Profit or losses statement

| | 9 months per.ended 30.09.2017 EUR | 9 months per.ended 30.09.2016 EUR |
|---|---|---|
| Net turnover: | | |
| of the agricultural activity | 3129208 | 2647091 |
| Costs of goods sold or services provided | (3945976) | (5760674) |
| **Gross profit or lossess** | **(816768)** | **(3113583)** |
| Distribution expenses | (159492) | (992613) |
| Administrative expenses | (196887) | (72243) |
| Other operating income | 301306 | 326181 |
| Other operating expenses | (12091) | (72892) |
| Interest and similar expenses, incl.: | | |
| - for other parties | (277050) | (97407) |
| **Lossess for the financial year** | **(1160982)** | **(4022557)** |

Notes are an integral part of these financial statements.

Liepaja, 30th of November 2017

Gundars Jaunsleinis
Chairman of the board

Gunta Isajeva
Member of the board

Ireneusz Sajewicz
Member of the board

Loreta Šaicāne
Chief Accountant

# Balance sheet

## ASSETS

| | 30.09.2017 EUR | 31.12.2016 EUR |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| **Fixed assets** | | |
| Immovable properties: | | |
| land plots, buildings and engineering structures | 6033363 | 6264654 |
| Fauna and flora: | | |
| draft animals or productive animals and perennial plantings | 3618535 | 3841976 |
| Technological equipment and machinery | 4926755 | 5137286 |
| Other fixed assets | 748789 | 789104 |
| Fixed assets under development and construction in progress | 12792 | - |
| Advances for fixed assets | 27354 | 27354 |
| TOTAL | **15367588** | **16060374** |
| **Non-current financial investments** | | |
| Deferred tax assets | 567476 | 567476 |
| TOTAL | **567476** | **567476** |
| **TOTAL NON-CURRENT ASSETS** | **15935064** | **16627850** |
| **CURRENT ASSETS** | | |
| **Inventories** | | |
| Raw materials and consumables | 81194 | 122869 |
| Finished goods and goods for sale | 45974 | 3388194 |
| Advances for inventories | 80256 | 26613 |
| Fauna and flora | | |
| - animals and annual plantings | 2288562 | 252696 |
| TOTAL | **2495986** | **3790372** |
| **Account receivable** | | |
| Trade receivables | 185909 | 183937 |
| Other receivables | 260448 | 135709 |
| Deferred expenses | 4084 | 5819 |
| TOTAL | **450441** | **325465** |
| **Cash and bank** | 688 | 22792 |
| **TOTAL CURRENT ASSETS** | **2947115** | **4138629** |
| **TOTAL ASSETS** | **18882179** | **20766479** |

Notes are an integral part of these financial statements.

# Balance sheet

## EQUITY, PROVISIONS AND LIABILITIES

| EQUITY | 30.09.2017 EUR | 31.12.2016 EUR |
|---|---|---|
| Share capital | 711436 | 711436 |
| Reserves: | | |
| other reserves | 77481 | 77481 |
| Retained earnings or uncovered losses brought forward from previous years | (890318) | 1376406 |
| Current year losses | (1160982) | (2266725) |
| **TOTAL EQUITY** | **(1262383)** | **(101402)** |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Loans from banks | 5759161 | 6057667 |
| Other borrowings | 4473120 | 2362122 |
| Trade payables | 1996502 | 1669903 |
| Taxes and state social insurance payments | 340680 | 359570 |
| Deferred income | 4625339 | 2041707 |
| TOTAL | **17194802** | **12490969** |
| **Current liabilities** | | |
| Loans from banks | 225000 | 275000 |
| Other borrowings | 1671043 | 87400 |
| Advances from customers | 19400 | 1852287 |
| Trade payables | 542047 | 5148304 |
| Taxes and state social insurance payments | 383716 | 203965 |
| Other creditors | 36946 | 571126 |
| Deferred income | 24579 | 98317 |
| Accrued liabilities | 47029 | 140513 |
| TOTAL | **2949760** | **8376912** |
| **TOTAL LIABILITIES** | **20144562** | **20867881** |
| **TOTAL EQUITY, PROVISIONS AND LIABILITIES** | **18882179** | **20766479** |

Notes are an integral part of these financial statements.

Liepaja, 30th of November 2017

| Gundars Jaunsleinis<br>Chairman of the board | Gunta Isajeva<br>Member of the board | Ireneusz Sajewicz<br>Member of the board |
|---|---|---|

Loreta Šaicāne
Chief Accountant

# Cash flow statement

| | 9 months per.2017 end.30.09.2017 EUR | 9 months per.2016 end.30.09.2016 EUR |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit or losses before corporate income tax | (1160982) | (4012678) |
| Adjustments for: | | |
| depreciation and impairment of fixed assets | 486353 | 538731 |
| Long-term investment write-down | - | 24042 |
| interest and similar revenue | 277050 | 97407 |
| ***Profit or loss prior to changes in current assets and current liabilities*** | ***(397579)*** | ***(3352498)*** |
| Increase or decrease of account receivable | (124976) | 42526 |
| Increase or decrease of inventory | 1294386 | (1236437) |
| Increase or decrease of account payables and other liabilities | (3835576) | 263593 |
| Increase or decrease in biological assets | 223441 | 3798546 |
| ***Gross cash flow generated from operating activities*** | ***(2840304)*** | ***(484270)*** |
| Interest payments | (277050) | (994707) |
| Expenditure on real estate tax payments | - | (9659) |
| ***Net cash flow generated from operating activities*** | ***(3117354)*** | ***(1488636)*** |
| **Cash flow from investing activities** | | |
| Acquisition of fixed and intangible assets | (17006) | (511040) |
| **Net cash flow generated from investing activities** | **(17006)** | **(511040)** |
| **Cash flow from financing activities** | | |
| Loans received | 3694641 | 2706232 |
| Subsidies, grants, gifts or donations received | - | 159663 |
| Repayment of loans | (348506) | (824265) |
| Expenses for the leasing of fixed assets | (233878) | - |
| **Net cash flow generated from financing activities** | **3112257** | **2041630** |
| **Net cash flow in the financial year** | **(22103)** | **41954** |
| **Cash and cash equivalents at the beginning of the financial year** | **22792** | **1479** |
| **Cash and cash equivalents at the end of the financial year** | **689** | **43433** |

Notes are an integral part of these financial statements.

Liepaja, 30th of November 2017

| | | |
|---|---|---|
| Gundars Jaunsleinis<br>Chairman of the board | Gunta Isajeva<br>Member of the board | Ireneusz Sajewicz<br>Member of the board |

Loreta Šaicāne
Chief Accountant

# Statement of changes in equity

**9 months period ended 30.09.2016**

| | Share capital | Reserves | Retained earnings or uncovered losses brought forward from previous years | Current year profit or losses | **Total** |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| **Opening balance 31.12.2015** | **711436** | **77481** | **619503** | **1223693** | **2632113** |
| Increase/decrease in retained earnings | - | - | - | (4022557) | **(4022557)** |
| Prior year adjustments | - | - | 1223693 | (1223693) | **-** |
| **Closing balance 30.09.2016** | **711436** | **77481** | **1843196** | **(4022557)** | **(1390444)** |

**9 months period ended 30.09.2017**

| | Share capital | Reserves | Retained earnings or uncovered losses brought forward from previous years | Current year profit or losses | **Total** |
|---|---|---|---|---|---|
| **Opening balance 31.12.2016** | **711436** | **77481** | **1376406** | **(2266724)** | **(2780888)** |
| Increase/decrease in retained earnings | - | - | - | (1160982) | **(1160982)** |
| Prior year adjustments | - | - | (2266725) | 2266725 | **-** |
| **Closing balance 30.09.2017** | **711436** | **77481** | **(890319)** | **(1160981)** | **(1262383)** |

Notes are an integral part of these financial statements.

Liepaja, 30th of November 2017

Gundars Jaunsleinis
Chairman of the board

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Loreta Šaicāne
Chief Accountant

# Notes to the Financial statements

## 1. Summary of accounting policies

### General principles

A The mane business activity of JSC "GROBINA" is fur-farming of minks for fur production and farm animals feed production.

Financial statements are prepared in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Report and Consolidated Annual Report" (the Law).

The financial statements have been prepared according to the historical cost accounting principle. The profit or loss statement is prepared in accordance with the function of expense method.
The cash flow statement is prepared using the indirect method.
This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia. Financial report covers the period of time from 1st of January 2017 to 30th of September 2017.
Balance sheet item "Deferred tax liabilities" is recognized, assessed and reported in accordance with International Financial Reporting Standard 12 IAS.
In accordance with the requirements of Article 57 (5) of the Financial Instrument Market Law, each balance sheet item in the financial statement is compared at least to the data at the end of the previous reporting year and each item of the profit or loss statement, statement of changes in the equity, and the cash flow statement is compared at least to the data of the previous reporting year regarding the same period.

### *Foreign currency conversion in euro*

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

### *Intangible investments and fixed assets*

Intangible investments and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements the intangible and fixed assets are recognized at purchase cost less depreciation.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the fixed assets:

| | |
|---|---|
| Buildings | - 20 years; |
| Technological equipment and machinery | - 5 - 15 years; |
| Other machinery and equipment | - 5 years. |

The Company capitalizes its fixed assets valued over EUR 100 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 100 is recognized by 100 % after commissioning.

If sufficient evidence is acquired that the future economic benefit associated with subsequent repair or reconstruction costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of fixed assets is calculated as the difference between the carrying amount of the fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, appropriate value of fixed or intangible asset is to be decreased until recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell or value in use.

**1. Summary of accounting policies (continuation)**

### *Inventories*

Inventories are recognized at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The c The balance value of the inventories is calculated by using the weighted average method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

### *Account receivable*

Trade receivables are recognized at invoiced amounts. After the initial recognition account receivables are measured at net amount less provisions for doubtful debts. Provisions for doubtful receivables are recognized when the management of the Company considers that it is probable that the total amount of receivables will not be collected in full.

### *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

### *Borrowings*

Borrowings are recognized at the proceeds, net of transaction costs incurred.
Subsequently, borrowings are stated at amortized costs using the actual interest method. Any difference between the original amount borrowed net of transaction costs and the redemption value is recognized in the income statement gradually during the loan use period or in accordance with accounting policy capitalized at the value of construction in progress.

### *Capitalization of borrowing and other costs*

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during the period with no active development of asset.

### *Accrued liabilities for unused annual leave*

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

### *Provisions, contingent liabilities and assets*

Provisions are liabilities related to current or previous years events and at the preparation of financial statements it is probable that an outflow of resources will be required to settle the obligation and its amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

### *Lease*

Finance lease transactions, under which the Company has received all the risks and benefits incidental to the ownership of the leased item, are recognized in the balance sheet as fixed assets for the sum, which, when starting the lease, correspond to the fair value of the leased property, or, if it is lower, the present value of the minimum lease payments. Finance lease payments are apportioned between finance charges and reduction of liability, so as to achieve a constant rate on the liability balance. Financial costs are included in the income statement as interest expense.

If there are sufficient grounds to believe that at the end of the lease period the lessee will obtain ownership of the lease object, as the expected service life is assumed the useful life of this asset. Otherwise the capitalized leased assets are depreciated using the linear method, in the estimated useful life of the asset or the lease term, depending on which of these periods is shorter.
Lease of assets under which substantially all of the risks incidental to the ownership are taken and the benefits acquired by the lessor is classified as operating lease. Operating lease payments are recognized as an expense over the lease term using the linear method. Liabilities arising from the operating lease the company shall list as off-balance sheet liabilities.

## 1. Summary of accounting policies (continuation)

### *Income recognition and revenue*

Revenue contains the total value of goods and services sold during the year excluding discounts and value added tax.
Income is recognized according to the following principles:
Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
Rendering of services - under the percentage of completion method;
Income from fines and penalties - at the moment of receiving the payments;
Interest income - on an accrual basis;
Dividends - at the moment of acquiring legal rights to receive them..

### *Corporate income tax*

Corporate income tax for the financial year is included in the financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their values for tax calculation purpose (tax basis). However, where the deferred income tax arise from first recognition of the assets and obligations resulted from transactions, which are not the business combination, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognized. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences mainly arise from different fixed asset depreciation rates. In cases, when the total result of the deferred tax calculation is an asset, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilized.