

**JOINT STOCK COMPANY "GROBINA"**

**(REGISTRATION NUMBER 40003017297)**

**ANNUAL REPORT 2018 1<sup>ST</sup> Q**

(28<sup>TH</sup> financial year)

**PREPARED IN ACCORDANCE WITH**

**THE LAW OF THE REPUBLIC OF LATVIA**

**ON THE ANNUAL REPORT AND CONSOLIDATED ANNUAL REPORT  
UNAUDITED**

**Liepaja, 2018**

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## Information on the Company

Name of the company	Joint stock company „Grobina”
Legal status of the company	Public joint stock company
Number, place and date of 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, since 02.04.2015
Council of the Company	Ojars Osis – chairman of the council, since 01.06.2011 Argita Jaunsleina – 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 year	1 <sup>st</sup> of January 2018 to 31 <sup>st</sup> of March 2018

## Management report

### **Core Business Activity**

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

### **Operations during the reporting year**

The company's net turnover of first 3 months of 2018 is 349 050 EUR in this period in Canadian auction house NAFA there were realised 14 307 mink skins at an average price of 24,28 EUR / pcs , in result net turnover of 1st quarter of 2018 is decreased for 83%, comparing with net turnover of 1st quarter of 2017, because in 2017 first 3 months there were realised 68 977 mink skins for average price 30,16 EUR / pcs.

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. and 29 March 2018, thereby prolonging the term of Legal protection proceedings to 30 June 2020. 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 JSC "Grobina" could continue its business activities in the year 2017 in accordance with the plan.

At the three months of 2018 the average number of employees was 60 employees, in the same period of 2017 - 63 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, 2018, the Company's current liabilities exceeded current assets for EUR 3048553.

### **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, 31th of May 2018

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Gundars Jaunsleinis  
Chairman of the board

## Profit or losses statement

	Notes	2018 1st Q EUR	2017 1st Q EUR
Net turnover:			
of the agricultural activity		349050	2018712
Costs of goods sold or services provided		(355065)	(2021981)
<b>Gross profit or lossess</b>		<b>(6015)</b>	<b>(3269)</b>
Distribution expenses		(47346)	-
Administrative expenses		(96615)	(54105)
Other operating income		83912	24579
Other operating expenses		(9928)	(37316)
Interest and similar expenses, incl.: for other parties		(121055)	(44626)
<b>Profit or lossess before corporate income tax</b>		<b>(197047)</b>	<b>(114737)</b>
<b>Profit or lossess for the financial year</b>		<b>(197047)</b>	<b>(114737)</b>

Notes are an integral part of these financial statements.

Liepaja, 31th of May 2018

Gundars Jaunsleinis  
 Chairman of the board

Gunta Isajeva  
 Member of the board

Ireneusz Sajewicz  
 Member of the board

## Balance sheet

### ASSETS

	Notes	31.03.2018. EUR	31.03.2017. EUR
<b>NON-CURRENT ASSETS</b>			
<b>Fixed assets</b>			
Immovable properties:			
land plots, buildings and engineering structures		5880038	5956351
Fauna and flora:			
draft animals or productive animals and perennial plantings		5825479	5825478
Technological equipment and machinery		4900100	4943974
Other fixed assets		702564	735653
Fixed assets under development and construction in progress		1073	20273
Advances for fixed assets		52380	52380
TOTAL		<b>17361634</b>	<b>17534109</b>
<b>Non-current financial investments</b>			
Deferred tax assets		567476	567476
TOTAL		<b>567476</b>	<b>567476</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17929110</b>	<b>18101585</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials and consumables		149573	83865
Unfinished production		526690	-
Finished goods and goods for sale		2848399	3005117
Advances for inventories		1688	23078
Fauna and flora			
animals and annual plantings		-	358348
TOTAL		<b>3526350</b>	<b>3470408</b>
<b>Account receivable</b>			
Trade receivables		59779	57340
Other receivables		19780	6443
Deferred expenses		-	2026
TOTAL		<b>79559</b>	<b>65809</b>
<b>Cash and bank</b>			
		1726	26845
<b>TOTAL CURRENT ASSETS</b>		<b>3607635</b>	<b>3563062</b>
<b>TOTAL ASSETS</b>		<b>21536745</b>	<b>21664647</b>

Notes are an integral part of these financial statements.

## Balance sheet

<b>EQUITY, PROVISIONS AND LIABILITIES</b>				
	Notes	31.03.2018	31.12.2017	
<b>EQUITY</b>		<b>EUR</b>	<b>EUR</b>	
Share capital		711436	711436	
Reserves:				
other reserves		77481	77481	
Retained earnings or uncovered losses brought forward from previous years		(149060)	(890318)	
Current year profit or losses		(197047)	741257	
<b>TOTAL EQUITY</b>		<b>442810</b>	<b>639856</b>	
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Loans from banks		5120181	5061179	
Other borrowings		2429391	3737479	
Trade payables		2002070	2002070	
Taxes and state social insurance payments		495706	533827	
Deferred income		4389399	4389399	
<b>TOTAL</b>		<b>14436747</b>	<b>15723954</b>	
<b>Current liabilities</b>				
Loans from banks		800576	800576	
Other borrowings		1581082	365512	
Advances from customers		2845206	2385635	
Trade payables		508782	817821	
Taxes and state social insurance payments		110369	19272	
Other creditors		436928	442505	
Deferred income		158090	209304	
Accrued liabilities		215155	260212	
<b>TOTAL</b>		<b>6656188</b>	<b>5300837</b>	
<b>TOTAL LIABILITIES</b>		<b>21092935</b>	<b>21024791</b>	
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>		<b>21535745</b>	<b>21664647</b>	

Notes are an integral part of these financial statements.

Liepaja, 31th of May 2018

Gundars Jaunsleinis  
Chairman of the board

Gunta Isajeva  
Member of the board

Ireneusz Sajewicz  
Member of the board

**Cash flow statement**

	2018 1st Q	2017 1st Q
<b>Cash flow from operating activities</b>		
Profit or losses before corporate income tax	(197047)	(114737)
Adjustments for:		
depreciation and impairment of fixed assets	162206	184622
interest and similar revenue	121055	44626
Loss on disposal of fixed assets	1415	-
<b>Profit or loss prior to changes in current assets and current liabilities</b>	<b>87629</b>	<b>114511</b>
Increase or decrease of account receivable	(13750)	115484
Increase or decrease of inventory	(55942)	1481050
Increase or decrease of account payables and other liabilities	102660	(1481847)
<b>Gross cash flow generated from operating activities</b>	<b>120597</b>	<b>229198</b>
<b>Net cash flow generated from operating activities</b>	<b>120597</b>	<b>229198</b>
<b>Cash flow from investing activities</b>		
Acquisition of fixed and intangible assets	(24661)	(12792)
<b>Net cash flow generated from investing activities</b>	<b>(24661)</b>	<b>(12792)</b>
<b>Cash flow from financing activities</b>		
Repayment of loans	-	(100000)
Interest payments	(121055)	-
<b>Net cash flow generated from financing activities</b>	<b>(121055)</b>	<b>(100000)</b>
<b>Net cash flow in the financial year</b>	<b>(25119)</b>	<b>116406</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>26845</b>	<b>22792</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>1726</b>	<b>139198</b>

Notes are an integral part of these financial statements.

Liepaja, 31th of May 2018

Gundars Jaunsleinis  
Chairman of the boardGunta Isajeva  
Member of the boardIreneusz Sajewicz  
Member of the board



## Statement of changes in equity

### 3 months period ended 31.03.2017

	Share capital	Reserves	Retained earnings or uncovered losses brought forward from previous years	Current year profit or losses	Total
	EUR	EUR	EUR	EUR	EUR
<b>Opening balance 31.12.2016</b>	<b>711436</b>	<b>77481</b>	<b>1376406</b>	<b>(2266725)</b>	<b>(101402)</b>
Increase/decrease in retained earnings	-	-	-	(114737)	(114737)
Prior year adjustments	-	-	(2266725)	2266725	-
<b>Closing balance 31.03.2017</b>	<b>711436</b>	<b>77481</b>	<b>(890319)</b>	<b>(114737)</b>	<b>(216139)</b>

### 3 months period ended 31.03.2018

<b>Opening balance 31.12.2017</b>	<b>711436</b>	<b>77481</b>	<b>(890318)</b>	<b>741257</b>	<b>639856</b>
Increase/decrease in retained earnings	-	-	-	(197047)	(197047)
Prior year adjustments	-	-	741257	(741257)	-
<b>Closing balance 31.12.2018</b>	<b>711436</b>	<b>77481</b>	<b>(149061)</b>	<b>(197047)</b>	<b>442809</b>

Notes are an integral part of these financial statements.

Liepaja, 31th of May 2018

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 main 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 income statement is prepared in accordance with the function of expense method.

#### Foreign currency conversion in euro

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.

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.

#### 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 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.

## 1. Summary of accounting policies (continuation)

### **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.

### **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.