JOINT STOCK COMPANY “GROBINA”

(REGISTRATION NUMBER 40003017297)

ANNUAL REPORT

FOR 12 MONTHS PERIOD ENDED 31 DECEMBER 2018

(28TH financial year)

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA
ON THE ANNUAL REPORT AND CONSOLIDATED ANNUAL REPORT
UNAUDITED

Riga, 2019

CONTENTS

Statement of Management Responsibility

Management is responsible for the Company's Financial Statements in accordance with the Annual Accounts Act. Financial accounts present fairly the financial position at the end of the year, results of operations and cash flows for the year.

The Board confirms that the financial statements, which you can find in pages 5. to 13.preparing and decisions and observations have been prudent and reasonable. The Management Board confirms that the financial statements prepared in accordance with the action there [rance proncipu.

Management is responsible for keeping proper accounting records, assets of the Company, as well as fraud and other irregularities detection and prevention. Management is responsible for Latvian statutory requirements.

Riga, 28st of February 2019

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

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 2018 to 31st of December 2018

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

The net turnover of the reporting year is 2 290 530 EUR. In 12 months of 2018 there were realized 118 803 mink skins. The financial result of 2018is losses in amount of 1 152 691 EUR, which makes net loss per share 2,31 EUR.

In the global markets in 2016 there was a dramatic prices fall in fur market, JSC “Grobina” was unable to full its obligations towards all its creditors. Thus, the rapid response to the situation in the Court there was submitted an application on initiation of legal protection proceedings process of JSC "Grobina". Consequently, with the 6th of Aprils’ 2016 Liepaja Court decision Nr.C20153616 on 6th of April, 2016 there was initiated JSC "Grobina" legal protection proceedings. As the majority of the creditors, according to the Insolvency Law Article 42, third paragraph, confirmed JSC "Grobina" managements’ plan of legal protection proceedings, which regarding to the unsecured creditors (suppliers) provides to defer the debts principal sum payments to the June 2018, based on the Liepaja Courts’ 29th June’s 2016 judgment, JSC “Grobina” 17th May’s 2016 plan of legal protection proceedings was approved. With the Liepaja Court 3d of March 2017 decision and Kurzeme district Cort 29th of March 2018 decision there are approved amendments of JSC “Grobina” legal protection proceedings plan, thereby the term of JSC “Grobina” legal protection proceedings is prolonged up to 30th of June 2020, which regarding to the unsecured creditors (suppliers) provides to defer the debts principal sum payments to the June 2020. Despite the JSC “Grobina” legal protection proceedings, the management of JSC “Grobina” in the year 2017 agreed with Canadian Auction house NAFA about kit advance payments in 2017, 2018 and 2019 breeding seasons, which allows to the company to continue normal economic activity up to 2020.

Average number of employees in 2018 was 68 employees, in 2017 - 68 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.

Future perspective

Since initiation of JSC "Grobina" legal protection proceedings, the company continues economic activities in accordance with approved JSC "Grobina" legal protection proceedings action plan and its amendments. JSC "Grobina" legal protection proceedings action plan was based on a forecast that up to June of 2020 the company will be increased its production volumes up to 180,000 mink skins per year with an average sales price of 34 EUR per skin. The mentioned forecast is based on the summaries of global auction houses about average price of mink skins realisation in the world markets in the last 10 years, where in the period from 2005./2006.till 2015./2016. the average sales price were 36 EUR per skin. As in 2018 the company has already increased its production volumes for approximately 50% and will continue to do it in accordance with Legal protection proceedings auction plan and tin it forecasted average sale price of the skin is reconciled with the Canadian Auction House NAFA, the management of JSC “Grobina” reasonably believes that the company will be able to fulfil the plan of legal protection process, which was confirmed by 29th of March’s 2018 Kurzeme District Court decision, in redaction on 23d of November 2018.

Gundars Jaunsleinis
Chairman of the board

Profit or losses statement

	12 months per.ended 31.12.2018 EUR	12 months per.ended 31.12.2017 EUR
Net turnover:		
of the agricultural activity	2 290 530	3 137 067
Costs of goods sold or services provided	(2 873 095)	(2 041 632)
Gross profit or lossess	**(582 565)**	**1 095 435**
Distribution expenses	(142 571)	(175 449)
Administrative expenses	(298 569)	(303 216)
Other operating income	295 410	308 180
Other operating expenses	(63 529)	(22 161)
Interest and similar expenses, incl.:		
- for other parties	(359 867)	(673 528)
Profit or lossess before corporate income tax	**(1 151 691)**	**229 261**
Changes in deferred tax assets or liabilities	-	(567 476)
Lossess for the financial year	**(1 151 691)**	**(338 215)**

Notes are an integral part of these financial statements.

Riga, 28st of February 2019

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

Balance sheet

ASSETS

NON-CURRENT ASSETS	31.12.2018 EUR	31.12.2017 EUR
Fixed assets		
Immovable properties:		
land plots, buildings and engineering structures	5 705 744	5 935 227
Fauna and flora:		
draft animals or productive animals and perennial plantings	4 845 548	5 825 479
Technological equipment and machinery	5 207 394	5 002 443
Other fixed assets	657 724	684 226
Fixed assets under development and construction in progress	15 347	1 073
Advances for fixed assets	48 248	48 248
TOTAL	**16 480 005**	**17 496 696**
TOTAL NON-CURRENT ASSETS	**16 480 005**	**17 496 696**
CURRENT ASSETS		
Inventories		
Raw materials and consumables	66 987	62 576
Work in progress	2 407 434	-
Finished goods and goods for sale	1 922 434	2 612 781
Fauna and flora		
animals and annual plantings	396 894	330 927
TOTAL	**4 793 749**	**3 006 284**
Account receivable		
Trade receivables	53 026	55 048
Other receivables	82 650	59 075
Deferred expenses	4 441	2 026
TOTAL	**140 117**	**116 149**
Cash and bank	70	26 826
TOTAL CURRENT ASSETS	**4 933 936**	**3 149 259**
TOTAL ASSETS	**21 413 941**	**20 645 955**

Notes are an integral part of these financial statements.

Balance sheet

EQUITY, PROVISIONS AND LIABILITIES

EQUITY	31.12.2018 EUR	31.12.2017 EUR
Share capital	711 436	711 436
Reserves:		
other reserves	77 481	77 481
Retained earnings or uncovered losses brought forward from previous years	(1 149 594)	(811 379)
Current year losses	(1 152 691)	(338 215)
TOTAL EQUITY	**(1 513 368)**	**(360 677)**
LIABILITIES		
Non-current liabilities		
Loans from banks	4 330 377	5 183 585
Other borrowings	3 555 295	3 737 541
Trade payables	1 989 644	1 992 716
Taxes and state social insurance payments	301 230	306 806
Deferred income	4 175 650	4 389 399
TOTAL	**14 352 196**	**15 610 047**
Current liabilities		
Loans from banks	902 304	688 076
Other borrowings	276 472	286 125
Advances from customers	5 658 849	2 385 635
Trade payables	568 035	702 374
Taxes and state social insurance payments	264 824	347 781
Other creditors	428 421	443 464
Deferred income	209 304	209 304
Accrued liabilities	266 904	333 826
TOTAL	**8 575 113**	**5 396 585**
TOTAL LIABILITIES	**22 927 309**	**21 006 632**
TOTAL EQUITY, PROVISIONS AND LIABILITIES	**21 413 941**	**20 645 955**

Notes are an integral part of these financial statements.

Riga, 28st of February 2019

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

Cash flow statement

	12 months per. 2018 ended 31.12.18 EUR	12 months per. 2017 ended 31.12.17 EUR
Cash flow from operating activities		
Profit or losses before corporate income tax	(1 152 691)	229 261
Adjustments for:		
depreciation and impairment of fixed assets	492 756	681 206
Increase or decrease in biological assets	979 931	-
Long-term investment write-down	28 861	-
interest and similar revenue	359 867	489 260
Profit or loss prior to changes in current assets and current liabilities	***708 724***	***1 399 727***
Increase or decrease of account receivable	(411 205)	128 907
Increase or decrease of inventory	(1 787 465)	(1 237 090)
Increase or decrease of account payables and other liabilities	2 674 938	521 263
Gross cash flow generated from operating activities	***1 184 992***	***812 807***
Interest payments	(204 783)	(250 947)
Net cash flow generated from operating activities	***980 209***	***561 860***
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(148 857)	(34 673)
Net cash flow generated from investing activities	**(148 857)**	**(34 673)**
Cash flow from financing activities		
Loans received	49 096	99 700
Subsidies, grants, gifts or donations received	51 237	39 910
Repayment of loans	(707 276)	(618 000)
Expenses for the leasing of fixed assets	(251 165)	(44 680)
Net cash flow generated from financing activities	**(858 108)**	**(523 070)**
Net cash flow in the financial year	**(26 756)**	**4 117**
Cash and cash equivalents at the beginning of the financial year	**26 826**	**22 792**
Cash and cash equivalents at the end of the financial year	**70**	**26 909**

Notes are an integral part of these financial statements.

Riga, 28st of February 2019

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

Statement of changes in equity

12 months period ended 31.12.2017

	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 31.12.2016	**711 436**	**77 481**	**1 376 406**	**(2 187 785)**	**(22 462)**
Increase/decrease in retained earnings	-	-	-	(338 215)	**(338 215)**
Prior year adjustments	-	-	(2 187 785)	2 187 785	**-**
Closing balance 31.12.2017	**711 436**	**77 481**	**(811 379)**	**(338 215)**	**(360 677)**

12 months period ended 31.12.2018

Opening balance 31.12.2017	**711 436**	**77 481**	**(811 379)**	**(338 215)**	**(360 677)**
Increase/decrease in retained earnings	-	-	-	(1 152 691)	**(1 152 691)**
Prior year adjustments	-	-	(338 215)	338 215	**-**
Closing balance 31.12.2018	**711 436**	**77 481**	**(1 149 594)**	**(1 152 691)**	**(1 513 368)**

Notes are an integral part of these financial statements.

Riga, 28st of February 2019

Gundars Jaunsleinis
Chairman of the board

Gunta Isajeva
Member of the board

Ireneusz Sajewicz
Member of the board

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.
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.

Changes in accounting policies and reclassification of balance sheet items

Accounting and valuation methods have not been changed during the reporting period.

Use of estimates

The preparation of the financial statements requires that the management rely on certain estimates and assumptions that affect the balances of the items of the balance sheet and profit and loss account disclosed in the individual financial statements, as well as the amount of contingent liabilities. Future events may affect the assumptions underlying the relevant estimates. Any effect of the changes in the estimates is disclosed in the financial statements at the time of identifying them.

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.

Depreciation is calculated starting from the month following the month when the asset is put into operation or used for business purposes. For each component of a fixed asset, the cost of which is significant relevant to the total cost of the asset, depreciation must be calculated separately. If the Company depreciates some components of a fixed asset separately, it also depreciates the remaining components of the same asset separately. The remaining components are such components of fixed assets, which are not important individually. The depreciation of the remaining parts is calculated using the approximation method aimed to truly reflect their useful life.

When any events or changes in the circumstances indicate that the carrying value of a fixed asset may not be recoverable, the value of the relevant fixed asset is reviewed for determining the impairment thereof. If there are signs that the carrying value may not be recoverable and if the carrying value of an asset exceeds the estimated recoverable amount, the asset or the CGU (cash generating unit) is written down to its recoverable amount. The recoverable amount of an asset is the greater of the net selling value and value in

1. Summary of accounting policies (continuation)

use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount factor that reflects the present market forecasts for changes in the value of the asset and the risks applicable to it. For an asset, which does not generate significant cash flows, the recoverable amount is determined by reference to the cash flow generating asset to which it belongs. Any impairment losses are recognised in the profit and loss account as cost of sales.

A fixed asset object is derecognised if it is disposed or in the case when no future economic benefits are expected to flow from the use of the asset. Any gains or losses arising on de-recognition of a fixed asset object (which is calculated as a difference between the net disposal proceeds and the carrying value of the fixed asset), is charged off to the profit and loss account in the period, in which the fixed asset is de-recognised.

The costs related to the improvement of the leased property are capitalised and presented as fixed assets. The depreciation of these assets is calculated throughout the lease period, using the straight-line method.

Assets under construction represent the costs of creation of assets and the costs of unfinished construction objects, and are measured at historical cost. The historical cost comprises construction costs and other direct costs Assets under construction are not depreciated as long as the relevant assets are completed and put into use.

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.

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.

1. Summary of accounting policies (continuation)

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.

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.