

# **CONSOLIDATED INTERIM REPORT**

**OF THE FINANCIAL YEAR 2016/17**

**OF AB LINAS AGRO GROUP**

**FOR THREE MONTHS PERIOD**

**ENDED 30 SEPTEMBER 2016**



# CONFIRMATION OF RESPONSIBLE PERSONS

Following the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodical and Additional Information of the Bank of Lithuania, we, Darius Zubas, Managing Director of AB Linas Agro Group and Tomas Tumėnas, Finance Director of AB Linas Agro Group, hereby confirm that, to the best of our knowledge, the not audited AB Linas Agro Group Interim Consolidated Financial Statements for the three months of the financial year 2016/17, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of assets, liabilities, financial position, profit or losses and cash flow of AB Linas Agro Group and the Group as well. We also confirm that Interim Consolidated Report for the three months of the financial year 2016/17 includes fair review of the business development and activities, together with the description of the major risks and indeterminations incurred.

AB Linas Agro Group Managing Director



Darius Zubas

30 November 2016

AB Linas Agro Group Finance Director



Tomas Tumėnas

30 November 2016

## COMPANY DETAILS

Company name	AB Linas Agro Group
Legal form	Public company
Date and place of registration	27/11/1995 in Panevezys
Code of legal entity	148030011
VAT identification number	LT480300113
Company register	State Enterprise Centre of Registers (Valstybės įmonė Registrų centras)
Address	Smėlynės St. 2C, LT-35143 Panevėžys, Lithuania
Phone	+370 45 50 73 03
Fax	+370 45 50 73 04
E-mail	group@linasagro.lt
Website	www.linasagro.lt
Bank account	LT07 7044 0600 0263 7111, AB SEB bank, bank code 70440
ISIN code	LT0000128092
Ticker in Nasdaq Vilnius	LNA1L

## ABOUT THE GROUP

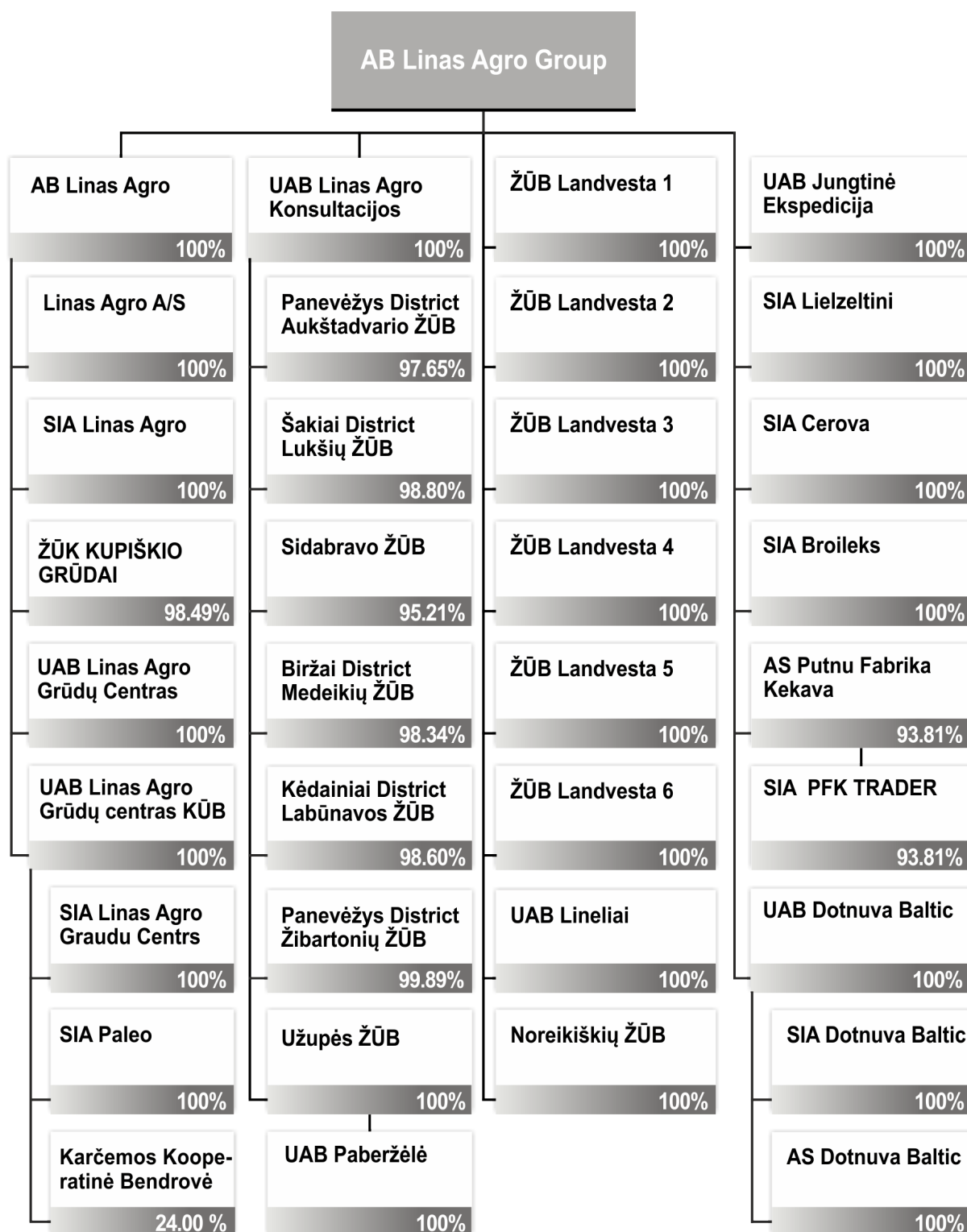
Linas Agro Group together with its directly and indirectly controlled companies (hereinafter – subsidiaries) makes the Group, which was founded in 1991 and had 39 companies at the end of the reporting period, and operates in four countries – Lithuania, Latvia, Estonia and Denmark. As at 30 September, 2016 the total headcount of the Group amounted to 2,227 employees. The financial year of the Group begins on 1 July.

The Company does not have any branches and representative offices.

## STRUCTURAL CHART OF THE EFFECTIVE STOCK HELD BY AB LINAS AGRO GROUP

The Company controlled 38 companies\* in Lithuania, Latvia, Estonia and Denmark as at 30 September, 2016.

\*Dormant companies UAB Gerera (100% shares), UAB Dotnuvos Technika (100% shares) and SIA Erfolg Group (93.81% shares) not included).



## THE MAIN ACTIVITY

The subsidiaries controlled by the Company produce, handle and merchandise agricultural and food products; also provide products and services for farming. The Company performs only the management function and is not involved in any trading or production activities.

The Group is the leading exporter of grains and owns network of grain storage facilities. Also is one of the leaders in supplies of agricultural inputs (such as certified seeds, fertilizers and agricultural machinery) in Lithuania, has seed preparation plant. Also the Group is a major milk producer in Lithuania and poultry producer in Latvia.

The Group's activities are subdivided into five basic operating Segments: 'Grain and Feedstuff Handling and Merchandising', 'Products and Services for Farming', 'Agricultural Production', 'Food products', and 'Other'.

Division into separate Segments is dictated by different types of products and character of related activities; however, activities of the Segments are often interconnected.

## ACTIVITY AND FINANCIAL RESULTS OF THE GROUP

- Consolidated revenue of AB Linas Agro Group in three months of 2016/17 financial year totaled EUR 153 million and was 2.3% higher as compared to previous year (EUR 149 million).
- The Group's sales volume in tons exceeded 500 thousand tons of various grains and agricultural inputs and was 5.3% more as compared to previous year (475 thousand tons).
- The gross profit reached EUR 14 million or was 18% higher than a year before (EUR 12 million).
- Consolidated EBITDA grew from EUR 7.2 million to EUR 8.3 million.
- The Group's operating profit reached EUR 6 million or was 34% more as compared to the respective period of the previous year (EUR 4.5 million).
- Profit before taxes amounted to EUR 5.4 million (compared to EUR 4 million in previous year). The net profit attributable to the Group stood at EUR 4.4 million (EUR 3.5 million in previous year).
- Grain storage facilities owned by the Group processed 382 thousand tons of various grains or 13% less as compared to previous year (439 thousand tons).

## FINANCIAL RATIOS

	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2013/14</b>	<b>2012/13</b>
	<b>3 months</b>	<b>3 months</b>	<b>3 months</b>	<b>3 months</b>	<b>3 months</b>
Sales in tons	500,620	475,399	421,293	368,682	332,943
Revenue (thousand EUR)	152,920	149,479	130,851	130,427	98,085
Gross profit (thousand EUR)	14,199	12,002	9,052	10,306	7,091
EBITDA (thousand EUR)	8,293	7,205	6,121	8,978	11,874
Operating profit (thousand EUR)	5,994	4,460	3,506	7,472	9,413
Net profit (thousand EUR)	4,444	3,464	2,235	6,445	9,462

## OVERVIEW

The world grain and oilseed harvest is expected to reach a record high level again in 2016. As per data of International Grain Council (IGC), the world grain and oilseed harvest will be around 2,069 million tons in 2016 and will be 3.3% higher as compared to that in 2015 (2,003 million tons). The grain harvest is above 2 billion tons for the fourth consecutive year. Therefore, world grain ending stocks are high and projected to reach 492 million tons this year (475 million tons in 2015). The above affect the global prices, which have slightly gone down as compared to 2015. For instance, the price of wheat on MATIF exchange ranged between 162 and 164 euros per ton in July-September, while previous year it has been EUR 170-190 per ton, at the same time rapeseed price was 363-370 euros per ton, compared with the price of 360-390 euros per ton a year before.

Due to heavy rains during the harvesting period in the second half of July, the total harvest of various cereals in Lithuania is expected to be 11% less as compared to that of 2015. It is predicted that the total crop harvest will reach 5.8 million tons (6.5 million tons in 2015). Rain also negatively affected the average yields of various grains which are forecasted to decrease on average by about 0.5-1 t / ha, as compared to 2015. Heavy rain adversely affected the quality of grain - more than half of harvested wheat in Lithuania will be of feed quality, while previously medium and high grade wheat prevailed. A similar situation was observed in Latvia well- both in terms of the quality of grain and crop yield. It is expected that total cereals harvest in Latvia will amount to 2.8 million tons (have been 3.4 million tons in 2015) with a big market share of feeding grain. Poor quality grain poses many challenges for the traders: grain quality does not meet requirements of the traditional grain buyers of Lithuanian grain while the new exports destinations are to be founded for feed quality grain.

Overall situation in grains and oilseeds market also directly affects prices for food products. Those, except prices for milk, remained almost flat if compared to those a year ago, or even went down. According to data of UN Food and Agricultural organization, FAO index went up from 158 to 167 points in average for the period July-September due to increased milk prices, while meat price index, which also accounts prices for poultry products, fell down from 170 to 164 points. All these aforementioned reasons had a direct effect on Group's first quarter performance and will impact overall performance of the Group for 2016/17 financial year.

The total volume in tons sold by AB Linas Agro Group products grew 5% from 475 thousand tons to 500 thousand tons while consolidated revenue of the first three months of 2016/17 financial year amounted to

EUR 153 million and was 2% higher than in previous year (EUR 149 million). The main reason behind the revenue growth was the increase in sales of business Segment 'Product and Services to Farming', which grew up almost 16%. Sales in other Group's business Segments declined due to overall drop in prices for agricultural produce, grain and poultry products.

Despite quite challenging grain market environment and declining poultry product prices Group's profitability went up. Gross profit of AB Linas Agro Group went up 18% to EUR 14 million (EUR 12 million a year before). Group's operating profit grew 34% to EUR 6 million and EBITDA went up 15% to EUR 8.3 million as compared to EUR 4.5 million and EUR 7 million accordingly in previous year

## FINANCIAL COSTS

Due to low interest rate basis, Group's financial expenses over referenced period almost unchanged and amounted to EUR 0.65 million compared to that in 2015/16 financial year (EUR 0.76 million). The total amount of financial loans portfolio (including leasing) also stood at the previous period's level and amounted to EUR 160 million. The amount of financial loans over first quarter of this financial year grew by EUR 60 million since July due to increased sales of various inputs to farmers and undergoing investments into poultry business.

## CASH FLOWS

Group's cash flow from operating activities before the changes in working capital increased to EUR 9.7 million as compared to EUR 6.8 million of the corresponding period of the previous year. Cash flow from operating activities after changes in working capital was negative and amounted to EUR 57.9 million (negative EUR 46.8 million over the respective period of 2015/16 financial year), the reason was increase of stocks by EUR 60 million over first three months of this financial year as the new trading season started. Group's cash and cash equivalents at the end of the reporting period amounted to EUR 10.1 million (EUR 8.8 million in 2015/16 financial year).

## PERFORMANCE RESULTS OF SEGMENTS

Activities of the Group are divided into five business Segments:

1. Grain and Feedstuff Handling and Merchandising;
2. Products and Services for Farming;
3. Agricultural Production;
4. Food products;
5. Other.

## OPERATING PROFIT (LOSS) BY SEGMENTS, THOUSAND EUR

	2016/17 3 months	2015/16 3 months	2014/15 3 months	2013/14 3 months	2012/13 3 months
Grain and Feedstuff Handling and Merchandising	5,570	4,596	3,788	2,916	3,372
Products and Services for Farming	1,406	992	571	3,143	1,089
Agricultural Production	(478)	(454)	(1,494)	2,032	5,600
Food products	548	194	1,065	-	-
Other	(1)	71	32	(118)	(19)

## GRAIN AND FEEDSTUFF HANDLING AND MERCHANDISING

Being the largest operating Segment, this one includes the sale of grain, oilseeds and feedstuffs, as well as grain storage and logistic services.

The Group has been operating in this field since 1991, this activity generates the major part of the Group's revenue. Two companies of the Group - AB Linas Agro and Linas Agro AS - are holders of the European Good Trading Practice certificates. Also AB Linas Agro holds a certificate in trade of organic plant production issued by the PE Ekoagros and also received a European Good Manufacturing Practice GMP+ certification during the reporting period.

The Group consistently expands the capacity of its own grain elevators, and currently the Group's own storage capacity for various grains and inputs amounts to 340 thousand tons. The capacities of the storage facilities at ports operated by the Group reach 220 thousand tons.

Despite the decreased harvest in the Lithuania and Latvia, the total sales volume in this business Segment grew 3% from 381 thousand tons to 393 thousand tons. The sales of traditional crops (wheat, rapeseed, barley) increased the most by 7%: their trading volumes rose from 332 thousand tons to 355 thousand tons. Due to drop in grain prices, sales in monetary units declined by 2% from EUR 78 million to EUR 76 million. The sales of feedstuff in tons decreased by 22% due to the high ending stocks of feed manufacturers and a subsequent fall in demand, as well as of the poor harvest in some of the supply regions, while the revenue from feedstuff sales decreased from EUR 16 million to EUR 11 million.

Grain storage facilities owned by the Group collected and processed 382 thousand tons of various grains or 13% less as compared to the respective period of the 2015/16 financial year (439 thousand tons). Differently from the previous season, the harvested grain had high moisture content this year, and therefore revenue from drying services went up. The gross profit of the Group-owned grain elevators grew from EUR 1.7 million to EUR 3.5 million.

Operating profit of this business Segment grew by 43% from EUR 4.6 million to EUR 5.6 million. Taking into account probable losses due to poor quality of grain and lower harvest level, although higher profitability from drying services provided by elevators, the Group expects to earn the same operating profit for this business Segment for the whole financial year as compared to previous year.

The Group started to provide grain drying service in another plot in Latvia (Rezekne) during the referenced period, using for that assets of SIA Paleo which is being acquired by the Group.

## PRODUCTS AND SERVICES FOR FARMING

This business Segment includes trade in seeds, plant protection products, fertilizers, agricultural machinery, design and installation of grain cleaning, drying and storage facilities as well as farms.

A supply of agricultural inputs to the farmers is a long term activity of the Group that trace back to 1993 and is currently run in Lithuania, Latvia and Estonia. Since 1998 the Group is a shareholder of UAB Dotnuva Baltic (former UAB Dotnuvos Projektai), a wholesaler and retailer of agricultural machinery and grain storage facilities, a producer of certified seeds.

Sales of this business Segment over referenced period grew the most or almost 16% from EUR 38 million in previous year to EUR 44 million this year.

During the referenced period sales of agricultural machinery and equipment for grain elevators were influenced by the implementation of previously approved EU-supported projects. Revenue from sales of agricultural machinery and equipment for grain elevators increased by almost 14% from EUR 15 million to



EUR 17 million, while gross profit went up 21% from EUR 2 million to EUR 2.4 million. Total sales growth in the new agricultural machinery calculated in units was about 13%, in grain processing equipment - 40 %.

Sales of various agricultural inputs (fertilizers, seeds and plant protection products) were successful and grew by 32% to EUR 26 million in the first quarter of the financial year.

The gross profit of this business Segment went up from EUR 3.8 million to EUR 4.9 million and operating profit grew from EUR 1 million to EUR 1.4 million.

## AGRICULTURAL PRODUCTION

This business Segment covers cultivation of cereals, oilseed rape, sugar beet and other crops, production of milk and beef cattle farming. The Group owns six agricultural companies situated on fertile land across Lithuania – Panevėžys District Aukštadvario ŽŪB, Panevėžys District Žibartonių ŽŪB, Kėdainiai District Labūnavos ŽŪB, Šakiai District Lukšių ŽŪB, Biržai District Medeikių ŽŪB and Sidabravo ŽŪB.

Agricultural companies were cultivating 17,232 ha of land. At the end of the reporting period the Group had 6,762 ha of own land. There were planted 9,058 ha of winter crops during this fall or 2% less as compared to previous year.

Weather this year was a real challenge to the farmers: the lack of moisture was felt in June, it has reduced the various crop yields 0.4-1 t / ha. The harvest period was rainy, and about 25% of wheat has become feed grade. This year the crop harvest was lower in all agricultural companies of the Group, and the quality of major grains was lower than a year before.

The Group's agricultural companies harvested over 78 thousand tons of various grains or 8% less as compared to previous year. Wheat harvest was the highest and amounted to 49 thousand tons, malting barley harvest was 12 thousand tons, rapeseed – 9 thousand. Around 24 thousand tons of crop products were sold or 10% less than previous year.

The average yield of wheat was 6 tons/ha (forecasted average yield in Lithuania is 4.5 tons/ha), rapeseed – 3.5 tons/ha (2.9 tons/ha average in Lithuania).

Group controlled farms own over 3,150 milking cows. Over referenced period 7.6 thousand tons of raw milk has been sold or 6% less if compared to previous year. Despite the facts that milk purchase price in July was the lowest in the last five years, and average milk purchase price in referenced period was 9% less than a year ago, the milk purchase price started to recover in August and September as the world milk price was on upward trend, f.i., the milk purchase price went up by 5% in September.

The agricultural companies of the Group spent EUR 1 million to obtain agricultural machinery.

The revenue of this business Segment went down by 19% and amounted to EUR 8 million (EUR 9.8 million in 2015/16 year) as revenue from grain sales dropped from EUR 7.1 million to EUR 5 million.

The operating profit of the Segment after the changes in biological assets, was negative and amounted to EUR 0.47 million (0.45 million loss was recorded in FY 2015/16).

Though the Group's agricultural companies produced less and lower-quality crop production than a year before, but taking into consideration an upward trend for milk prices, the Group expects the annual operating profit of this business Segment to be the same like in FY 2015/16.

## FOOD PRODUCTS

This business Segment includes a whole cycle poultry business, including incubation of hatching eggs, broiler breeding, production of poultry and its products, feed manufacturing for self-supply and retail sale of chicken meat and its products. The Group has acquired shares of Latvian poultry company AS Putnu Fabrika Kekava in October, 2013 and the companies SIA Broileks, SIA Cerova and SIA Lielzeltini in February, 2014.

AS Putnu Fabrika Kekava – No1 poultry producer in Latvia with full poultry manufacturing cycle, including egg incubation, chicken hatching, broiler breeding, production of fresh poultry and processed products under brand name “Kekava”. The subsidiary of the company, SIA PFK Trader operated 22 retail shops all over Latvia. During the reporting period, AS Putnu Fabrika Kekava received the BRC (British Retail Consortium) certification. BRC Global Standard for Food Safety is one of the most effective measures commonly used in assessing the reliability of suppliers.

SIA Lielzeltini – No2 poultry producer in Latvia: has an incomplete production cycle consisting of broiler breeding, production of fresh poultry and processed products sold under the brand name “Bauska”, as well as production of compound feed.

SIA Broileks grows and sells live chicken. SIA Cerova incubate eggs and sells day-old chicks.

The slaughterhouses at which the birds are being slaughtered have Halal certificates.

The poultry companies produced 9.9 thousand tons of live weight or almost the same as compared to previous year (9.3 thousand tons of live weight). Companies sold over 6.6 thousand tons of poultry and poultry products (6.1 thousand tons a year before).

As already has been mentioned, FAO index, accounting also prices for meat, fell down by 3.3% over the referenced period. An average broiler price in the EU for the period July-September, 2015 has been about EUR 192/100 kg and this year it was EUR 178/100 kg over the same period. The other reasons behind the downward trend for poultry prices were the Russian embargo on EU poultry production and overcapacity in the neighboring Poland.

Revenue from this business Segment declined from EUR 15.6 million to EUR 14.7 million while operating profit increased from EUR 0.2 million to EUR 0.54 million due to successful sales in Scandinavia.

The Group invested over 691 thousand euros over the referenced period to upgrade poultry production equipment.

Taking into account the current market situation the Group expects close financials results of this business Segment as compared to previous year.

## OTHER

This business Segment includes small activities, not attributable to other Segments, as an example services of elevator's to a third parties, sale of minor assets and etc.

The operating result of this business Segment was close to a zero as no business activities has been recorded as compared to a EUR 0.2 thousand profit in previous year.

# THE PUBLICLY DISCLOSED INFORMATION OTHER EVENTS OF THE REPORTING PERIOD

During the reporting period ended 30 September, 2016, the Company publicly disclosed and distributed via Nasdaq Vilnius GlobeNewswire system and in Company's website the following information:

31/8/2016 12:18 EEST	Notification about interim 12 months financial results of the financial year 2015/2016	Interim informacion	En, Lt
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## OTHER EVENTS DURING THE REPORTING PERIOD

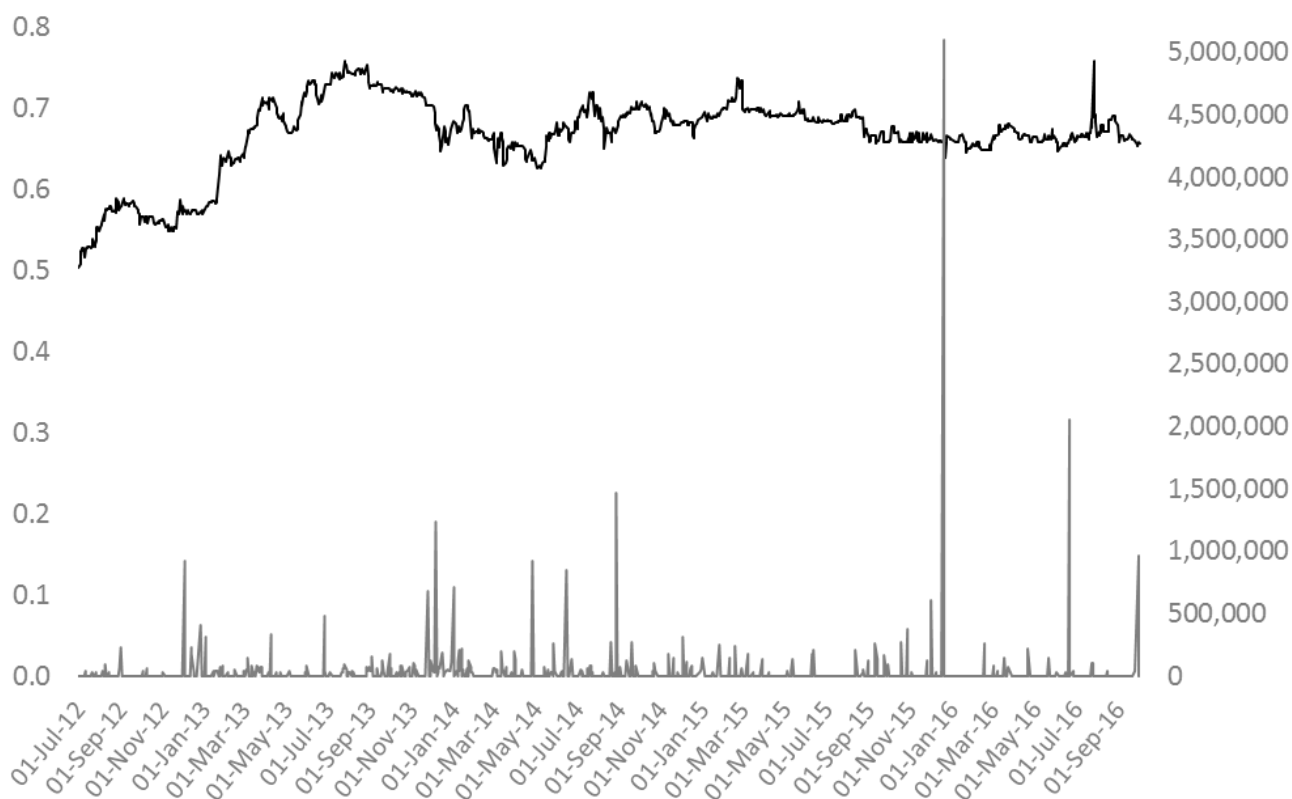
23/09/2016	The company transferred 3,000 units of its own shares to the employees of AB Linas Agro. After these transactions, the number of own shares owned by the Company was 782,972.
21/09/2016	The authorized capital of UAB Lineliai was increased from 638,000 to 728,000 euros.
July-September 2016	The authorized capital of ŽŪB Landvesta 5 was increased from 906,500 to 1,106,500 euros.
01/07/2016	The authorized capital of SIA Linas Agro Graudu Centrs was increased from 1,656,828 to 2,180,000 euros.

## SUBSEQUENT EVENTS

25/11/2016	The Company paid approved EUR 1,202 thousand dividends for the financial year ended 30 June 2016.
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# PRICES AND TURNOVER OF SHARES OF AB LINAS AGRO GROUP

Information on changes in the prices of Company's shares and turnover from 01/07/2012 until the end of the reporting period, i. e. 30 September 2016, is presented in the following diagram:



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