JOINT STOCK COMPANY "GROBINA"

(REGISTRATION NUMBER 40003017297)

ANNUAL REPORT

FOR 12 MONTHS PERIOD ENDED 31 DECEMBER 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

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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 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 Gunta Isajeva – member of the board, since 06.08.2010 Ireneusz Sajewicz – member of the board, simce 02.04.2015
Council of the Company	Ojars Osis – chairman of the council, since 01.06.2011 Argita Jaunsleine – vice president of the council, since 01.06.2011 Janis Liepins – member of the council, since 18.08.2015 Girts Milgravis – member of the council, since 18.08.2015 Evija Sivare – member of the council, since 18.07.2016
Financial period	1st of January 2017 to 31st of December 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 3 159 717 EUR. In 2017 twelve months there were sold 118 573 skins at an average price of 24.44 EUR / pcs and 2016 in twelve months were sold 131 828 mink skins at an average price of € 20.17/ pcs. As a result, the turnover of the 12 months of 2017 compared to the 12 months of 2016 has increased by 15%.

For gaining financial stability of JSC "Grobina" after 2016 crisis in fur farming, JSC "Grobina" filed an application to court for legal protection proceedings initiation. Liepaja Court on 29 June 2016 approved the JSC "Grobina" legal protection process action plan, which was amended by Liepaja Court decision of 3 March 2017. In the year 2017 management of JSC “Grobina” agreed with Canadian auction house NAFA about financing of fur skin animal fattening in 2017, this allowed to company to ensure normal economic activity. Consequently, in 2017 JSC “Grobina” continues its business activities in accordance with the plan.

At the nine months of 2017 the average number of employees was 68 employees, in the same period of 2016 - 118 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 December 31, 2017, the Company's current liabilities exceeded current assets for EUR 767 258.

Future perspective

In January of 2018 the management of JSC “Grobina” has signed contracts with Canadian auction house NAFA about cooperation in 2018 and 2019, incl. about financing of fur animal fattening in next 2 breeding seasons, it allowed to JSC “Grobina” on 2018 to increase breeding herd almost for 50%, accordingly allowing to the company to increase production volumes already in 2018.

Liepaja, 26th of February 2018

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Gundars Jaunsleinis
Chairman of the board

Profit or losses statement

	12 months per.ended 31.12.2017 EUR	12 months per.ended 31.12.2016 EUR
Net turnover:		
of the agricultural activity	3159717	2750250
Costs of goods sold or services provided	(1741245)	(4520662)
Gross profit or lossess	**1418472**	**(1770412)**
Distribution expenses	(173034)	(13480)
Administrative expenses	(285833)	(312105)
Other operating income	379876	241347
Other operating expenses	(83274)	(22007)
Interest and similar expenses, incl.:		
- for other parties	(493556)	(523098)
Profit or lossess before corporate income tax	**762651**	**(2399755)**
Changes in deferred tax assets or liabilities	-	133030
Lossess for the financial year	**762651**	**(2266725)**

Notes are an integral part of these financial statements.

Liepaja, 26th of February 2018

Gundars Jaunsleinis	Gunta Isajeva	Ireneusz Sajewicz
Chairman of the board	Member of the board	Member of the board

Loreta Šaicāne
Chief Accountant

Balance sheet

ASSETS

NON-CURRENT ASSETS	31.12.2017 EUR	31.12.2016 EUR
Fixed assets		
Immovable properties:		
land plots, buildings and engineering structures	5956351	6264654
Fauna and flora:		
draft animals or productive animals and perennial plantings	5955641	3841976
Technological equipment and machinery	4943974	5137286
Other fixed assets	735679	789104
Fixed assets under development and construction in progress	20273	-
Advances for fixed assets	52380	27354
TOTAL	**17664298**	**16060374**
Non-current financial investments		
Deferred tax assets	567476	567476
TOTAL	**567476**	**567476**
TOTAL NON-CURRENT ASSETS	**18231774**	**16627850**
CURRENT ASSETS		
Inventories		
Raw materials and consumables	112534	122869
Finished goods and goods for sale	2923712	3388194
Advances for inventories	24966	26613
Fauna and flora		
- animals and annual plantings	262320	252696
TOTAL	**3323532**	**3790372**
Account receivable		
Trade receivables	183933	183937
Other receivables	61330	135709
Deferred expenses	2639	5819
TOTAL	**247902**	**325465**
Cash and bank	26928	22792
TOTAL CURRENT ASSETS	**3598362**	**4138629**
TOTAL ASSETS	**21830136**	**20766479**

Notes are an integral part of these financial statements.

Balance sheet

EQUITY, PROVISIONS AND LIABILITIES

	31.12.2017 EUR	31.12.2016 EUR
EQUITY		
Share capital	711436	711436
Reserves:		
other reserves	77481	77481
Retained earnings or uncovered losses brought forward from previous years	(890318)	1376406
Current year losses	762651	(2266725)
TOTAL EQUITY	**661250**	**(101402)**
LIABILITIES		
Non-current liabilities		
Loans from banks	5759161	6057667
Other borrowings	3916842	2362122
Trade payables	1995019	1669903
Taxes and state social insurance payments	533540	359570
Deferred income	4598704	2041707
TOTAL	**16803266**	**12490969**
Current liabilities		
Loans from banks	102594	275000
Other borrowings	191117	87400
Advances from customers	2385635	1852287
Trade payables	828661	5148304
Taxes and state social insurance payments	74278	203965
Other creditors	557612	571126
Deferred income	-	98317
Accrued liabilities	225723	140513
TOTAL	**4365620**	**8376912**
TOTAL LIABILITIES	**21168886**	**20867881**
TOTAL EQUITY, PROVISIONS AND LIABILITIES	**21830136**	**20766479**

Notes are an integral part of these financial statements.

Liepaja, 26th of February 2018

Gundars Jaunsleinis Chairman of the board	Gunta Isajeva Member of the board	Ireneusz Sajewicz Member of the board

Loreta Šaicāne
Chief Accountant

Cash flow statement

	12 months per.2017 end.31.12.2017 EUR	12 months per.2016 end.31.12.2016 EUR
Cash flow from operating activities		
Profit or losses before corporate income tax	762651	(2399755)
Adjustments for:		
depreciation and impairment of fixed assets	650056	907691
interest and similar revenue	493556	525344
Increase or decrease in biological assets	(2113665)	-
Profit or loss prior to changes in current assets and current liabilities	***(207402)***	***(966720)***
Increase or decrease of account receivable	77563	254697
Increase or decrease of inventory	466840	1517296
Increase or decrease of account payables and other liabilities	(1030514)	(397616)
Gross cash flow generated from operating activities	***(693513)***	***407657***
Interest payments	(324429)	(255846)
Net cash flow generated from operating activities	***(1017942)***	***151811***
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(140314)	(30822)
Net cash flow generated from investing activities	**(140314)**	**(30822)**
Cash flow from financing activities		
Loans received	1658437	-
Repayment of loans	(470912)	(100000)
Expenses for the leasing of fixed assets	(25133)	-
Net cash flow generated from financing activities	**1162392**	**(100000)**
Net cash flow in the financial year	**4136**	**20989**
Cash and cash equivalents at the beginning of the financial year	**22792**	**1803**
Cash and cash equivalents at the end of the financial year	**26928**	**22792**

Notes are an integral part of these financial statements.

Liepaja, 26th of February 2018

Gundars Jaunsleinis Chairman of the board	Gunta Isajeva Member of the board	Ireneusz Sajewicz Member of the board

Loreta Šaicāne
Chief Accountant

Statement of changes in equity

12 months period ended 31.12.2016	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**	**756903**	**2165323**
Increase/decrease in retained earnings	-	-	-	(2266725)	**(2266725)**
Prior year adjustments	-	-	756903	(756903)	**-**
Closing balance 31.12.2016	**711436**	**77481**	**1376406**	**(2266725)**	**(101402)**

12 months period ended 31.12.2017					
Opening balance 31.12.2016	**711436**	**77481**	**1376406**	**(2266724)**	**(101401)**
Increase/decrease in retained earnings	-	-	-	762651	**762651**
Prior year adjustments	-	-	(2266725)	2266725	**-**
Closing balance 31.12.2017	**711436**	**77481**	**(890319)**	**762652**	**661250**

Notes are an integral part of these financial statements.

Liepaja, 26th of February 2018

Gundars Jaunsleinis Chairman of the board	Gunta Isajeva Member of the board	Ireneusz Sajewicz Member of the board

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 31th of December 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.