

# PRFOODS

## **AS PRFoods**

2016 Consolidated Annual Report  
(translation from Estonian original)

13.04.2017

2016  
ANNUAL REPORT

# PRFOODS

<b>Business name</b>	AS PRFoods
<b>Commercial register number</b>	1150713
<b>Address</b>	Viru 19, 10140 Tallinn, Estonia
<b>Phone</b>	+372 603 3800
<b>Fax</b>	+372 603 3801
<b>Website</b>	<a href="http://prfoods.ee">prfoods.ee</a>
<b>Main activities</b>	Production and sale of fish products Fish farming
<b>Reporting period</b>	1 January 2016 – 31 December 2016
<b>Auditor</b>	AS PricewaterhouseCoopers

## TABLE OF CONTENTS

CORPORATE PROFILE.....	4
STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD .....	7
MANAGEMENT REPORT.....	12
ENVIRONMENTAL RESPONSIBILITY .....	28
SOCIAL RESPONSIBILITY .....	29
SHAREHOLDER INFORMATION .....	30
MANAGEMENT AND SUPERVISORY BOARD.....	30
SHARE AND SHAREHOLDERS.....	32
REPORT ON GOOD CORPORATE GOVERNANCE.....	35
MANAGEMENT BOARD'S CONFIRMATION TO THE ANNUAL REPORT .....	41
CONSOLIDATED FINANCIAL STATEMENTS.....	42
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	43
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME .....	44
CONSOLIDATED CASH FLOW STATEMENT.....	45
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	46
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	47
NOTE 1. GENERAL INFORMATION .....	47
NOTE 2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	47
NOTE 3. FINANCIAL RISKS.....	61
NOTE 4. MANAGEMENT JUDGEMENTS AND ESTIMATES.....	67
NOTE 5. CASH AND CASH EQUIVALENTS.....	69
NOTE 6. RECEIVABLES AND PREPAYMENTS .....	69
NOTE 7. INVENTORIES .....	70
NOTE 8. BIOLOGICAL ASSETS.....	70
NOTE 9. SUBSIDIARIES.....	72
NOTE 10. DEFERRED INCOME TAX.....	72
NOTE 11. PROPERTY, PLANT AND EQUIPMENT .....	73
NOTE 12. INTANGIBLE ASSETS .....	74
NOTE 13. FINANCE LEASE.....	75
NOTE 14. OPERATING LEASE .....	76
NOTE 15. BORROWINGS .....	76
NOTE 16. PAYABLES AND PREPAYMENTS.....	77
NOTE 17. GOVERNMENT GRANTS.....	77
NOTE 18. EQUITY .....	77
NOTE 19. SEGMENT REPORTING .....	79
NOTE 20. COST OF GOODS SOLD .....	80
NOTE 21. SALES AND MARKETING EXPENSES.....	80
NOTE 22. GENERAL AND ADMINISTRATIVE EXPENSES .....	81
NOTE 23. STAFF COSTS.....	81
NOTE 24. DEPRECIATION AND AMORTISATION.....	81
NOTE 25. OTHER INCOME AND EXPENSES .....	82
NOTE 26. FINANCE INCOME AND COSTS .....	82
NOTE 27. INCOME TAX EXPENSES .....	82
NOTE 28. EARNINGS PER SHARE .....	83
NOTE 29. RELATED PARTY TRANSACTIONS .....	83
NOTE 30. CONTINGENT LIABILITIES .....	84
NOTE 31. SUPPLEMENTARY DISCLOSURES ABOUT THE PARENT COMPANY OF THE GROUP .....	85
INDEPENDENT AUDITOR'S REPORT .....	89
PROFIT ALLOCATION PROPOSAL.....	94

# Corporate profile

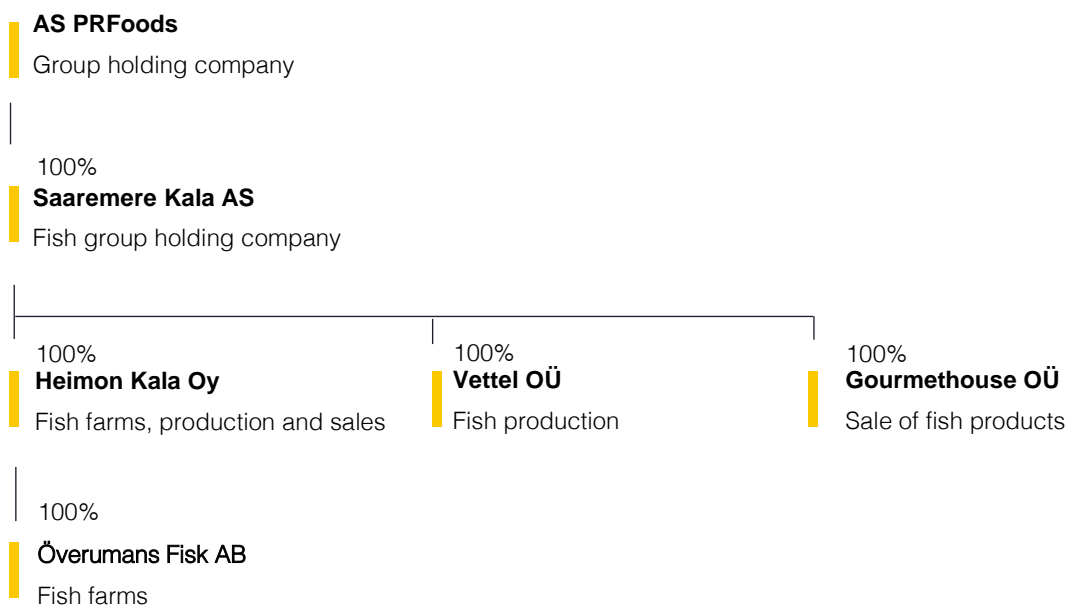
AS PRFoods (hereinafter "Group") is a company engaged in food processing and sales that is listed on the main list of NASDAQ OMX Tallinn Stock Exchange since 5 May 2010.

AS PRFoods key market is Finland, where the company is amongst three largest brands. The Group is the biggest fish manufacturer in Estonia. Last year the Group started substantial export outside of Europe to Japan.

Main activity of the Group is fish manufacturing in contemporary production buildings in Renko (Finland) and in Saaremaa (Estonia). Main products are salmon and rainbow trout goods. Approximately 1/3 of the raw fish used in Group's production is harvested in company's fish farms in Swedish lakes and in Turku Archipelago area in Finland, which assures high quality and reliable delivery. The Group is primarily farming rainbow trout and to a lesser extent whitefish.

Residual 2/3 of the raw fish, prevalently salmon, is purchased from Finland and from Scandinavian countries, like Denmark, Norway, Sweden. On a smaller scale company also buys in perch, pike, herring, vendace (freshwater whitefish) and Baltic herring.

## STRUCTURE OF THE PRFOODS GROUP AS AT 31 DECEMBER 2016



## LIST OF GROUP COMPANIES

Subsidiary	Domicile	Ownership interest 31.12.2016	Ownership interest 31.12.2015	Area of activity	Owner
<b>Saaremere Kala AS</b>	Estonia	100%	100%	Holding company of fish segment	PRFoods AS
<b>Vettel OÜ</b>	Estonia	100%	100%	Production of fish products	Saaremere Kala AS
<b>GourmetHouse OÜ</b>	Estonia	100%	100%	Sale of fish and fish products	Saaremere Kala AS
<b>Heimon Kala Oy</b>	Finland	100%	100%	Fishfarming, processing and sale of fish and fish products	Saaremere Kala AS
<b>Överumans Fisk Ab</b>	Sweden	100%	100%	Fishfarming and sales	Heimon Kala Oy

## MISSION

We wish for people to enjoy our range of products and healthy food. We try to continually maintain and grow consumer trust. We are a benchmark of care, innovation and quality.

## VISION

PRFoods is a well-known environmentally friendly international company engaged in the production and sale of fresh fish and fish products in Scandinavia and the Baltic States.

## STRATEGIC OBJECTIVES

The strategy of PRFoods is as follows:

- To be among three leading brands in the fishing industry business segment;
- EBITDA margin at least 7%;
- To distribute up to 30% of the annual net profit as dividends.

## STRENGTHS

- Objective-driven organisational development;
- Leading brands in the Scandinavian and Baltic markets;
- We have had established products on the Finnish market for more than 30 years;
- Geographically suitable scope and diversified product portfolio ensure sustainable development;
- Solid financial status of the company.

## RISKS

- The high volatility of raw materials prices;
- Significant increase of the proportion of *Private label* products on the Finnish market;
- High dependence on the two large retail chains dominating the Finnish retail market;
- Risks related to biological assets in the fish business segment.

## FUTURE PLANS AND INTENTIONS

The objective of PRFoods is to increase production capacity and to boost sales volumes of fish products. The Group is actively involved in developing new products for expanding to new export markets. As a clear leader in its business area, the objective of PRFoods is to increase the Company's profitability and to re-focus on products with higher added value. As designing Company's own brand is in its early stage in Scandinavia and elsewhere in the world, the management expects the Company's growth period is yet to come.

Additional information about the Group's various risks and assessments and their possible impact on estimated future events is provided in Chapters "Financial risks" and "Management judgements and estimates" (Notes 3 and 4). In addition, it includes risk factors that are related to the price volatility of raw fish, impact of re-valuation of biological assets on the company's financial results, diseases that are putting live fish at risk, risks related to weather conditions, environmental risks, risks involved in trade restrictions, risks related to taxation and accounting, reputation risks and legislation risks as well as the political events that are influencing the whole world.

Legislative risks are related to various provisions and articles of the legislation of the business sector of fish industry, including strict regulations imposed on food safety, and laws, competition and anti-corruption rules targeted at water harvesting production and processing as well as other prescriptions not listed above that must be observed.

In drawing up future plans and intentions, the management of PRFoods is taking into account the information it is aware of at the time, based on available information and its best intentions. Actual results may differ significantly from plans because there are many different factors, variables, risks and insecurity which impact their realization.

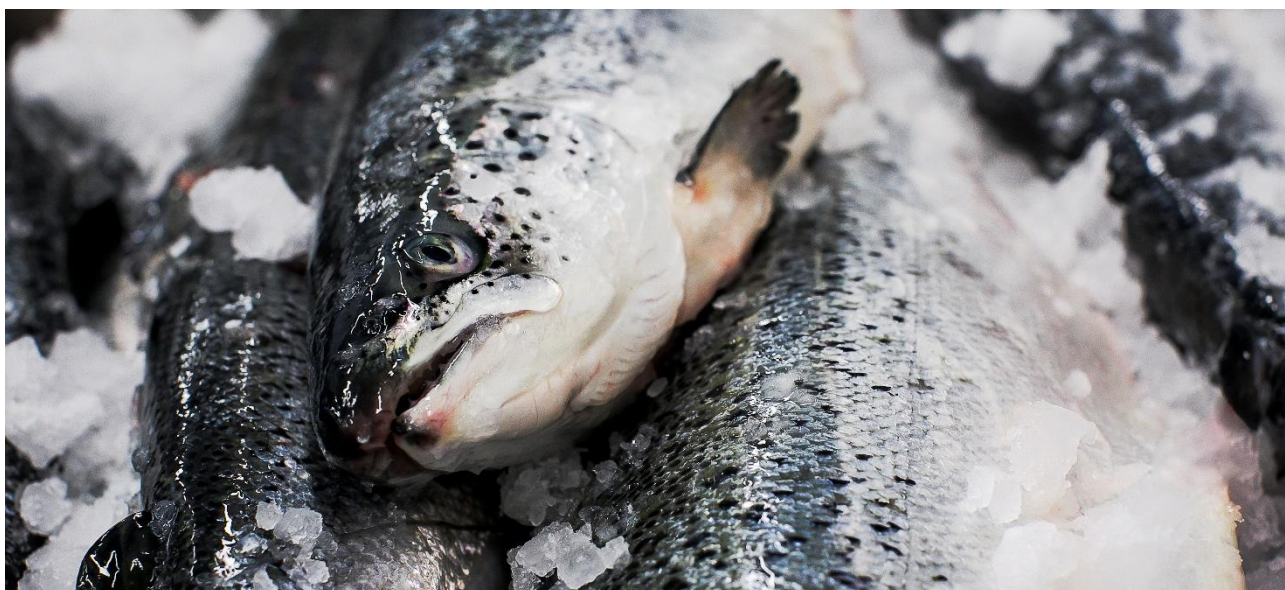
## THE GEOGRAPHY OF PRODUCTION AND SALES



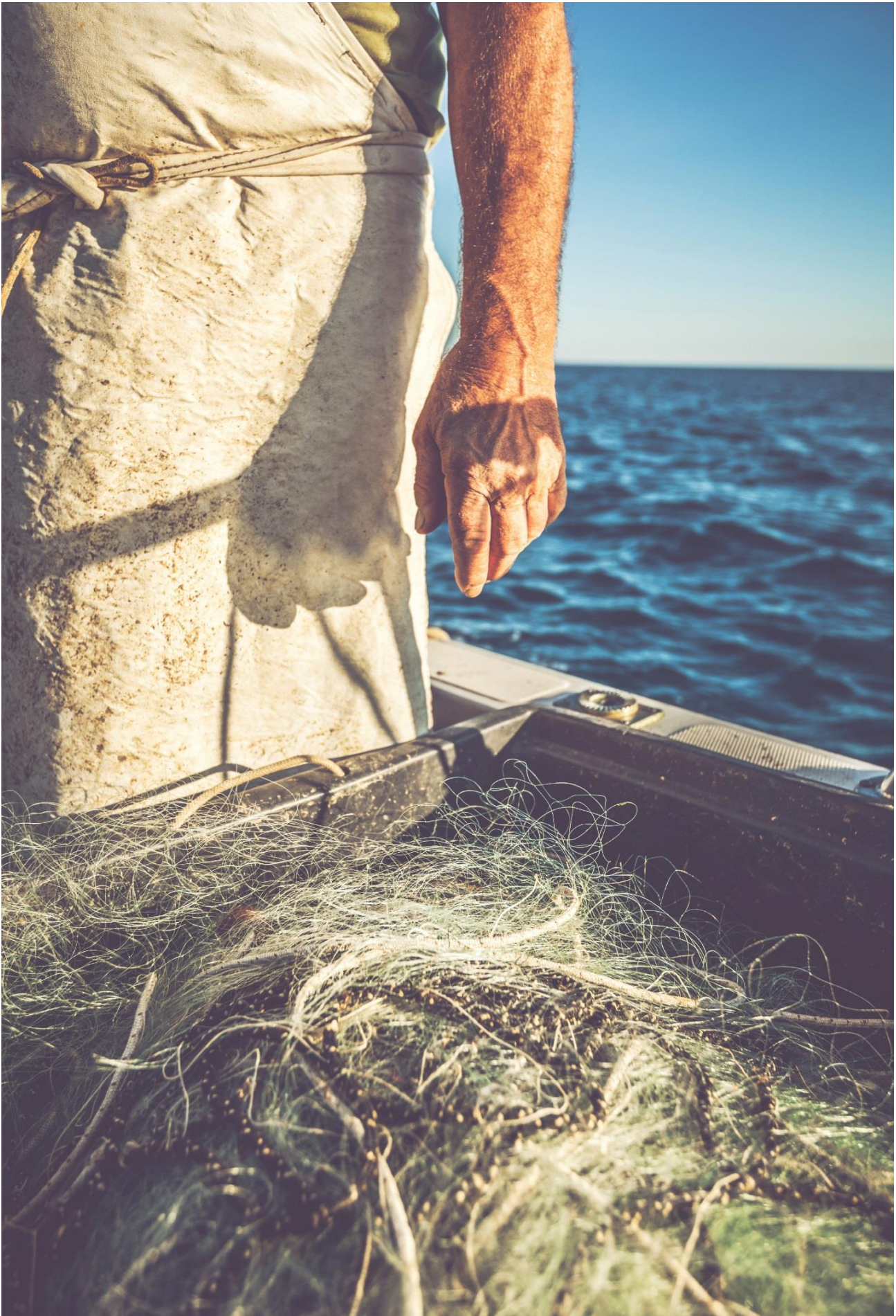
The group has also a 20% shareholding in AS Toidu- ja Fermentatsioonitehnoloogia Arenduskeskus (Competence Center of Food and Fermentation Technology).

The indisputable competitive advantage of the Group is its vertical integration – fish farming, production and sales. Trout farmed in the lakes of Sweden and in the archipelago in Turku area in Finland, as well as salmon imported from Norway, are processed in the modern production facilities of Heimon Kala OY in Renko, Finland and of Vettel OÜ on the island Saaremaa, Estonia. The Group's distribution network in Finland and Estonia enables to ensure that our customers receive fast and high quality deliveries. The Group is among the leaders of the fishing industry in the Finland retail market with its own trademarks and with private label products and also in the HoReCa sector.

Trademarks of the Finnish Group include "Heimon Gourmet" and "Saaristomeren". These are well known and appreciated fishbrands, which have been a part of Finnish everyday and festive dishes for more than 20 years. Other trademarks of the Group include „Gurmé” and „Polar Fish” that are sold in the Baltic States.









# Statement of the Chairman of the Management Board

2016 was successful for PRFoods. We exceeded our revenue prognosis by 2.4 million euros and profit before taxes and depreciation (EBITDA) increased by 28.7%, i.e. 0.6 million euros. The company achieved revenue of 47.4 million euros (Q4 sales 16.9 million euros), but faced very rapid increase in raw material prices well into Q4.

PRFoods increased its 2016 EBITDA to 2.6 million euros, up by 0.6 million euros year-on-year, thanks to fish farming operations, but operational EBITDA lagged due to increase in cost of goods sold.

PRFoods management did an excellent job in countering the increase in fish prices, trimmed company's cost base and actively worked on transferring price increases to customers. This resulted in posting Q4 0,7 million euros operational EBITDA, without one-off costs 1.1 million euros. In Q4 we used our own fish in processing, resulting in decrease (loss) in biomass by 1.1 million euros.

In year 2016, the company incurred larger one-off costs related to certain corporate activities, investments and brand relaunch to take place in 2017. We do not foresee such extraordinary one-off costs in 2017.

## Fish farming

The year 2016 was excellent for our fish farming operations. The season started much earlier in Finland and Sweden, as well as good climatic conditions that lasted throughout the active season for farming. We improved the quality of feeds and feeding technologies, which resulted higher growth in biomass. In the end of 2016 our fish biomass is 16.7 % higher on year-on-year basis, providing us majority of raw material needed for spring-summer season when access to third party raw material is usually restricted. Biomass at the end of 2016 was 1,418 tons and in fair value 7.6 million euros (2015: respectively 1,215 tons and 4.4 million euros in fair value). We estimate fish prices to stabilize at somewhat lower prices in 2017. Access to raw material, in particular farmed rainbow trout, remains critical and our own farms give company a unique advantage in the current markets.

## Fish processing

Fish processing struggled with increased raw material prices, affecting both volumes and prices. Same problem plagued all our competitors. PRFoods pulled out of several low-margin private label products, resulting in loss of sales. Retailers have also cancelled campaigns for fish due to higher prices. Pricing with retailers is usually agreed in advance and only in Q4 we witnessed an increase in retailer prices. In Q4 operational EBITDA from fish processing was 0.7 million euros (1.1 without one-offs) and 2016 operational EBITDA was 0.4 million euros. We foresee significant increase in operational EBITDA in 2017. More detailed forecasts will be released together with Q1 results.

Since majority of investments in fish processing have been already undertaken, we foresee only investments in upgrade of existing machinery to be made in 2017.

## Markets

Our main market is Finland, but we see rapid development of other markets including Baltics, Asia, Europe. We aim to achieve in long-term 40% of export from our total sales.



## Personnel

PRFoods has strengthened its IT and finance departments, and we have streamlined our operational staff thanks to investments. We employ 200 people, that is 17 less on year-on-year, and we aim to maintain competitive salary level across the firm.

## Financials

PRFoods has very solid balance sheet, very low level of debt and our cash balance increased to 4.4 million euros. This allows company to look actively at various expansion opportunities, both organic and through acquisitions.

PRFoods remains to be one of the undisputed leaders in our core markets and we strive to improve our position in terms of sales, quality and profitability.

I would like to thank all the staff of PRFoods for excellent job in 2016 and we are looking optimistically towards 2017.

We are grateful for the loyalty of our customers and promise to be a first-choice producer of high quality fish products.

Sincerely,  
**Indrek Kasela**



P R F O O D S

# Management Report

# Management Report

## OVERVIEW OF THE ECONOMIC ACTIVITIES



### KEY RATIOS

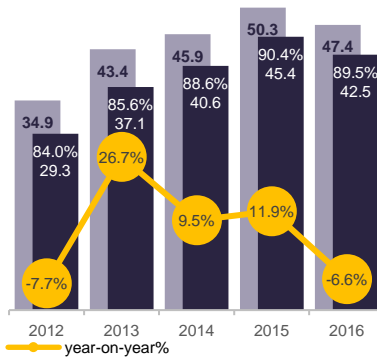
Profit & Loss, EUR mln	formula / comment	2016	2015	2014	2013	2012
Sales		47.4	50.3	45.9	43.4	34.9
Gross profit		4.0	6.8	5.3	4.2	6.4
EBITDA from operations	before one-offs and fair value adjustment of fish stock	0.8	2.9	0.4	0.3	2.9
EBITDA	profit (-loss) before interest, tax, depreciation and amortisation	2.6	2.0	0.5	1.3	1.0
EBIT	operating profit (-loss)	1.4	0.9	-0.6	0.2	0.0
EBT	Profit (-loss) before tax	1.1	1.1	-1.4	-0.8	-0.3
Net profit (-loss)		0.7	1.2	-1.5	-0.9	0.0
Gross margin	Gross profit / Net sales	8.5%	13.5%	11.5%	9.6%	18.2%
Operational EBITDA margin	EBITDA from operations/Net sales	1.6%	5.8%	0.8%	0.8%	8.2%
EBITDA margin	EBITDA / Net sales	5.5%	4.0%	1.1%	3.0%	3.0%
EBIT margin	EBIT / Net sales	2.9%	1.7%	-1.3%	0.4%	-0.1%
EBT margin	EBT / Net sales	2.4%	2.1%	-3.0%	-1.7%	-1.0%
Net margin	Net profit (-loss) / Net sales	1.5%	2.3%	-3.3%	-2.0%	0.1%
Operating expense ratio	Operating expenses / Net sales	10.1%	10.8%	13.4%	12.8%	15.3%
Balance Sheet, EUR mln	Formula	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Net debt	Short and Long term Loans and Borrowings - Cash	0.3	-0.6	-2.6	13.2	13.8
Equity		23.8	23.2	33.7	37.3	36.5
Working capital	Current Assets - Current Liabilities	12.4	11.4	22.6	9.9	11.9
Assets		35.1	29.5	40.4	63.8	63.2
Liquidity ratio	Current Assets / Current Liabilities	2.4	3.7	5.6	1.6	1.9
Equity ratio	Equity / Total Assets	67.9%	78.8%	83.3%	58.4%	57.7%
Gearing ratio	Net Debt / (Equity + Net Debt)	1.2%	-2.5%	-8.3%	26.1%	27.5%
Net debt-to-EBITDA	Net Debt / EBITDA from operations	0.4	-0.2	-7.0	38.0	4.8
ROE	Net profit (-loss) / Average Equity	3.0%	4.1%	-4.2%	-2.4%	0.1%
ROA	Net profit (-loss) / Average Assets	2.2%	3.4%	-2.9%	-1.4%	0.1%



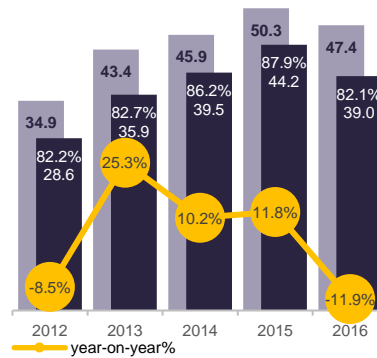
## REVENUE

The consolidated revenue for 2016 decreased by -5.7%, i.e. -2.8 million euros compared to the same period in 2015, reaching 47.4 million euros. The revenue from the Finnish market decreased -11.9%, i.e. -5.2 million euros.

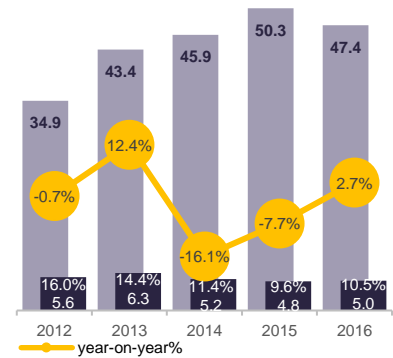
Share of export revenue mln EUR



Share of Finnish revenue mln EUR

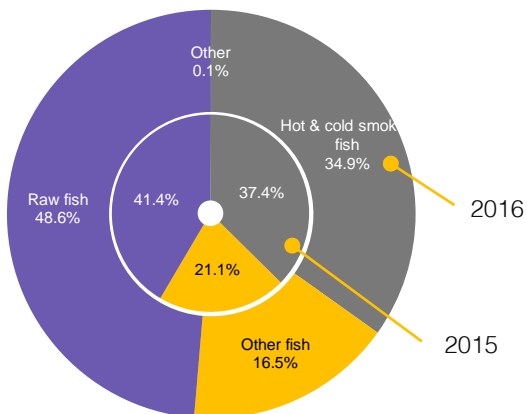


Share of Estonian revenue mln EUR

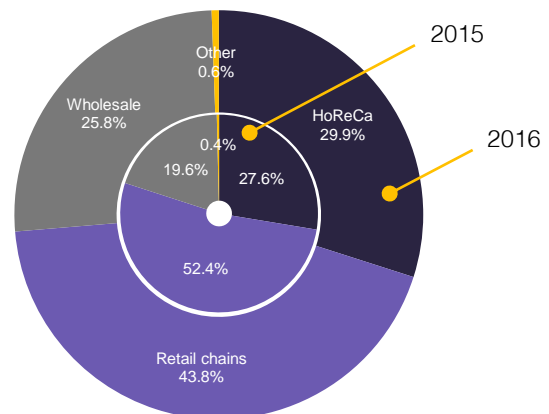


The proportion of Finnish revenue from AS PRFoods total revenue for 2016 accounted for 82.1%, decreasing by -5.8 percentage points as compared to the same period in 2015. The proportion of the revenue from the Estonian market grew by 0.9 percentage points, i.e. 0.1 million euros in comparison with the same period last year. Exports to other countries share grew by 4.9 percentage points. Growth came mostly from Latvia, by +150.1%, i.e. +1.3 million euros and other new markets. The increase in the Estonian and Latvian markets' revenue is mostly obtained via successful sales campaigns of fresh fish and fish fillets. New markets include sales to Canada in amount of 0.5 million euros and to Japan in amount of 0.7 million euros during the year 2016.

PRODUCT SEGMENTS



CLIENT SEGMENTS

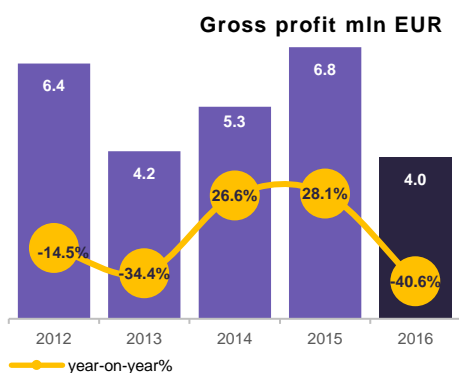


The largest increase in revenue came from the raw fish and fillets product group, which increased by 2.2 million euros in total i.e. 10.6%. The revenue from the smoked products group decreased by -2.3 million euros, i.e. -12.1%. The revenue from the other fish products group decreased by -2.8 million euros i.e. -26.2%.

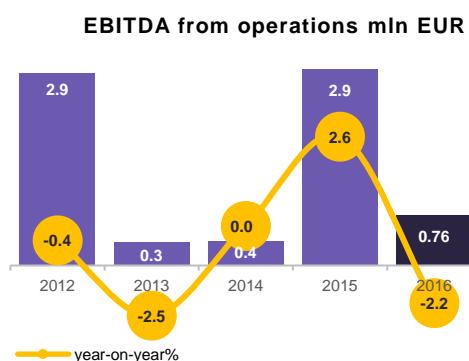
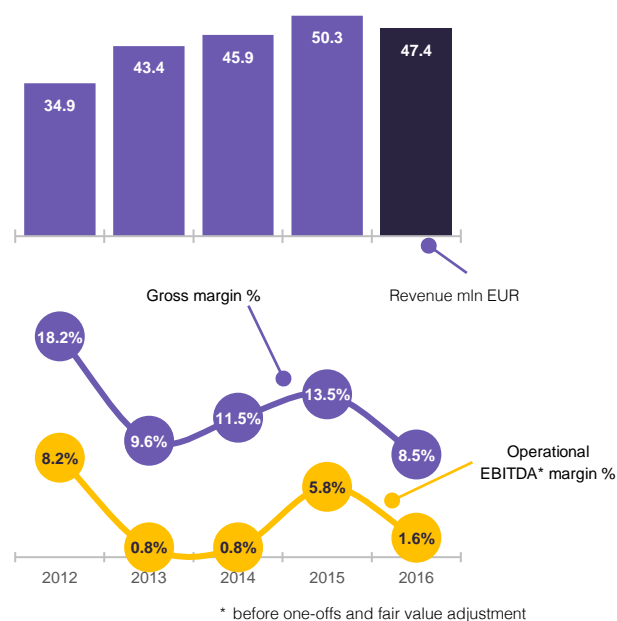
According to the client segments the revenue in the wholesale sector increased 2.3 million euros and 0.3 million euros in the HoReCa sector. The increase in the wholesale sector was +23.7% and +2.3% in the HoReCa sector. In retail sector the revenue decreased 5.6 million euros i.e. -21.2% due to the loss of two main products from the product portfolio.

## PROFITABILITY

The gross profit for 2016 amounted to 4.0 million euros (2015: 6.8 million euros). EBITDA from business operations before one-offs and fair value adjustment totalled 0.8 million euros, a decrease of 2.2 million euros year on year. EBITDA for the reporting period was 2.6 million euros which is 0.6 million euros higher than in the previous year.

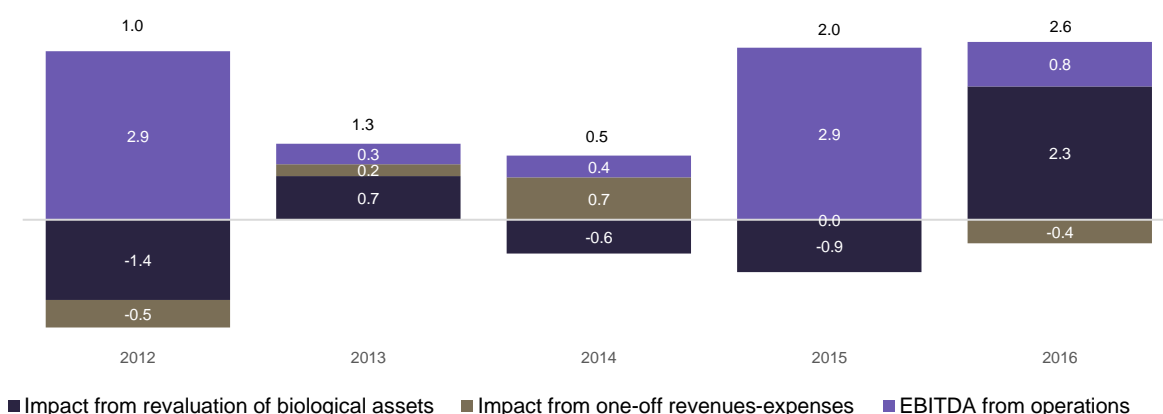


## Gross margin & operational EBITDA margin %



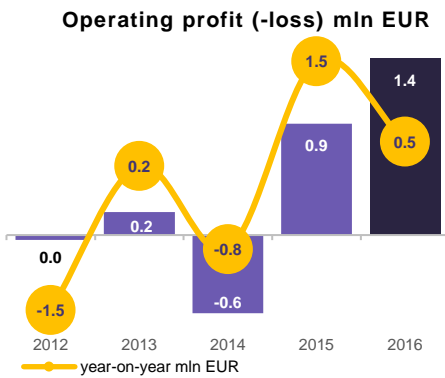
In year 2016, the company incurred larger one-off costs related to certain corporate activities, investments and brand relaunch to take place in 2017. We do not foresee such extraordinary one-off costs in 2017. Those costs influenced EBITDA, operational profit and net profit in amount of -0.4 million euros (2015: no one-off expenses). Without effect of one-offs EBITDA increased by 1.0 million euros.

## EBITDA (mln EUR)

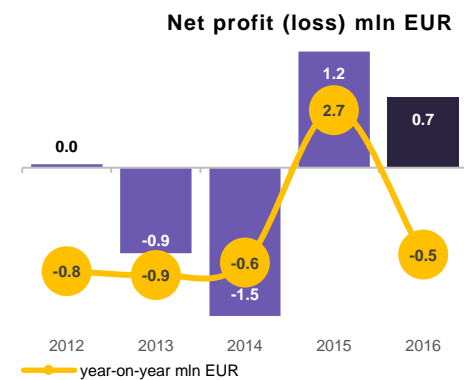
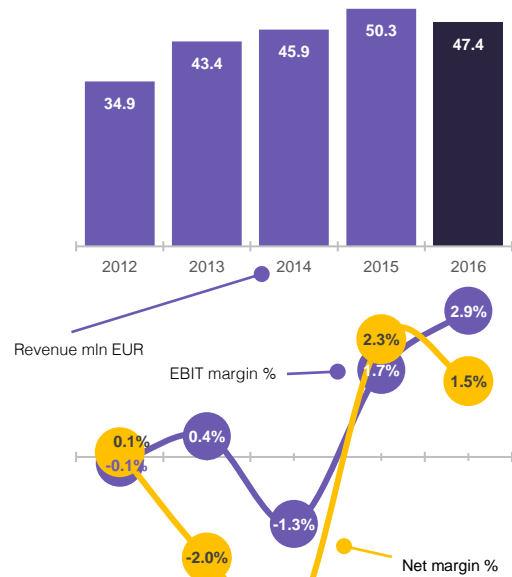


Operating profit in 2016 was 1.4 million euros (operating profit for 2015: 0.9 million euros). Net profit totalled 0.7 million euros (2015: net profit of 1.2 million euros). Operating profit improved 0.5 million euros (2015: improved by 1.5 million euros). Net profit decreased -0.5 million euros (2015: improved 2.7 million euros). Operating margin was 2.9% (2015: 1.7%) and net profit margin was 1.5% (2015: 2.3%).

Without the effect of one-off costs operating profit improved by 0.9 million euros and net profit decreased by 0.1 million euros.



### Operating profit (loss) & net profit (loss) mln



Truck with products from Saaremaa on the way to Finland

## CASH POSITION

As at the end of the reporting period, the Group's cash assets totalled 4.4 million euros and equity amounted to 23.8 million euros (67.9% of the balance sheet volume). Comparable indicators at the end of 2015 were 1.9 million euros and 23.2 million euros, respectively (78.8% of the balance sheet volume).

LIQUIDITY AND SOLVENCY RATIOS						
Ratio	Formula	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Liquidity ratio	Current Assets / Current Liabilities	2.4	3.7	5.6	1.6	1.9
Net debt-to-EBITDA	Net Debt/EBITDA from operations	0.4	-0.2	-7.0	38.0	4.8
Debt to total assets	Debt / Total Assets	0.3	0.2	0.2	0.4	0.4
Equity ratio	Equity / Total Assets	68%	79%	83%	58%	58%
Gearing ratio	Net Debt / (Equity + Net Debt)	1%	-3%	-8%	26%	28%

As at 31 December 2016, the Group's net debt constituted 0.3 million euros (31 December 2015: -0.6 million euros). The Company's solvency is continuously good and the financial risk is low. Financial gearing, i.e. net debt percentage from total capital was -1% (31 December 2015: -3%).

As of 31.12.2016 net debt to EBITDA ratio was 0.4 (31.12.2015: -0.2). Liquidity ratio showing short time paying capability as of 31.12.2016 was 2.4 (31.12.2015: 3.7). Share capital amounted to 68% of total assets (31.12.2015: 79%) and the working capital of the company was 12.4 million euros (31.12.2015: 11.4 million euros). The Group has been able to retain its strong financial position that ensures sustainability and helps adjust to complex market conditions more flexibly.



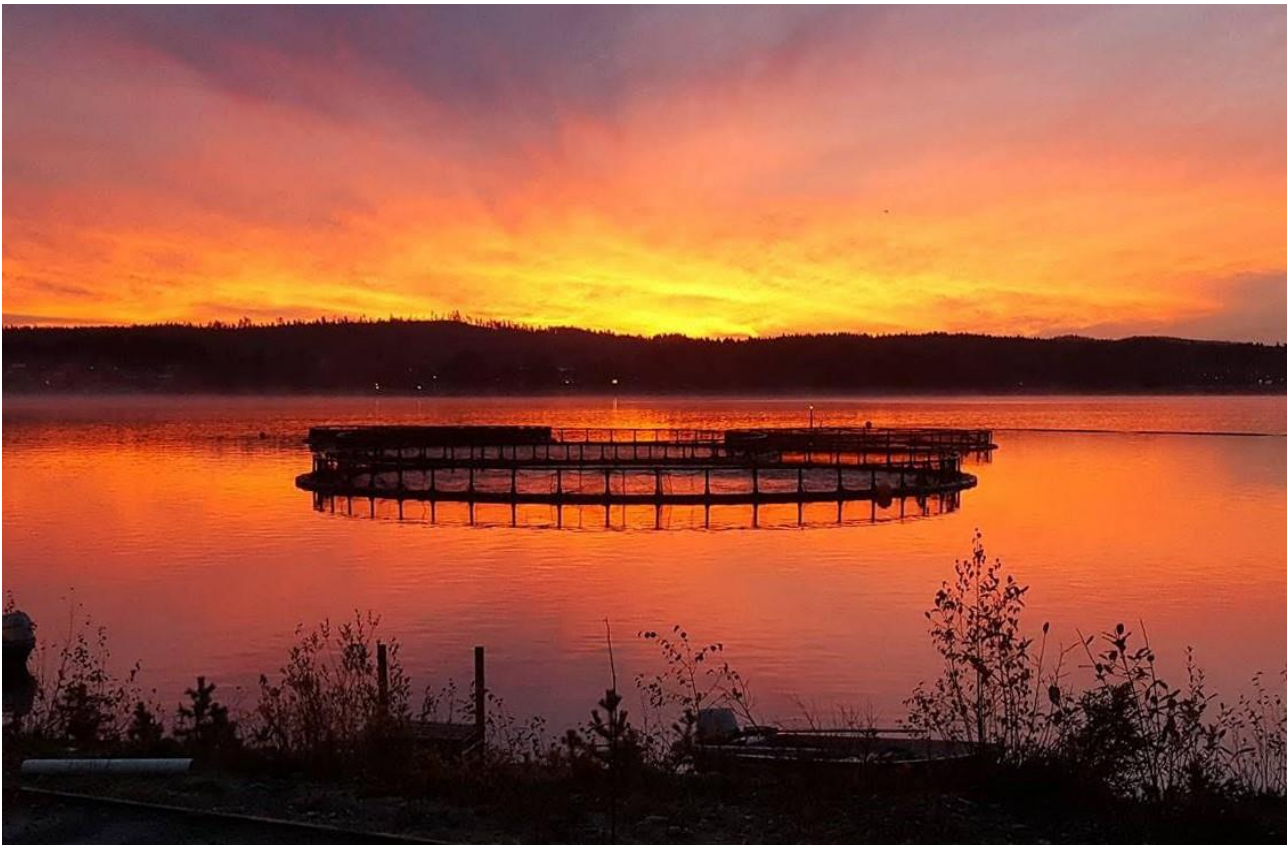


## FISH FARMING

The competitive advantage of the Group is its vertical integration – fish farming, production and sales. About 1/3 of the raw fish used in Group's production is harvested in company's own fish farms in the lakes of Sweden and in the archipelago in Turku area in Finland, ensuring that customers receive fast and high quality deliveries. The Group mainly harvests rainbow trout and, in a smaller degree, whitefish (*Coregonus lavaretus*).

Vertical integration means integration towards upstream or downstream of the technological chain which in turn enables the Company to reduce costs in implementing certain phases in fish harvesting. Vertical integration in the value chain of fish business means, in addition to fish harvesting, also having control especially over fish processing and marketing functions. In the fish business, one has to take into account that fish are livestock and quality assurance in technology requires a focus on the whole product lifecycle. In addition to cutting costs, vertical integration enables to reduce risks in fish farming, for instance due to poor quality of feed or base materials and to ensure the volume of raw material required for processing as well as price stability.

The rest 2/3 of the raw fish, prevalently salmon, is purchased from Finland and from Scandinavian countries, like Denmark, Norway, Sweden. To a smaller extent, the Company also purchases perch, pike perch, herring, vendance and Baltic herring as the increasingly preferred fish of the Finnish consumers. Approximately 80% of the price of the fish is determined by the price of raw fish and low-quality raw fish means higher production costs, therefore ensuring the high quality of raw fish is one of the key factors for success.



Överumans Fisk Ab  
Fish farm in Sweden

## THE MARKET PRICE OF FISH

Large producers establish their production plans for three years in advance since it is difficult and more expensive to use a shorter production cycle in fish farms dependent of market needs. Therefore, the supply of fish in the world market is extremely rigid in the short-term, while market demand is shifting depending on the season. This is causing an imbalance in the supply and demand of fish on the world market which is why the market price of raw fish is always fluctuating. Fish market is extremely dependent on availability and market price of raw fish. The Group compensates the impact of external environment and volatility of salmon price through the changes of Company's production and sales strategy.

The Group's main product is rainbow trout, which is cheaper than salmon. Consumers start to buy cheaper salmon species, including rainbow trout, when the market price of salmon increases. In addition, high quality fish which is produced in its own fish farming helps to mitigate the increase of market price of salmon and because of that it is critically important for the Group to have its own fish farming.

MARKET PRICE EUR/KG			Change		Change		Change
	31.12.2016	31.12.2015	31.12.16 / 31.12.15	31.12.2014	31.12.15 / 31.12.14	31.12.16 / 31.12.14	
Salmon	8.72	5.90	47.8%	4.80	22.9%	81.7%	
Rainbow trout	7.39	4.44	66.4%	5.39	-17.6%	37.1%	

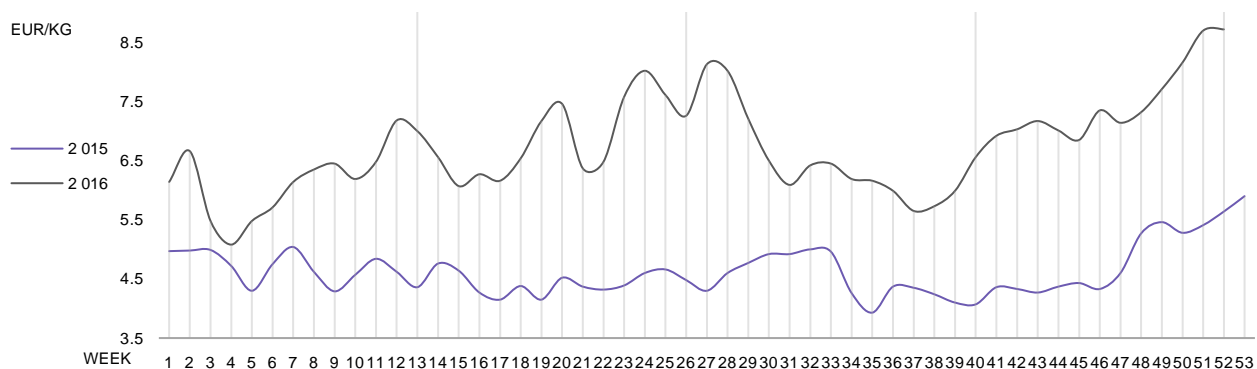
As at 31.12.2016, the market price of salmon and trout had risen compared to the price the year before by 47.8% and 66.4%, respectively. Compared to the respective prices as at 31.12.2014, the price of salmon has increased by 81.7% and the price of trout has increased by 37.1%.

AVERAGE MARKET PRICE 12 MONTHS EUR/KG			Change		Change		Change
	12m 2016	12m 2015	12m 16 / 12m 15	12m 2014	12m 15 / 12m 14	12m 16 / 12m 14	
Salmon	6.68	4.59	45.5%	4.85	-5.4%	37.7%	
Rainbow trout	5.73	4.42	29.6%	5.26	-16.0%	8.9%	

The weighted average market price of salmon has increased by 45.5% in the 12 months of 2016 compared to the same period from the previous year and the average market price of rainbow trout has increased by 29.6%.



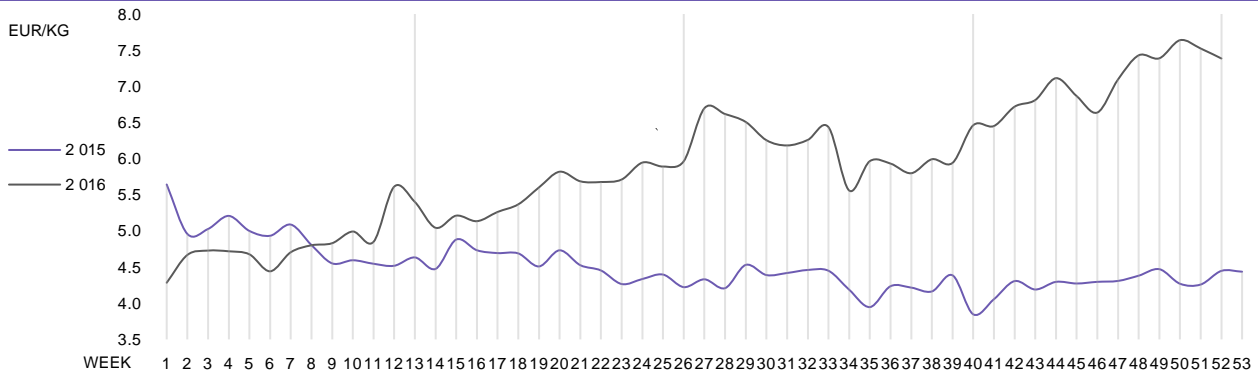
### EXPORT PRICE OF NORWEGIAN SALMON



Source: NASDAQ Salmon Index



#### EXPORT PRICE OF NORWEGIAN RAINBOW TROUT



Source: [akvafakta.no](http://akvafakta.no)

## BIOLOGICAL ASSETS

Biological assets include fish stock accounted in fish farms in live weight, including the following species:

- rainbow trout (*Oncorhynchus mykiss*)
- whitefish (*Coregonus lavaretus*)

The Group uses the Norwegian export statistics for evaluation of the fish stock of rainbow trout (Source: [akvafakta.no](http://akvafakta.no)). For evaluation of the fish stock of whitefish, the monthly market price survey of the Finnish Fish Farmers' Association is used. When the market price of raw fish increases or decreases, so does the value of fish harvested in fish farms of PRFoods, which has a positive or negative impact on the company's financial results. The high price of salmon and rainbow trout had a direct impact on the Company's financial results of the year 2016. The positive effect of the market price of rainbow trout on the Company's EBITDA and operating profit in the mentioned period was estimated to amount to 2.3 million euros. In April, at the time of preparing this report, the price of Norwegian trout has remained on very high level. The prices of Finnish and Danish markets are also significantly higher compared to same period last year.

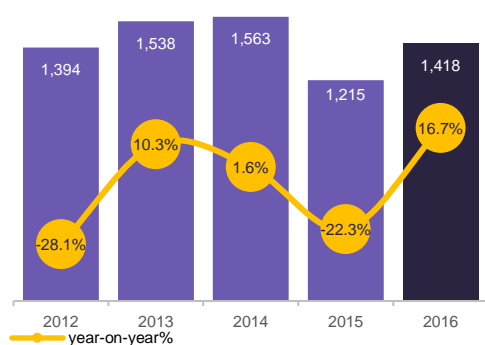
#### CHANGE IN BIOLOGICAL ASSETS IN TONNES

	2016	2015	2016 / 2015	%
Biomass at beginning of the period	1,215	1,563	-348	-22.2%
Biomass at end of the period	1,418	1,215	203	16.7%
Harvested (in live weight)	-2,045	-2,185	-140	-6.4%

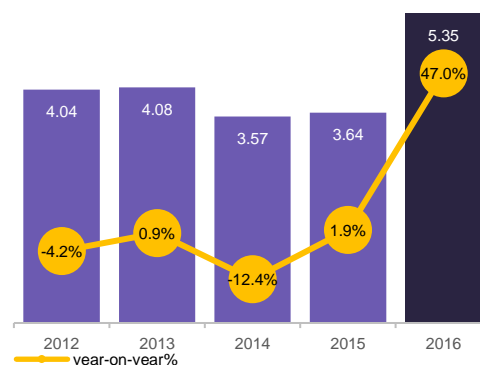
The amount of biological assets has grown by 203 tonnes, i.e. 16.7% compared to the same period in previous year and in monetary terms has increased by 3.16 million euros, i.e. +71.5%. This is caused by the higher market price of rainbow trout, which is 66.4% higher as at 31.12.2016 compared to the market price of 31.12.2015. The aggregate growth of biological assets was positive during the reporting period, amounting to 7.9 million euros (2015: 4.1 million euros). As at 31.12.2016, the fair value of biological assets was 7.6 million euros (31.12.2015: 4.4 million euros).

	2012	2013	2014	2015	2016
Biological assets (mln EUR)	5.6	6.3	5.6	4.4	7.6
Biomass volume in tons	1,394	1,538	1,563	1,215	1,418
Average price per kg (EUR)	4.04	4.08	3.57	3.64	5.35
Fair value adjustment on biological assets (mln EUR)	-1.36	+0,74	-0.57	-0.89	+2.26

**Biomass volume in tonnes**



**Biomass average price per kg (EUR)**

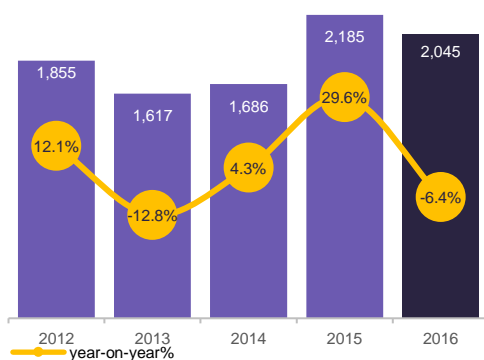


Fish is processed in production buildings that belong to Heimon Kala Oy and Vettel OÜ. The Group's own distribution network in Finland and Estonia enables us to ensure rapid and quality supplies to our customers. During the reporting period agricultural produce in the amount of 2,045 tonnes was harvested, which has decreased -6.4% compared to the same period in previous year. Produce in the amount of 2,185 tonnes was recorded at the same period in the previous year.

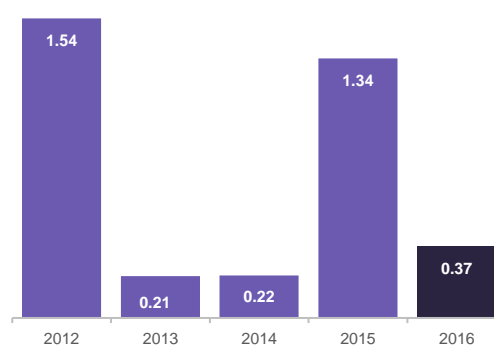
	2012	2013	2014	2015	2016
Revenue (mln EUR)	34.9	43.4	45.9	50.3	47.4
EBITDA from operations* (mln EUR)	2.9	0.3	0.4	2.9	0.8
Harvested volume (tons)	1,855	1,617	1,686	2,185	2,045
EBITDA / kg* (EUR)	1.54	0.21	0.22	1.34	0.37

\* before one-offs and fair value adjustment of fish stock

**Harvested volume in tonnes**



**EBITDA\* / kg EUR**





## SEASONALITY OF THE BUSINESS

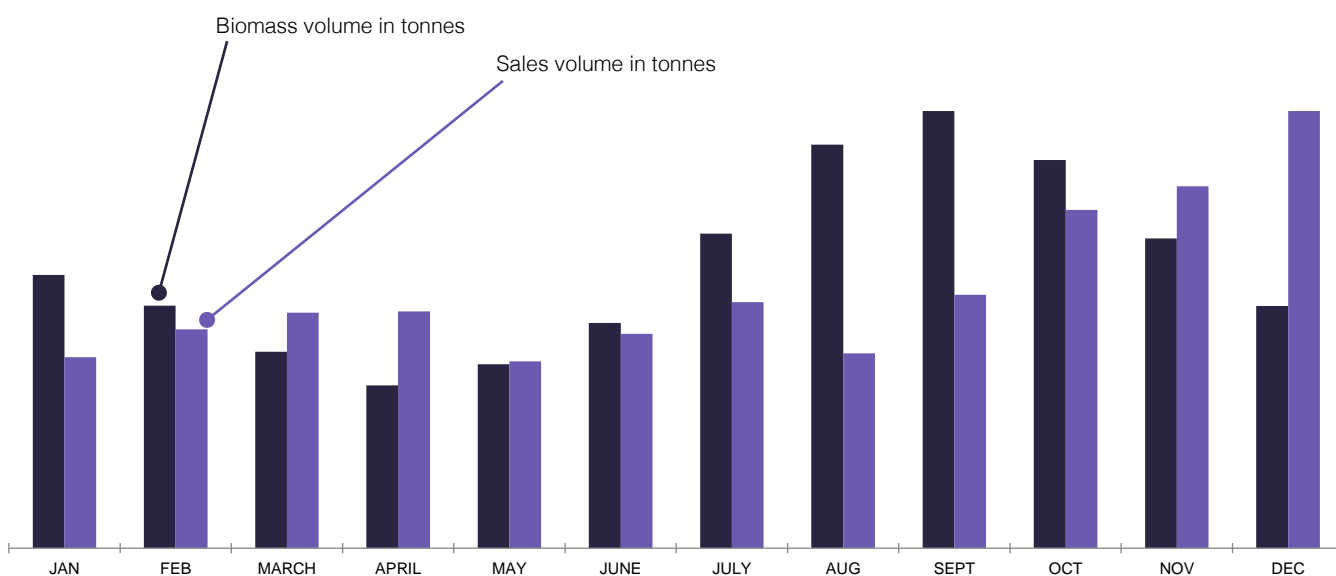
Due to the growth of biomass, the low season in fish farming lasts from November until May, while the high season lasts from June to September. Biomass growth is being influenced by the temperature in seas and lakes. Trout, for instance, grows faster from summer until autumn when the water is warmer. Between winter and spring, i.e. the cold period, fish practically stop growing. In fish processing facilities production volumes increase between September and Christmas and between March and May.

The long production cycle and the need to balance the volatility of market prices of raw materials require notably bigger investments in net working capital as compared to some other food industry businesses. In the high season of harvesting, there is a considerable need for working capital for purchasing feed and livestock. In addition, day-to-day production operations require sufficient stocks. For instance, in the autumn period when the supply of raw fish exceeds the market demand and the price level is the lowest during the year, companies consider purchasing large quantities of favourably priced raw materials (mainly trout) that are used in the ongoing production process. In the final third of the year, in the autumn-winter period when producers are selling fish harvested in their fish farms, the cash flow from operating activities is positive. In other words, notable fluctuation of net working capital is an entirely normal phenomenon in the fish business during the year.

In the period when cash flow from operations is negative, the Group pays special attention to cash conversion cycle by optimising the use of current assets. For balancing the cash circulation, the Company uses factoring and, if necessary, borrows in the form of overdraft. The volatility level of current assets depends on the specific financial year due to the specific features of seasonal business and is influenced by various factors including high dependence on weather conditions.

## SEASONALITY OF THE BUSINESS

The graph shows the seasonal character of business by month, reflecting the growth of biomass volume in fish farming and sales volume in production.

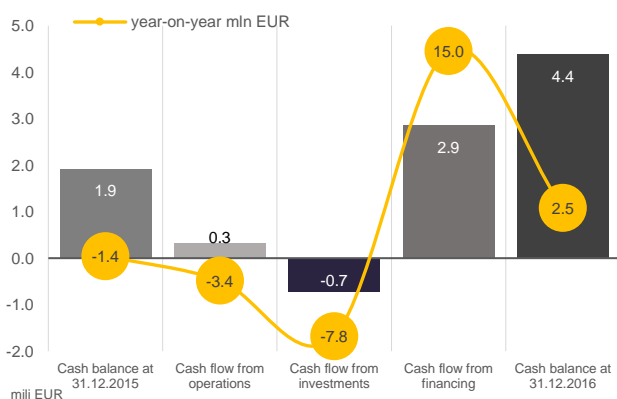


## CASH FLOWS

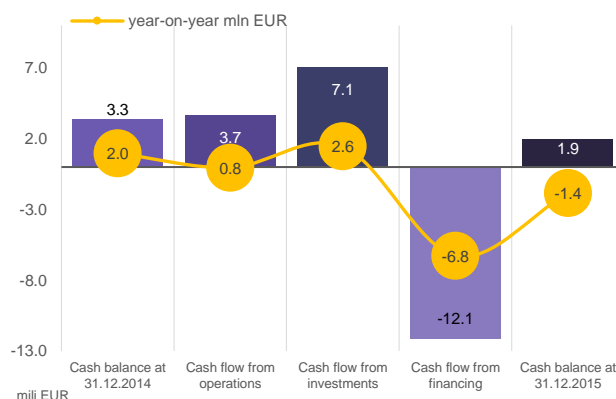
The change in financial assets of the Group in 2016 was +2.5 million euros and as at 31 December 2016, the Group bank accounts contained cash in the amount of 4.4 million euros (31.12.2015: 1.9 million euros).

Cash flow from operations in 2016 was positive with 0.3 million euros (2015: +3.7 million euros), cash flow from investments was negative with -0.8 million euros (2015: +7.1 million euros) and cash flow from financing operations was positive with +2.9 million euros (2015: -12.1 million euros).

**CHANGE IN CASH AND CASH EQUIVALENTS 2016**



**CHANGE IN CASH AND CASH EQUIVALENTS 2015**



Cash flow from operations was most influenced by the change in fair value of biological assets in the amount -3.2 million euros. Other changes in cash flow from operations include increase of receivables and prepayments related to operations, effect on cash flows in the amount of -0.5 million euros (2015: +0.5 million euros), decrease of inventories, effect on cash flows in the amount of +0.2 million euros (2015: +0.9 million euros) and increase of liabilities and prepayments related to operations, effect on cash flows in the amount of +2.0 million euros (2015: -1.0 million euros).

Cash flow from investing activities was -0.8 million euros (2015: +7.0 million euros). In the previous year, the instalment of 8.0 million euros from the sales transaction of ice cream and frozen goods business segments was received from investing activities. In the reporting period, monetary payments for fixed assets accounted for 0.7 million euros (2015: 1.0 million euros). During the financial year, fixed assets were acquired under financial lease terms in the total amount of 0.3 million euros (2015: 1.0 million euros).

Cash flow from financing activities was +2.9 million euros (2015: -12.1 million euros). Cash flow was mainly influenced by transfer of overdraft and group account to fish group holding company and taking it into use in the amount of 3.4 million euros. During the reporting period, repayments of the principal of a financial lease were in total 0.3 million euros (2015: 0.4 million euros). In 2015 the biggest negative cash flow was generated by disbursements to shareholders in connection with the reduction of share capital in the amount of -11.6 million euros. In the framework of own share buyback programme, the amount of 0.1 million euros (2015: 0.2 million euros) was disbursed.

## FISH PRODUCTS

We are determined and passionate about what we do. It is our objective to serve our customers through quality and delicious products, offering only the best, most innovative and healthiest choice of food. Being close to consumers, we understand their needs and, by constantly developing our product range, focus on offering products of higher added value.

Overview of our product portfolio at the website of Heimon Kala Oy: [www.heimonkala.fi](http://www.heimonkala.fi)

Fish and fish products have traditionally been an important part of the diet of Finns. The annual consumption of fish and fish products in Finland is approximately 18 kg per capita. Finnish consumers are generally loyal to established brands and tastes. The Finnish retail market is dominated by two large retail chains, which combined account for nearly 80% of the retail market. The Group companies engaged in fish production have been long-term reliable business partners to both of these retail chains. The high concentration of the retail market is a significant barrier for new entrants to the market. In addition, the Group has proven itself as a reliable partner for Finnish retail chains in producing Private label products, which accounts for a significant portion of the production volume.

The Group offers fresh fish and various fish products in order to respond to customer demands in terms of taste, convenience and purchasing power.

### The most popular products are, among others:

- Hot smoked fish (whitefish/*Coregonus lavaretus*, rainbow trout, mackerel and salmon);
- Cold smoked fish (rainbow trout, salmon, whitefish/*Coregonus lavaretus*);
- Low-salt fish (rainbow trout, salmon, whitefish /*Coregonus lavaretus*).



### In addition, the product range includes:

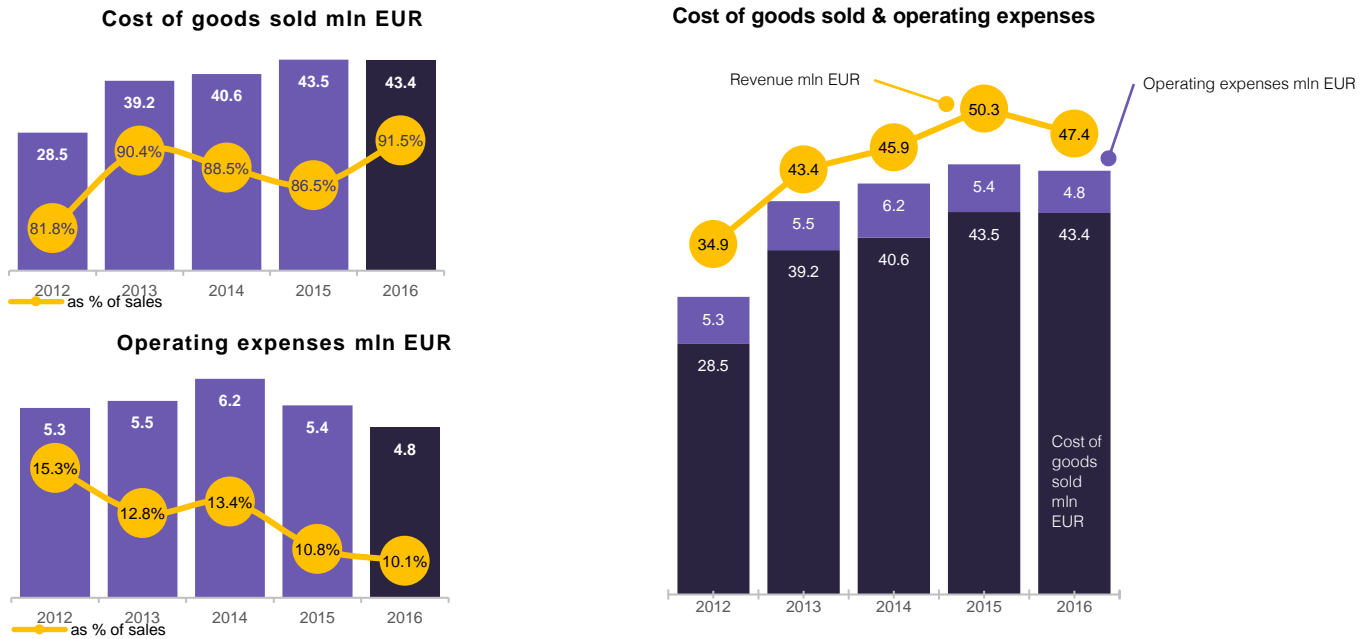
- Fried fish (Baltic herring fillet, salmon balls, fried fish fillets and rainbow trout fillets);
- Grilled fish (salmon);
- Salted fish (herring, Baltic herring);
- Fresh fish (unpacked or in vacuum package);
- Fish roe (rainbow trout, salmon, whitefish /*Coregonus lavaretus*, sturgeon, whitefish/*Coregonus albula*);
- Ready-made meals (fishballs);
- Frozen products (fillet sections, fillet cubes).



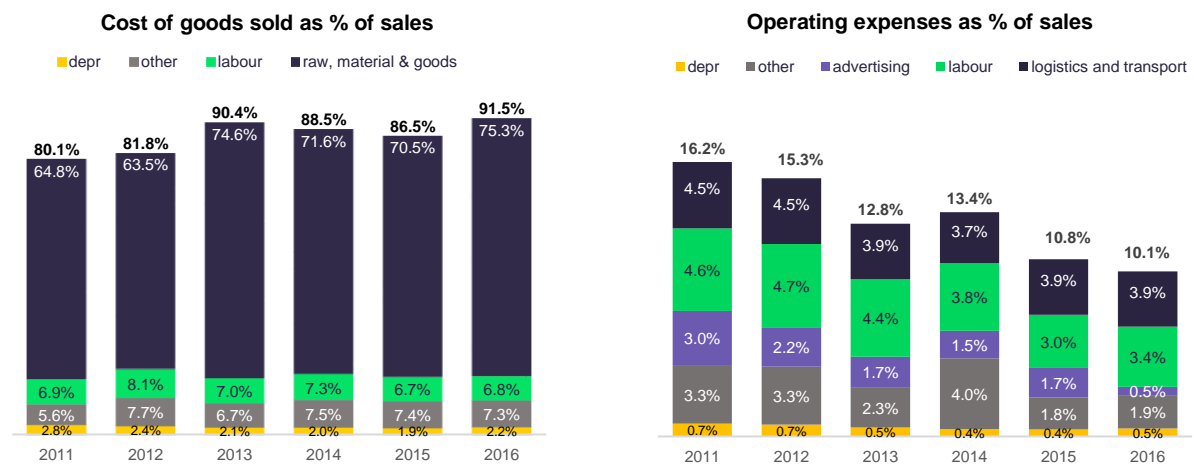
## COST ANALYSIS

In 2016, sales revenue decreased by 2.8 million euros, i.e. -5.7%. At the same time, cost of goods sold decreased by 0.1 million euros, i.e. -0.2% and its percentage from the revenue increased 5.0 percentage points in the 2016 compared to the same time in 2015. The increased percentage of cost of goods from the revenue is caused by the higher market price of raw fish. The average market price of salmon grew by 45.5% and the average market price of trout by 29.6% in the 2016 compared to the same period in 2015. As the price of raw material has been very volatile this year, the Company is focused on abandoning low margin product groups.

During 2016, the operating costs decreased by -0.6 million euros, altogether -11.6%. The operating expense ratio decreased during 2016 by -0.7 percentage points compared to the previous year.



In the interest of overview, the structure of costs is presented over five years as percentage to revenue, i.e. the base (100%) is the revenue of the financial period.



At the time when revenue decreased 5.7% in a year, sales costs on raw material and materials remained on the same level as a year before. In monetary value, the hypothetical positive effect on gross profit from slower growth of raw material costs would have totalled 2.4 million euros if the gross profit would have remained on same level as the year before. In absolute value, costs on raw materials and materials decreased by a total of 0.1 million euros from the period a year ago

(2015: +2.6 million euros). Of costs of goods sold, the majority (over 80%) is costs on raw material (raw fish). The rest of the costs is mainly packaging and fish feed costs. Salary cost of production workers and fish farm personnel accounted for 6.8% of revenue, increasing by 0.1 percentage points year on year, while decreasing by 0.2 million euros. Group's total payroll expenses formed 10.2% of revenue (2015: 9.7%).

The share of costs of other goods sold in revenue decreased by 0.1 percentage points compared to year before, totalling 7.3% of revenue (2015: 7.4%), decreasing by a total of 0.1% or by 0.3 million euros. The composition of other costs of goods sold includes costs on heating, electricity, rent and utility costs as well as auxiliary costs related to fish farming and production. Depreciation costs of fixed assets increased marginally, and were up by 0.07 million euros (2015: +0.03 million euros).

## BALANCE SHEET ANALYSIS

The consolidated total assets of AS PRFoods as at 31.12.2016 was 35.1 million euros, having increased by 5.6 million euros, i.e.19.0%, within a year. The company's current assets as at 31.12.2016 amounted to 21.4 million euros and the balance of cash and bank accounts was 4.4 million euros.

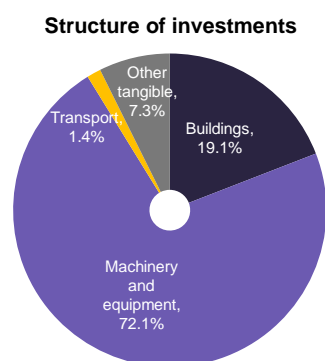
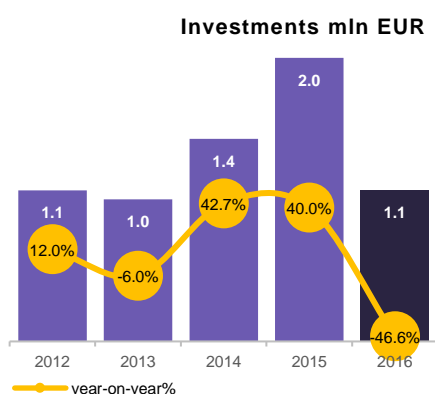
Inventories have decreased by 0.2 million euros year-on-year due to the decision that purchasing of raw fish in the same volume was not reasonable because of the changed market situation.

Biological assets increased by 3.2 million euros, i.e. 71.5% compared to the same period in 2015. The reason is that the market price which was effective as of 31.12.2016 was 66.4% higher than as of 31.12.2015. At the same time biomass volume in tonnes increased by 203 tonnes, i.e. 16.7%.

Accounts payables and prepayments as of 31.12.2016 amounted to 5.1 million euros (31.12.2015: 3.8 million euros). In September, group account and overdraft was moved from PRFoods AS to subsidiaries, where the overdraft limit was taken into use in amount of 3.4 million euros. The equity of PRFoods as at 31.12.2016 amounted to 23.8 (31.12.2015: 23.2) million euro.

## INVESTMENTS

AS PRFoods' investments into material and immaterial assets during the reporting period amounted to 1.1 million euros (2015: 2.0 million euros), including investments in production machines amounted to 0.7 million euros and in enlargements of facilities amounted to 0.3 million euros. Under the financial lease terms plant equipment purchases were made in the amount of 0.3 million during the financial year of 2016 (2015: 1.0 million euros).



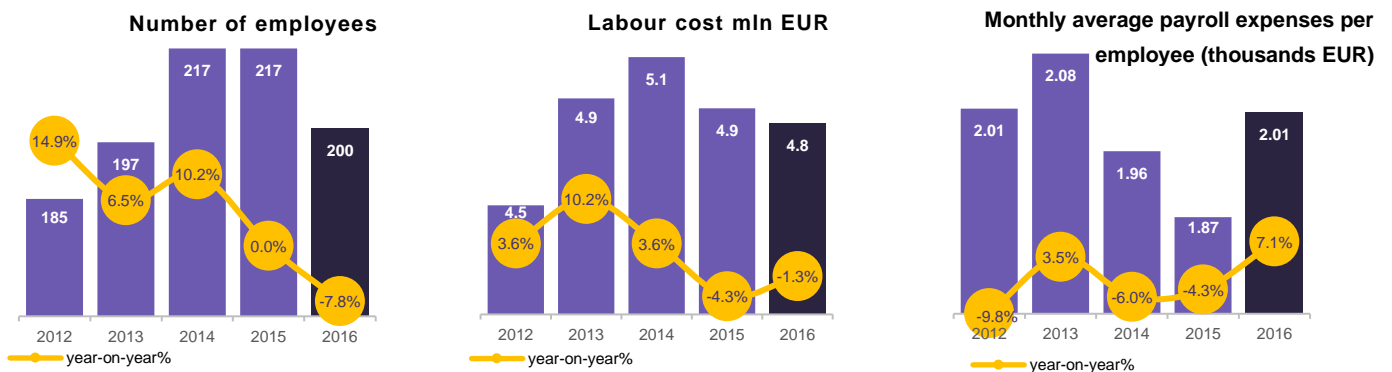


## TEAM

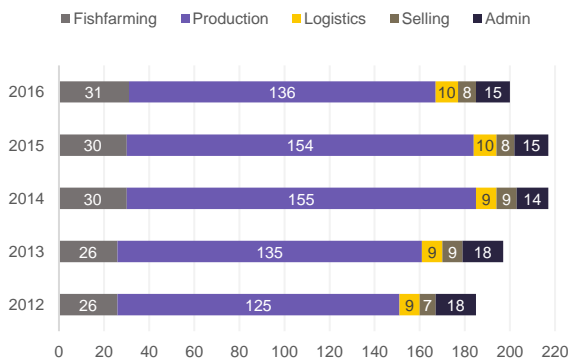
Fishing industry is much more than just work, it's a lifestyle. Our team is dedicated and passionate about what it does. Diversity of the living environment and growing mobility enables us to increasingly choose our place of residence and work. Thanks to the Scandinavian agricultural policy and purposeful and environmentally conscious use of natural resources, rural enterprise is viable and sustainable. We are competitive in the joint European economic area, we are able to feed the local population with our healthy domestic food and be successful in foreign markets. For us, every employee is important.

Fishing industry – it is much more than just work, it's a lifestyle. For us, every employee is important.

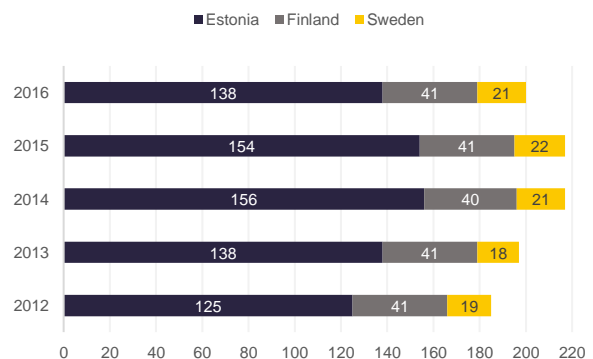
The average number of employees during 2016 was 200. Compared to the same period of 2015, the average number of employees decreased by 17, i.e. -7.8%. The labour costs in production during 2016 were 3.2 million euros which decreased by -0.2 million euros, i.e. -4.7% compared to previous year. The labour costs of supportive personnel were 1.6 million euros, increasing by 6.5% compared to 2015.



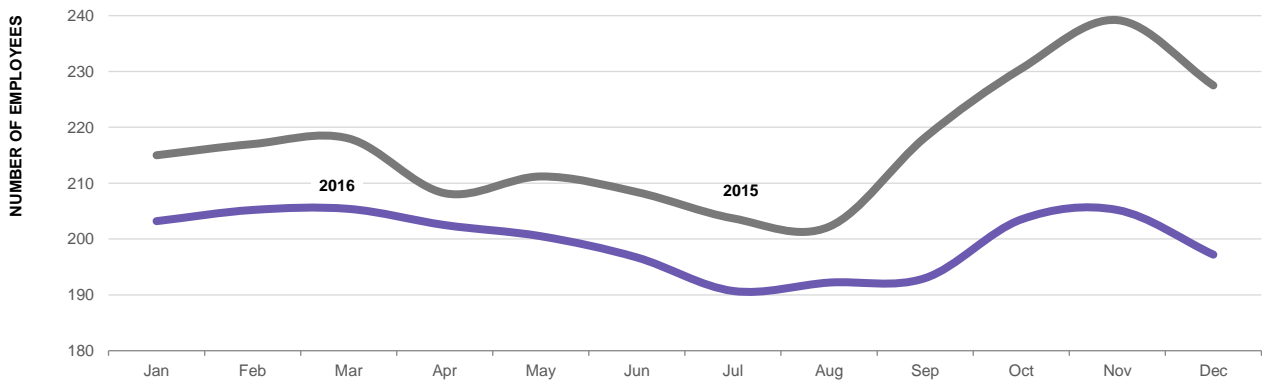
### Employees according to area of activity



### Employees by country



The labour need of the Group varies according to month as follows:



The graph shows the seasonal character of business operations. The labour need usually grows from August until Christmas in production facilities due to the increased production volume and the Group uses additional seasonal employees. In July 2015, a fillet line was installed in the production plant of OÜ Vettel and premises were repaired. In connection with the installation of the production line, the workforce need in this company in this period was lower. Due to continuous investments into production equipment, the group uses less personnel compared to previous years and is able to pay more competitive salaries.



Brit hatchery in Hölle, Sweden

## ENVIRONMENTAL RESPONSIBILITY

The Group owns 3 fish farms in Sweden and 6 fish farms in Finland, as well as two fish production facilities in Saaremaa in Estonia and in Renko in Finland. These facilities have an impact on the environment. As a company that operates sustainably we are aware of our global responsibility for natural resources and preservation of environment, which is why we attempt to keep the environmental impact of our activities at a minimum level and further reduce our ecological footprint by employing as cost-efficient resources as possible.

According to the Environmental Impact Assessment and Environmental Management System Act, fishing industry is an activity with a significant environmental impact. A possible impact of fish farms on nature is related to the emission of wastewater generated in farms and pollutants contained therein (mainly nitrogen and phosphorus) into seawater and lake water and, as a result, deterioration of water quality. Deterioration of water quality in turn may damage habitats or the living environment of birds and animals. Concentration and distribution of pollutants depends on the production technology that is used, on the quantity of fish feed and on sea currents, wind directions and other environmental factors.

Developing fishing industry requires a water abstraction permit as an operating permit that is issued for a period of 7 to 10 years. We are actively reducing our environmental impact under the strict supervision of environmental authorities. We ensure observance of all necessary measures for maximum reduction of the negative environmental impact in all main stages of fish production and processing in our sites. In addition, we contribute by deploying ecological technologies in our fish farms and production facilities. In our investments we observe the principles of the corresponding BAT (Best Available Technic) method.

In 2016, investments in the equipment of Finnish and Swedish fish farms totalled 0.3 million euros. In 2015, we invested in the wastewater treatment plant of the slaughterhouse of our fish farm in Finland because it had problems with nitrogen. After increasing the capacity of the treatment plant, the cleaning efficiency of all emissions is 96-100%. In connection with an export project of fish roe to Japan we needed more fresh water for processing the fish roe that is now produced with the reverse osmosis method from seawater in order to reduce the burden on the local borewell.

As an international fish producer, the Group continues to reduce the influence of its activities on the environment also in 2017.



## SOCIAL RESPONSIBILITY

We are responsible for our decisions and activities that influence our employees and, through them, local communities, cooperation partners, environment and on the society at large. As a company that harvests and produces fish, the sea is not only the main lifeline of our business, but also plays an important part in promoting cultural quality of life. In order to share and give back to the society, we sponsor yachting regattas of tall ships. We support, as much as possible, the continued development of Estonia as a yachting and maritime nation and the restoration of seagoing traditions that have developed impressively even in spite of the 50-year pause. Being one of the sponsors of regattas is important for us, because it is linked to both Estonia and Finland - our two main markets - both of which have long seagoing traditions. In 2015 and 2016 we sponsored Moonsund Regatta and Helsinki-Tallinn Race. In the route of Moonsund Regatta that included Saaremaa, a very important community for us, we raced ourselves as part of the amateur team of Yacht Reval Café Elisa Sailing Team. Helsinki-Tallinn Race is Estonia's and Finland's largest regatta of tall ships with nighttime yachting.



Moonsund Regatta

Since ice hockey is definitely the most popular sports in Finland, supporting the home team is a matter of pride for local enterprises. Heimon Kala Oy continued its long-term cooperation with the Hämeenlinna ice hockey team and the Hämeenlinna ice hockey arena. In Finland the Heimon Kala production facility has its own team and organises friendly matches with cooperation partners.

We support and contribute to organising sports and cultural events in Finland, Estonia and Sweden, the countries where Group companies operate. PRFoods values highly the cultural life and events in the neighbourhood of its employees and continues the contribution also in the future.



Exhibition game in Hämeenlinna ice arena

## SHAREHOLDER INFORMATION

### General meeting of shareholders

Annual general meeting of shareholders of AS PRFoods will be held on 30 May 2017 starting at 10:00 at the conference room "Arcturus" of hotel Forum Nordic Hotels (address: Viru väljak 3, Tallinn, Estonia). As part of our policy of transparent activities, we will broadcast the general meeting of shareholders online. The meeting will be chaired by the Chairman of the Management Board of AS PRFoods Indrek Kasela who will also distribute information about the issues on the agenda of the general meeting of shareholders. For technical reasons, the participants in the online broadcast cannot execute their shareholders' rights (voting). The online broadcast will be recorded and published at the Company's website [www.prfoods.ee](http://www.prfoods.ee).

### Consolidated financial results will be published in year 2017 as follows:

week 15	Turnover of 1 <sup>st</sup> quarter and 3 months for 2017
week 20	1 <sup>st</sup> quarter and 3 months unaudited results for 2017
week 28	Turnover of 2 <sup>nd</sup> quarter and 6 months for 2017
week 33	2 <sup>nd</sup> quarter and 6 months unaudited results for 2017
week 41	Turnover of 3 <sup>rd</sup> quarter and 9 months for 2017
week 46	3 <sup>rd</sup> quarter and 9 months unaudited results for 2017

All notices are published in Estonian and English and, after they are made available in the information system of the stock exchange, will be made available also on the Company's website [www.prfoods.ee](http://www.prfoods.ee). To subscribe to the stock exchange information published by AS PRFoods, subscribe to an e-mail address by filling out the form on the Company's website.

## MANAGEMENT AND SUPERVISORY BOARD

The Management Board of AS PRFoods is comprised of one member. Indrek Kasela serves as the sole member of Management Board since 02.02.2015 pursuant to the Supervisory Board's decision. The Management Board of the company is independent in its day-to-day management of the business, protects the best interests of all shareholders and thereby ensures the company's sustainable development in accordance with set objectives and strategy. The Management Board of the company is also responsible for the functioning of internal control and risk management processes in the company.

The Supervisory Board of AS PRFoods elects Management Board members for a three-year term. The Management Board must be comprised of one to four members pursuant to the articles of association of the company.

**Indrek Kasela** (born 1971), who holds LL.M (master of laws) degree from New York University (1996), BA degree in law from the University of Tartu (1994) and serves as a member of Supervisory Board of several group entities, such as Saaremere Kala AS and Vettel OÜ. He serves as Supervisory Board member of AS Toode, ELKE Grupi AS, EPhaG AS, Salva Kindlustuse AS, AS Ridge Capital, AS Premia Tallinna Külmoone, Ekspress Grupi AS, Elering AS, Kevelt AS, Tulundusühistu Tuleva and a Management Board member of OÜ Transtech Service, OÜ Fine, Wood and Company OÜ, Lindermann, Birnbaum & Kasela OÜ, Managetrade OÜ, Noblessneri Jahtklubi OÜ and Gridio OÜ as well as board member of several companies and NGOs domiciled in the Baltic States and Russian Federation.





The Supervisory Board of AS PRFoods is currently comprised of six members. The Supervisory Board is chaired by the Chairman of the Supervisory Board **Lauri Kustaa Äimä**, members of the Supervisory Board are **Aavo Kokk**, **Harvey Sawikin**, **Vesa Jaakko Karo**, **Arko Kadajane** and **Kuldar Leis**.

The highest governing body of a public limited company is the General Meeting of shareholders. According to law, the General Meetings of shareholders are either ordinary or extraordinary.

Pursuant to law, a Supervisory Board of a public limited company is a supervisory body responsible for planning the activities of a company, organising its management and supervising the activities of Management Board. According to the Articles of Association of AS PRFoods, the Supervisory Board has three to seven members elected by the General Meeting of shareholders for the term of five years.

## PROFILES OF MEMBERS OF THE SUPERVISORY BOARD AS AT THE DATE OF PREPARATION OF THIS REPORT

**Lauri Kustaa Äimä** (born 1971) holds a Master's degree in Economics from the University of Helsinki. He has been a member of the Supervisory Board of the company since its foundation. Lauri Kustaa Äimä is the managing director and founding shareholder of Kaima Capital Oy. He serves as a board member of AS Tallink Group, Salva Kindlustuse AS, AS Baltika and Managetrad OÜ as well as the Lithuanian companies AB Baltic Mill, UAB Malsena Plius and BAN Insurance, JSC Rigas Dzirnavnieks in Latvia, in addition to several investment companies and funds domiciled in Finland, England, Netherlands, Slovenia and Luxembourg.

**Aavo Kokk** (born 1964) graduated from Tartu University in 1990, having specialized in journalism, and Stockholm University in 1992, having specialized in banking and finance and has been a member of the Supervisory Board of the company since May 2009. Mr Aavo Kokk is currently the manager and partner of the investment company Catella Corporate Finance (Estonia) and the member of the Supervisory Board of AS Audentes, Ekspress Grupp AS, AS Lemeks, WWH aktsiaselts and Eesti Kunsti Toetusfond SA as well as a member of the Management Board OÜ Synd&Katts and Raldon Kinnisvarahalduse OÜ.

**Harvey Sawikin** (born 1960) holds degrees from the Columbia University and Harvard Law School and has been a member of the Supervisory Board of the company since May 2009. Harvey Sawikin is currently a lead manager of Firebird Fund, Firebird New Russia Fund, Firebird Mongolia GP LLC, Firebird Republics Fund and Firebird Aurora Fund. He is a member of the New York State Bar.

**Vesa Jaakko Karo** (born 1962) graduated from the Helsinki School of Economics in 1986 with M.Sc. in finance and international marketing and received a licentiate (Econ) degree in economics in 1996. He has been a member of the Supervisory Board of the company since August 2009. Currently he is a member of Supervisory Board of Aurejarvi Rahastoyhtio Oy (former Cumulant Capital Oy) and KJK Capital Oy.

**Arko Kadajane** (born 1981) graduated from the Estonian Business School, specializing in international business management and he is a member of the Supervisory Board of the company since May 2012. Currently he is the portfolio manager of Ambient Sound Investments OÜ, a member of the Supervisory Board of AS Saho and a member of the Management Board of OÜ Juniper and OÜ Portfellihaldus.

**Kuldar Leis** (born 1968) graduated from the University of Tartu in 1993, specializing in credit and finance. He also holds a diploma in dairy technology. Kuldar Leis was the Chairman of the Management Board of the company since its foundation until 15 May 2013. Since 29 May 2013 he is a member of the Supervisory Board of PRFoods. He is currently a member of Supervisory Board of AS Linda Nektar and Food and Competence Center of Food and Fermentation Technology. He is also a member of supervisory board of Association of the Estonian Food Industry and member of the Management Board of Rododendron OÜ, Solarhouse OÜ, MTÜ Põlva Tenniseklubi and Passive House Association of Estonia.

**As at 31.12.2016, the members of Management and Supervisory Board and persons/companies related to them hold the shares in the company as indicated below:**

Shareholder	31.12.2016 number of shares	ownership interest
Chairman of the Supervisory Board until 02.02.2015, Member of the Management Board from 02.02.2015 – Indrek Kasela	1,041,823	2.69%
Member of the Supervisory Board – Kuldar Leis	1,302,166	3.37%
Member of the Supervisory Board, Chairman of the Supervisory Board from 02.02.2015 – Lauri Kustaa Äimä	125,000	0.32%
Member of the Supervisory Board – Vesa Jaakko Karo	90,000	0.23%
Member of the Supervisory Board – Arko Kadajane	8,928	0.02%
Member of the Supervisory Board – Harvey Sawikin	no shares	
Member of the Supervisory Board – Aavo Kokk	no shares	
<b>Total number of shares owned by the members of the Supervisory and Management Board</b>	<b>2,567,917</b>	<b>6.64%</b>

## SHARE AND SHAREHOLDERS

AS PRFoods shares are listed in the main list of NASDAQ OMX Tallinn Stock Exchange since 5 May 2010. The company has issued 38.7 million ordinary shares with the nominal value of 0.20 euro (nominal value was 10 EEK until 13 April 2011, 0.60 euro until 3 September 2012 and 0.50 euro until 2 October 2015).

On 30 June 2016, shares without nominal value of AS PRFoods were registered in the Commercial Register based on the resolutions adopted by the General Meeting of Shareholders of the Company held on 26 May 2016. The amount of the registered share capital of the Company is 7,736,572 euros, which is divided into 38,682,860 ordinary shares without nominal value and with the calculated value of 0.20 euros per share. All shares have equal voting and dividend rights. PRFoods shares do not have an official market maker.

ISIN	EE3100101031	Issued shares	38,682,860
Symbol of share	PRF1T	Listed shares	38,682,860
Market	BALTIC MAIN LIST	Listing date	05.05.2010
Nominal value	0.20 EUR	Minimum quantity of tradable securities	1 share

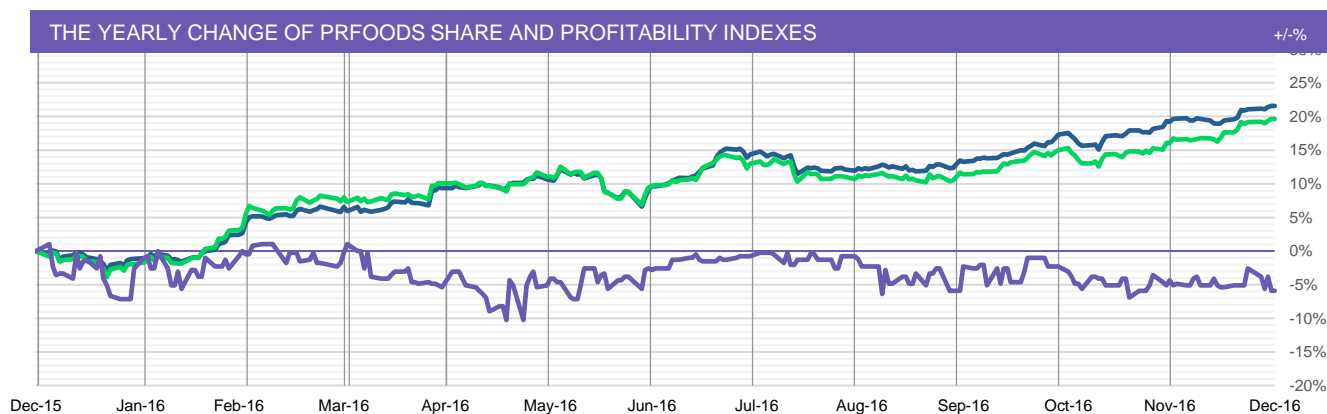
## AS OF DECEMBER 2016, THE PRFOODS SHARE WAS PART OF THE FOLLOWING INDICES:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn All-Share index	Gross index	OMXT
OMX Baltic Benchmark GI	OMX Baltic All-Share index	Gross index	OMXBGI

OMX uses a common classification of indices for the Nordic and Baltic markets. The OMX Baltic index family includes all share, tradable, benchmark and sector indices. The indices are calculated in euros and gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All OMX Baltic indices, except sector indices have base values of 100 and the base date is 31.12.1999. The base date of the OMX Tallinn All-Share index is 03.06.1996. The composition of the tradable and benchmark indices is revised twice a year based on the trading activity of the shares.

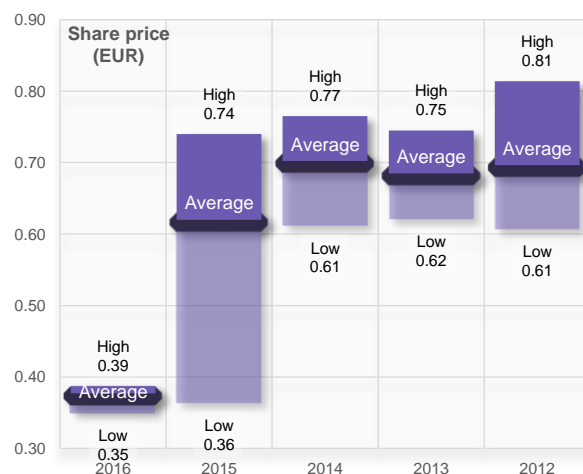
THE YEARLY CHANGE OF PRFOODS SHARE AND PROFITABILITY INDEXES BETWEEN 31.12.2015 AND 31.12.2016:

Index / Equity	31.12.2015	31.12.2016	change %
OMX Baltic Benchmark GI	648.32 EUR	788.17 EUR	21.57%
OMX Tallinn	898.99 EUR	1,075.50 EUR	19.53%
PRF1T	0.390 EUR	0.367 EUR	-5.90%



Baltic comparison index increased 21.57% during the given period, Tallinn Stock Exchange All-Share index increased 19.53% and PRFoods share price decreased -5.90%.

TRADING HISTORY					
Price (EUR)	2016	2015	2014	2013	2012
Open	0.390	0.670	0.710	0.640	0.671
High	0.397	0.740	0.765	0.745	0.814
Low	0.349	0.363	0.611	0.620	0.606
Last	0.367	0.390	0.670	0.700	0.640
Traded volume, thousand	2,429	1,896	1,891	1,732	1,393
Turnover, million	0.91	1.17	1.32	1.18	0.97
Market capitalization, million	14.20	15.09	25.92	27.08	24.76

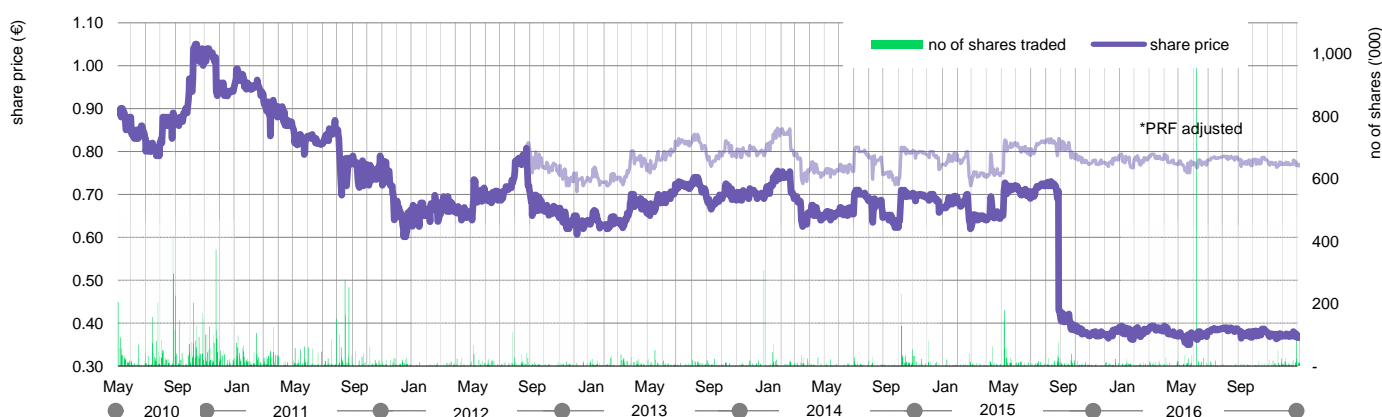


The nominal value of the PRFoods share was decreased by 10 euro cents on 29 August 2012 and by 30 euro cents on 28 August 2015. The nominal value of PRFoods share is currently 20 euro cents. PRFoods has distributed to its shareholders a total amount of 16.9 million euros in dividends and share capital reduction since its shares were publicly listed.

## MARKET RATIOS

Ratios	formula	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
EV/Sales	(Market Value + Net Debt) / Sales	0.305	0.289	0.509	0.929	1.107
EV/EBITDA from operations	(Market Value+ Net Debt) / EBITDA from operations	19.253	4.971	63.308	115.951	13.489
EV/EBITDA	(Market Value+ Net Debt) / EBITDA	5.541	7.143	44.972	31.216	37.324
Price/EBITDA from operations	Market Value/ EBITDA from operations	18.878	5.167	70.298	77.968	8.653
Price/EBITDA	Market Value/ EBITDA	5.433	8.017	49.937	20.991	23.944
Price-to-Earnings	Market Value/ Net profit (-loss)	19.855	12.796	neg	neg	728.685
Price-to-Book	Market Value/ Equity	0.596	0.650	0.770	0.726	0.679

## THE DYNAMICS OF THE SHARE PRICE OF PRFOODS (EUR) AND THE VOLUME OF TRANSACTIONS (NUMBER OF SHARES TRADED) DURING THE PERIOD FROM 5 MAY 2010 UP TO 31 DECEMBER 2016:



\*Dynamics of PRFoods's share price adjusted by the capital reduction payments.

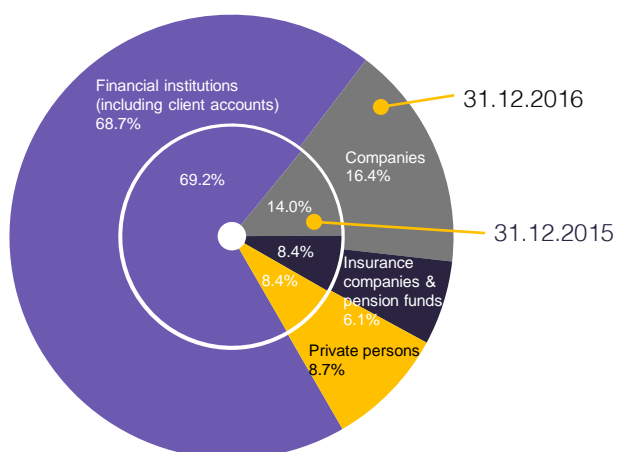
According to the decision of the shareholders meeting held on 28 May 2015, the company's share capital was reduced by decreasing the nominal value of the share with making payments to the shareholders. As a result, the nominal value of PRFoods share as of 28 August 2015 at 23.59 was decreased by 30 euro cents, from the earlier 50 euro cents to 20 euro cents. The nominal value of PRFoods share is currently 20 euro cents. Payments to shareholders were made by Estonian Central Register of Securities on 4 January 2016.

The reason for the reduction of share capital is to balance the adjustment of the capital structure of AS PRFoods, enabling to balance the company's debt to equity ratio. It also helps to restore the return on equity and other ratios of AS PRFoods to a more adequate level.

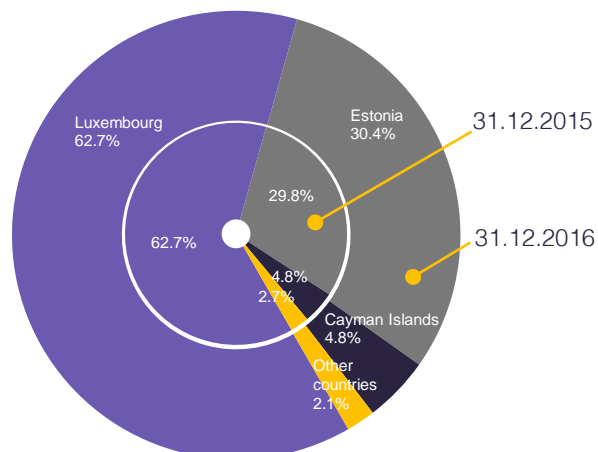
## SHAREHOLDERS STRUCTURE

SHAREHOLDERS AS AT 31.12.2016		1,223 SHAREHOLDERS -5.1% FROM 31.12.2015		
	Number of shares	% of total 31.12.2016	% of total 31.12.2015	Change
ING Luxembourg S.A. (Nominee account)	24,258,366	62.71%	62.71%	-
OÜ Rododendron	1,298,705	3.36%	3.36%	-
Ambient Sound Investments OÜ	1,239,116	3.20%	3.20%	-
Firebird Republics Fund Ltd.	1,195,270	3.09%	3.09%	-
LHV Pensionifond L	1,055,863	2.73%	4.56%	- 709,483
Lindermann. Birnbaum & Kasela OÜ	1,041,823	2.69%	0.05%	+ 1,023,073
Compensa Life Vienna Insurance Group SE	743,058	1.92%	1.58%	+ 132,000
Firebird Avrora Fund. Ltd.	648,220	1.68%	1.68%	-
OÜ Footsteps Management	503,701	1.30%	1.30%	-
LHV Pensionifond XL	365,511	0.94%	1.52%	- 223,100
<b>Total largest shareholders</b>	<b>32,349,633</b>	<b>83.62%</b>	<b>83.05%</b>	<b>+ 222,490</b>
Other minority shareholders	5,680,045	14.69%	15.84%	- 446,117
Treasury shares	653,182	1.69%	1.11%	+ 223,627
<b>Total</b>	<b>38,682,860</b>	<b>100.00%</b>	<b>100.00%</b>	<b>-</b>

STRUCTURE OF SHAREHOLDERS ACCORDING TO HOLDER CATEGORIES



STRUCTURE OF SHAREHOLDERS ACCORDING TO RESIDENCE



THE DIVISION OF SHAREHOLDERS ACCORDING TO NUMBER OF ACQUIRED SHARES

number of shares	number of shareholders	% of shareholders	total number of shares	% of share
1 ... 1,000	560	45.8%	272,670	0.7%
1,001 ... 10,000	558	45.6%	1,861,252	4.8%
10,001 ... 50,000	71	5.8%	1,469,255	3.8%
50,001 ... 100,000	7	0.6%	429,337	1.1%
More than 100,000	27	2.2%	34,650,346	89.6%
<b>Total</b>	<b>1,223</b>	<b>100.0%</b>	<b>38,683,860</b>	<b>100.0%</b>



## REPORT ON GOOD CORPORATE GOVERNANCE

AS PRFoods organises its business activities on the basis of its Articles of Association and national legal norms and, as a public enterprise, on the requirements of the Tallinn Stock Exchange, Corporate Governance Recommendations (CGR) and the principles of equal treatment of shareholders and investors. The compliance with the principles of CGR is binding on the basis of "comply or explain principle". In other words, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are obligated to publish a corporate governance report in the composition of their annual report describing the principles of CGR which are not complied with accompanied by an explanation for such failure to comply. The report below outlines the principles of CGR not fully followed by PRFoods and describes the reasons thereof. In addition, information on the general meeting of 2016, the Company's Supervisory Board and Management Board and management principles of AS PRFoods has been provided.

### CGC Article 1.3.3.

Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer. AS PRFoods lacks the adequate technical equipment and its acquisition would be too cost intensive for the Company. In accordance with our policy of transparency, we used in conducting the general meeting the Webinar service of Nasdaq Baltic. PRFoods provided live broadcast of Shareholder's General Meeting and answered to the additional questions. The meeting was held in Estonian. The webinar was chaired by Indrek Kasela, Chairman of the Management Board of AS PRFoods who distributed information about the issues included in the agenda of the general meeting of shareholders and introduced the results of Q1 2016. For technical reasons, participants at the webinar were unable to exercise their shareholders' rights (voting). The webinar was recorded and published both on the Company's website [www.prfoods.ee](http://www.prfoods.ee) and in the [youtube.com](https://www.youtube.com) account of Nasdaq Baltic.

### CGC Article 2.2.1

The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions. The Company's Management Board has one member and the Board Chairman is also performing the duties of the Managing Director and is responsible for the functioning of the Company's strategic areas. A contract of the management board member has been signed with the Chairman of the Management Board.

### CGC Article 2.2.7

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Management Board receives remuneration in accordance with the contract of the management board member. The amount of the remuneration of the Chairman of the Management Board is established with the contract of the management board member and is not to be disclosed as agreed by the parties. The Chairman of the Management Board is entitled to receive a severance fee of up to 6 months remuneration of the member of the management board.

### CGC Article 2.3.2

The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions. The transactions approved by the Supervisory Board concluded between the Issues and a member

of the Management Board or another person connected/close to them are published in the Corporate Governance Recommendations Report. No such transactions took place in 2016.

#### CGC Article 3.1.3

The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required. Upon the establishment of committees by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organization. Upon change of the committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

#### CGC Article 3.2.5

The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits). The general meeting of shareholders of AS PRFoods is competent to elect and approve the composition of the Supervisory Board and term of office. According to the Articles of Association of PRFoods, the Supervisory Board has between three and seven members who are elected by the general meeting for a term of five years. The general meeting of shareholders has confirmed the remuneration fees of members of the Supervisory Board as follows: fee for the Chairman of the Supervisory Board 1,000 euros a month, fee for the Vice Chairman of the Supervisory Board 750 euros a month and the fee of the member of the Supervisory Board 500 euros a month. No severance fee is to be paid to the member of the Supervisory Board.

#### CGC Article 3.2.6

If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report. In 2016, all members of the Supervisory Board attended all Supervisory Board meetings.

#### CGC Article 3.3.2

Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions. Members of the Supervisory Board refrain from conflicts of interests and adhere to the prohibition of competition. The Supervisory Board and the Management Board cooperate closely in accordance with the Articles of Association and in the interests of the business undertakings and its shareholders. There were no such conflicts of interest in 2016.

#### CGC Article 5.3

On the Issuers web site, among others also the general strategy directions of the Issuer as approved by the Supervisory Board shall be accessible. The Company's Management Board believes that the strategy is part of the Company's commercial secrets and therefore cannot be disclosed. General directions and significant issues are provided in the Management Report.

#### CGC Article 5.6

The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer enables shareholders to participate at such events and makes presentations available on its website. The Issuer shall not arrange meetings with analysts and

presentations organized for investors directly before dates of publishing a financial report. The Issuer shall treat all shareholders equally. Compulsory, significant and price-sensitive information is first disclosed in the information system of the Tallinn Stock Exchange and then in the websites of the Estonian Financial Supervisory Authority and the Company. In addition, every shareholder is entitled to request additional information from the Company and set up meetings. The Company's Management Board does not consider it important to keep a logbook on timetable and agenda of meetings with various shareholders because these meetings are limited to information that is already disclosed. This rule applies on all meetings, including ones held shortly before disclosing financial reports.

#### CGC Article 6.2

Appointing an auditor and auditing of annual financial statements. The general meeting of shareholders of AS PRFoods held on 26 May 2016 appointed AS PricewaterhouseCoopers as the Company's auditor for 2016. Information about the auditor is available on the Company's website. The remuneration of the auditor will be determined pursuant to the agreement to be concluded with the auditor and the parties have agreed not to disclose the amount of the remuneration. Pursuant to the Auditing Act, the sworn auditor representing the external audit company is to be changed at least once in every seven years.

## GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS PRFoods is a public limited company and its governing bodies are the shareholders' general meeting, the Supervisory and the Management Boards.

#### General meeting

The general meeting of shareholders is the Company's highest management body that is competent to amend and approve new Articles of Association, change the amount of share capital, remove members of the Supervisory Board or make a resolution on the termination, division, merger or restructuring of the Company, on the condition that at least 2/3 of the votes represented by shareholders at the general meeting are in favour.

General meetings are ordinary and extraordinary meetings. An ordinary general meeting shall be convened by the management board once a year not later than within six months after the end of the financial year. The Management Board shall convene an extraordinary general meeting if the Company's net assets fall below the limit allowed by law or if the meeting is requested by the Supervisory Board, auditor or shareholders whose shares represent at least 1/10 of the share capital. A general meeting has a quorum provided that more than one-half of the votes determined by shares are represented there. The list of persons entitled to participate at the general meeting is determined 7 days before the meeting. The annual general meeting of shareholders of AS PRFoods was held on 26th May 2016 in the Radisson Blu Hotel Olümpia. 23 shareholders attended the meeting representing 27,080,260 votes or 70.92% of the total votes represented by the all shares. Therefore the meeting was competent to pass resolutions on issues in the meeting's agenda. The agenda of the general meeting included, in addition to approval of the annual report of FY2015 and covering of losses, introducing shares without nominal value and amending the articles of association, partial change of the resolution of the shareholders of 29 May 2014 resolving acquisition of own shares and determining terms of buy-back programme, appointment of auditor for FY2016 and determining auditor's remuneration. The Chairman of the Management Board of AS PRFoods held a presentation at the meeting. The meeting adopted the resolutions on all issues in the agenda of the general meeting according to the proposals made by the Supervisory Board. Information about the adoption of resolutions and contents were published after the end of the meeting via the information system of NASDAQ OMX Tallinn and on the website of the Company at [www.prfoods.ee](http://www.prfoods.ee).

## Supervisory Board

Pursuant to law, a Supervisory Board of a public limited company is a supervisory body responsible for planning the activities of a company, organizing its management and supervising the activities of Management Board.

According to the Articles of Association of PRFoods, the Supervisory Board has three to seven members elected by the General Meeting of shareholders for the term of five years. Members of the Supervisory Board elect a Chairman among themselves. Chairman of the Supervisory Board is responsible for organizing the work of Supervisory Board and has a casting vote in case of tied vote.

At the report preparation moment, the Supervisory Board of PRFoods is comprised of the following members: Lauri Kustaa Äimä (since incorporation), Kuldar Leis (elected on 29 May 2013), Aavo Kokk (elected on 5 May 2009), Harvey Sawikin (elected on 5 May 2009), Vesa Jaakko Karo (elected on 17 August 2009) and Arko Kadajane (elected on 29 May 2012). The terms of office of all the current members of the Supervisory Board will end on 29 May 2018. The Supervisory Board of PRFoods includes four independent members — Aavo Kokk, Vesa Jaakko Karo; Kuldar Leis and Arko Kadajane. The Chairman of the Supervisory Board is Lauri Kustaa Äimä and the Vice-Chairman of the Supervisory Board is Kuldar Leis.

The meetings of the supervisory board takes place according to necessity but not less often than once in every three months. The meeting of the supervisory board has a quorum provided that more than one-half of the members of the supervisory board participate at the meeting. In 2016, the Supervisory Board held four meetings. All members of the Supervisory Board attended all meetings.

In addition to the meetings, the Supervisory Board adopted resolutions without convening a meeting if it was necessary. The Management Board informed the Supervisory Board on a regular basis of the operations and financial status of PRFoods and the Supervisory Board provided the Management Board with necessary directions and support in conducting the everyday business activities of the company. If the contract of service of a member of the Supervisory Board expires or is terminated before due term, the Group shall not incur a higher liability to pay a benefit than what is prescribed by law. As at the end of 2016, the Company's Supervisory Board members owned directly and indirectly 3.95% of the Company's shares (2015: 3.94%).

## Management Board

The Management Board is the management body of the Company that represents and manages the Company according to the law and provisions of the Articles of Association. The Management Board is required to act in the most financially-appropriate manner. According to the Articles of Association, the Management Board of AS PRFoods consists of 1 (one) to 4 (four) members. The members of the Management Board shall be elected by the Supervisory Board for 3 (three) years.

The competence of the Supervisory Board includes the election of the Chairman of the Management Board, on the latter's proposal, appointment and recalling of members of the Management Board. A member of the Management Board may represent the Company in all legal transactions. The Management Board of AS PRFoods consists of one member. According to the Supervisory Board, from 2 February 2015 the only member of the Management Board has been Indrek Kasela. In its day-to-day management, the Company's Management Board is independent and adhere to the best interests of all shareholders, thereby ensuring the Company's sustainable development in accordance with the set objectives and strategy. Moreover, the Company's Management Board is responsible for ensuring functioning internal control and risk management procedures in the Company.

The competence and powers of the Management Board are regulated by the Commercial Code and provided in the Company's Articles of Association. No other exceptions or agreements have been made or entered into. The Chairman of the Management Board receives remuneration according to the contract of service and is additionally entitled to receive severance benefit for up to 6 months' remuneration of the member of the Management Board. The member or Chairman

of the Management Board have no pension-related rights. The Chairman is responsible for organising business operations on the Group level and also fulfils the tasks of the Managing Director. In subsidiaries, the responsibility for adhering to business practices lies on the local management. As at the end of 2016, the Company's Management Board member owned by direct and indirect holdings a total of 2.69% of the Company's shares (2015: 0.11%). More detailed information about the education, career, membership in management bodies of business undertakings and shareholdings in AS PRFoods of members of the Supervisory Board and Management Board are provided on the Company's website.

### Supervisory and Management Boards of Subsidiaries

The Chairman or Management Board member of a subsidiary is appointed by the Supervisory Board of the subsidiary. Below is a list of Supervisory Boards and Management Boards of subsidiaries that are 100% owned by AS PRFoods as at 31 December 2016.

Company	Management Board	Supervisory Board
<b>Saaremere Kala AS</b>	Margus Rebane (Chairman), Pekka Pentti Olavi Lahtinen	Indrek Kasela (Chairman), Kuldar Leis, Lauri Kustaa Äimä
<b>Vettel OÜ</b>	Aivar Jõgi (Chairman), Mairi Paiste, Pekka Pentti Olavi Lahtinen	Indrek Kasela (Chairman), Lauri Kustaa Äimä, Margus Rebane
<b>GourmetHouse OÜ</b>	Margus Rebane (Managing Director)	
<b>Heimon Kala Oy</b>	Indrek Kasela (Chairman), Pekka Pentti Olavi Lahtinen (Managing Director), Pirkko Kemppainen (Substitute Member)	
<b>Överumans Fisk Ab</b>	Margus Rebane (Chairman), Pekka Pentti Olavi Lahtinen (Substitute Member)	

### Additional management bodies and special committees

The Company has regulated the necessary procedures with rules and there has been no practical need to set up additional management bodies. In 2010, acting on the requirement provided in the Auditors Activities Act, the Company's Supervisory Board set up an auditing committee in the Company with a task to monitor and analyse processing of financial information, efficiency of risk management and internal control, the process of auditing of consolidated annual financial statements and the independence of the auditing undertakings and the auditor representing the auditing company under the law, as well as to submit to the Supervisory Board proposals and recommendations in issues prescribed by law. Since September 2010, the members of the committee have been Supervisory Board member Aavo Kokk (Chairman) and Mairi Paiste who is member of the Management Board of Vettel OÜ.

### Information management

As a listed company, AS PRFoods adheres to the principles of openness and equal treatment of investors. The information required in the stock exchange rules and regulations is published regularly according to due dates, while the Company adheres to the principle not to publish forward-looking forecasts. Instead, it publishes and comments factual information. For timely notification of investors and the public, the Company operates a website that contains all stock exchange announcements and financial reports.



## MANAGEMENT BOARD'S CONFIRMATION TO THE ANNUAL REPORT

The Management Board confirms that The Management Report in pages 12-40 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation as a whole.

The Management Board confirms that according to their best knowledge the consolidated financial report in pages 43-88 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Commission and contains a description of the main risks and doubts.



Indrek Kasela  
Member of the Management Board

13 April 2017

P R F O O D S

# Consolidated financial statements

# Consolidated statement of financial position

EUR '000	Note	31.12.2016	31.12.2015
<b>ASSETS</b>			
Cash and cash equivalents	(Note 5)	4,374	1,921
Receivables and prepayments	(Note 6)	4,056	3,653
Inventories	(Note 7)	5,393	5,616
Biological assets	(Note 8)	7,584	4,421
<b>Total current assets</b>		<b>21,407</b>	<b>15,611</b>
Deferred tax assets	(Note 10)	230	138
Long-term financial investments		103	161
Tangible fixed assets	(Note 11)	7,285	7,427
Intangible assets	(Note 12)	6,031	6,128
<b>Total non-current assets</b>		<b>13,649</b>	<b>13,854</b>
<b>TOTAL ASSETS</b>		<b>35,056</b>	<b>29,465</b>
<b>EQUITY AND LIABILITIES</b>			
Loans and borrowings	(Note 13, 15)	3,716	286
Payables	(Note 16)	5,131	3,760
Government grants	(Note 17)	162	177
<b>Total current liabilities</b>		<b>9,009</b>	<b>4,223</b>
Loans and borrowings	(Note 13, 15)	940	1,063
Deferred tax liabilities	(Note 10)	747	252
Government grants	(Note 17)	551	706
<b>Total non-current liabilities</b>		<b>2,238</b>	<b>2,021</b>
<b>TOTAL LIABILITIES</b>		<b>11,247</b>	<b>6,244</b>
Share capital		7,737	7,737
Share premium		14,007	16,026
Treasury shares		-256	-172
Statutory reserve capital		12	6
Currency translation reserve		428	471
Retained profit (loss)		1,883	-847
<b>TOTAL EQUITY</b>	(Note 18)	<b>23,809</b>	<b>23,221</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>35,056</b>	<b>29,465</b>

The notes on pages 43 to 88 are an integral part of these consolidated annual financial statements

# Consolidated statement of profit or loss and other comprehensive income

EUR '000	Note	2016	2015
Sales	(Note 19)	47,429	50,273
Cost of goods sold	(Note 20)	-43,410	-43,509
<b>Gross profit</b>		<b>4,019</b>	<b>6,764</b>
<b>Operating expenses</b>		<b>-4,785</b>	<b>-5,411</b>
Selling and distribution expenses	(Note 21)	-3,346	-4,033
Administrative expenses	(Note 22)	-1,439	-1,378
Other income / expenses	(Note 25)	-118	406
Fair value adjustment on biological assets	(Note 8)	2,263	-888
<b>Operating profit (-loss)</b>		<b>1,379</b>	<b>871</b>
Financial income	(Note 26)	2	303
Financial expenses	(Note 26)	-240	-105
<b>Profit (-loss) before tax</b>		<b>1,141</b>	<b>1,069</b>
Income tax	(Note 27)	-426	110
<b>Net profit (-loss)</b>		<b>715</b>	<b>1,179</b>
<b>Other comprehensive income (-expense) that might be subsequently classified to profit or loss:</b>			
Foreign currency translation differences		-43	30
<b>Total comprehensive income (-expense)</b>		<b>672</b>	<b>1,209</b>
Profit (-loss) per share (EUR)	(Note 28)	0.02	0.03
Diluted profit (-loss) per share (EUR)	(Note 28)	0.02	0.03

The notes on pages 43 to 88 are an integral part of these consolidated annual financial statements

# Consolidated cash flow statement

EUR '000	Note	2016	2015
<b>Continuing operations</b>			
Net profit (-loss)		715	1,179
Adjustments:			
Depreciation	(Note 24)	1,234	1,161
Loss from sale and write off of fixed assets	(Note 25)	-6	-65
Other non-cash items		20	-242
Changes in receivables and prepayments	(Note 6)	-495	544
Changes in inventories	(Note 7)	223	947
Changes in biological assets	(Note 8)	-3,163	1,162
Changes in payables and prepayments	(Note 16)	1,975	-966
Corporate income tax paid		-188	-55
<b>Total cash flow from operations</b>		<b>315</b>	<b>3,665</b>
<b>Total cash flow from investments</b>			
Sale of tangible and intangible fixed assets		9	95
Purchase of tangible and intangible fixed assets	(Note 11, 12, 13)	-732	-1,042
Sales of subsidiaries	(Note 31)	0	8,000
Repayments of loans granted		0	4
Interests received	(Note 26)	0	5
Profit from long-term investments		4	1
<b>Total cash flow from investments</b>		<b>-719</b>	<b>7,063</b>
<b>Total cash flow from financing</b>			
Reduction of share capital	(Note 18)	0	-11,504
Repurchase of own shares	(Note 18)	-84	-156
Change in overdraft	(Note 15)	3,367	0
Change in factored receivables	(Note 15)	21	0
Capital lease repayments	(Note 13, 15)	-343	-381
Interests paid	(Note 13, 26)	-104	-96
<b>Total cash flow from financing</b>		<b>2,857</b>	<b>-12,137</b>
<b>Total cash flow</b>			
		<b>2,453</b>	<b>-1,409</b>
Cash and cash equivalents at beginning of year	(Note 5)	1,921	3,330
Change in cash and cash equivalents		2,453	-1,409
Cash and cash equivalents at the end of the period	(Note 5)	4,374	1,921

The notes on pages 43 to 88 are an integral part of these consolidated annual financial statements

## Consolidated statement of changes in equity

EUR '000	Share capital	Share premium	Own shares	Statutory capital reserve	Translation reserve	Retained earnings	Total equity
<b>Balance at 31.12.2014</b>	<b>19,342</b>	<b>16,026</b>	<b>-117</b>	<b>6</b>	<b>441</b>	<b>-2,026</b>	<b>33,672</b>
Reduction of share capital	-11,605	0	101	0	0	0	-11,504
The own shares repurchase program	0	0	-156	0	0	0	-156
Transactions with equity holders of the company	-11,605	0	-55	0	0	0	-11,660
Net loss for the year	0	0	0	0	0	1,179	1,179
Other comprehensive profit	0	0	0	0	30	0	30
Total comprehensive loss for the period	0	0	0	0	30	1,179	1,209
<b>Balance at 31.12.2015</b>	<b>7,737</b>	<b>16,026</b>	<b>-172</b>	<b>6</b>	<b>471</b>	<b>-847</b>	<b>23,221</b>
Covering the loss from previous year	0	-2,019	0	-6	0	2,025	0
Formation of statutory reserve capital	0	0	0	12	0	-12	0
The own shares repurchase program	0	0	-84	0	0	0	-84
Transactions with equity holders of the company	0	-2,019	-84	6	0	2,013	-84
Net profit for the year	0	0	0	0	0	715	715
Other comprehensive loss	0	0	0	0	-43	0	-43
Total comprehensive income for the period	0	0	0	0	-43	715	672
<b>Balance at 31.12.2016</b>	<b>7,737</b>	<b>14,007</b>	<b>-256</b>	<b>12</b>	<b>428</b>	<b>1,881</b>	<b>23,809</b>

Additional information about equity is disclosed in Note 18.

The notes on pages 43 to 88 are an integral part of these consolidated annual financial statements.



# Notes to the consolidated financial statements

## NOTE 1. GENERAL INFORMATION

PRFoods AS (hereinafter “the Parent Company”) and its subsidiaries (hereinafter jointly referred to as “the Group”) are entities involved in production and wholesale of fish and fish products. PRFoods AS was registered in the Republic of Estonia at 23 December 2008 registered address Viru 19, Tallinn. The shares of PRFoods AS are listed on the NASDAQ OMX Tallinn Stock Exchange and its largest shareholder is Amber Trust II S.C.A (see Note 18). These consolidated financial statements have been authorised for issue by the Management Board at 13 April 2017. Pursuant to the Accounting Act of the Republic of Estonia, the Parent Company’s Supervisory Board approves the annual report and the General Meeting of Shareholders authorises it for issue.

## NOTE 2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PRFoods AS for the year 2016 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS).

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets and held-for-sale financial assets which are carried at fair value.

The functional currency of PRFoods AS and presentation currency of the consolidated financial statements is the euro (EUR). All amounts presented in the financial statements have been rounded to the nearest thousand, unless stated otherwise.

The consolidated financial statements have been prepared using the accounting policies below which have consistently been applied to all periods presented in the financial statements, unless stated otherwise.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 01.01.2016 that would be expected to have a material impact to the Group.

**IFRS 9, Financial Instruments: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument

is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

The Group is currently assessing the impact of the new standard on its financial statements.

#### **IFRS 15 Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

#### **IFRS 16 Leases** (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value;
- (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

**Revenue from Contracts with Customers - Amendments to IFRS 15** (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group is currently assessing the impact of the amendments on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

## FOREIGN CURRENCY TRANSLATION

### Functional and presentation currency

The financial statements of each group entity have been prepared using the currency of the primary economic environment in which the entity operates (functional currency), i.e. the local currency. The functional currency of the Parent Company and its subsidiaries registered in Estonia is the euro. The consolidated financial statements have been prepared in euros.

### Accounting for foreign currency transactions

All currencies other than the functional currency (the functional currency of the Parent Company and its Estonian subsidiaries is the euro) are considered as foreign currencies. Foreign currency transactions are translated into the functional currency using the foreign exchange rates of the European Central Bank or a central bank of the respective country prevailing at the transaction dates. Monetary assets and liabilities denominated in a foreign currency (receivables and loans payable in cash) are translated into the functional currency based on the foreign currency exchange rates of the central bank prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the income statement of the reporting period. Non-monetary assets and liabilities denominated in a foreign currency that are measured at fair value (at fair value are measured biological assets; short and long-term financial investments in shares and other equity instruments whose fair value can be determined reliably) are translated into the functional currency using the official exchange rates of the central bank prevailing at the date of determining fair value. Non-monetary assets and liabilities denominated in a foreign currency that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) are not translated at the balance sheet date but continue to be reported using the official exchange rate of the central bank prevailing at the transaction date.

## Financial statements of foreign business units

When the subsidiary's functional currency differs from that of the Parent Company (e.g Swedish krona for entities operating in Sweden), the financial statements of subsidiaries prepared in a foreign currency are translated into the presentation currency using the following principles:

- The assets and liabilities of all foreign subsidiaries are translated using the official exchange rate of the European Central Bank prevailing at the balance sheet date;
- Income and expenses of subsidiaries are translated using the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at transaction dates, in which case income and expenses are translated at transaction dates).

All exchange differences resulting from translation are recognised in other comprehensive income and accumulated in the equity as "Currency translation differences". On the disposal of a foreign subsidiary, the amounts presented in the equity item "Currency translation differences" related to that foreign subsidiary are recognised as a profit or loss for the financial year.

## CONSOLIDATION

### (a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

In preparation of consolidated financial statements, the financial statements of the Parent Company and its subsidiaries are consolidated on a line-by-line basis. In preparation of consolidated financial statements, inter-company transactions,

balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

In the Parent Company's separate financial statements the investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

#### (b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recorded in equity.

#### (c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when the control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### (d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in the associates' other comprehensive income is recognised directly in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of other profit/loss of the associates" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## INFORMATION ABOUT PARENT COMPANY'S SEPARATE PRIMARY FINANCIAL STATEMENTS

According to the Accounting Act of Estonia, the notes to the consolidated financial statements shall include disclosures on the separate primary financial statements of the consolidating entity (Parent Company). The primary financial statements of the Parent Company, which are disclosed in Note 32, have been prepared using the same accounting policies and measurement bases as used in preparing the consolidated financial statements. Investments in subsidiaries and associates are carried at cost in the separate primary financial statements. Under the cost method, the investment is initially recognised at cost, i.e. at the fair value of the consideration paid at acquisition and it is subsequently adjusted to account for impairment losses.

## SEGMENT REPORTING

Reportable business segments have been identified based on the reports submitted regularly to the Group's chief operating decision maker. The Group's chief operating decision maker, responsible for allocation of resources and evaluation of the results of business segments is the Management Board of the Parent Company that makes strategic decisions. See also Note 19.

## CASH AND CASH EQUIVALENTS

For the purposes of the statement of financial position and the cash flow statement, cash and cash equivalents include cash on hand, bank account balances (other than overdraft) and term deposits with maturities of 3 months or less. Overdraft is included within short-term borrowings in the statement of financial position.

## FINANCIAL ASSETS

The Group's financial assets have been classified in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at their initial recognition.

Loans and receivables are initially recognised at cost which is the fair value of the consideration paid for the financial asset. The original cost also includes all transaction costs attributable to the financial asset. After initial recognition, the Group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the subsequent periods using the effective interest rate method. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets.

At each balance sheet date, an assessment is made whether there are any impairment indicators for an asset.

An allowance for impairment losses is recognised whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Such circumstances may include significant financial difficulties of the debtor, bankruptcy or default or delinquency in payments. The amount of the allowance is the difference between the asset's carrying amount and the present value of expected future cash flows, discounted at the effective interest rate of the receivable.



If any such evidence exists, impairment losses are determined as follows:

(a) Financial assets carried at amortised cost (e.g. receivables) are written down to the present value of estimated future cash flows (discounted at the financial asset's original effective interest rate);

(b) Financial assets carried at cost (shares and other equity instruments, the fair value of which cannot be reliably determined) are written down to the present value of estimated future cash flows (discounted at the current market rate of return for similar financial assets);

#### Reversals of impairment losses:

(a) If, in a subsequent period, the amount of the impairment loss of assets carried at amortised cost decreases, the previously recognised impairment loss is reversed to the amount which is the lower of (1) present value of estimated cash flows from the financial asset and (2) carrying amount using the amortised cost method had the impairment loss not been recognised. The amount of the reversal is recognised in profit or loss.

(b) Impairment losses for financial assets carried at cost because their fair value cannot be measured reliably shall not be reversed.

Financial assets are derecognised when future cash flows from the financial assets are no longer expected to be received by the Company or when it transfers the cash flows attributable to the asset as well as most of the risks and rewards of the financial asset to a third party.

Purchases and sales of financial assets are consistently recognised at the trade date i.e. at the date when the Group commits (e.g. enters into a contract) to buy or sell a certain financial asset.

## FACTORING

Factoring is the transfer (sale) of receivables, whereby depending on the type of the factoring contract the buyer has the right to sell the transferred receivable back to the seller within a certain time period (factoring with recourse) or there is no right of resale back to the seller and all the risks and benefits associated with the receivable are transferred from seller to purchaser (factoring without recourse).

If the seller of the receivable retains the repurchase obligation, the transaction is recognised as a financing transaction (i.e. as a loan with the receivable as a collateral) and not as a sale. The receivable is not considered as sold as a result of factoring, but it remains in the balance sheet until the receivable is collected or the recourse right has expired. The related liability is recorded similarly to other borrowings.

If there is no repurchase obligation and the control over the receivable and the related risks and rewards of the ownership are transferred to the buyer, the transaction is recognised as a sale of the receivable. The related expense is recognised as a finance cost (similarly to interest expense) or as an impairment loss of receivables, depending on whether the purpose of the transaction was to manage the cash flows or to manage credit risk.

## INVENTORIES

Inventories are initially recognised at their cost, which consists of the purchase costs, direct and indirect production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include in addition to the purchase price also the customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories

include costs directly related to the production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour), and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The weighted average method is used to account for the cost of inventories. Inventories are measured in the statement of financial position at the lower of acquisition/production cost or net realisable value. The net realisable value is the estimated selling price of inventories in the ordinary course of business less applicable variable selling expenses.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are assets used in the operations of the Group with the useful life of over one year.

An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Items of property, plant and equipment are carried in the statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment leased under the finance lease terms are accounted for similarly to purchased property, plant and equipment.

Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses when incurred.

The straight line method is used for determining depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on its useful life. For assets with significant residual value, only the depreciable amount, i.e. difference between cost and residual value is depreciated over the useful life of the asset.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

The following useful lives have been set for the items of property, plant and equipment:

- Buildings 5-50 years
- Machinery and equipment 2-20 years
- Motor vehicles 4-13 years
- Fixtures, fittings and tools
  - Fittings and tools 2-12 years
  - IT equipment and software 3-5 years
  - Fixtures 5 years
- Items with unlimited useful lives (land) are not depreciated.

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or is reclassified as held for sale. At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets is assessed.

Where an asset's recoverable amount (higher of an asset's fair value less costs to sell and value in use) is less than its carrying amount, it is written down immediately to its recoverable amount.

Borrowing costs (interest) attributable to the construction of property, plant and equipment are added to the cost of the assets during the period that is required to complete and prepare the asset for its intended use.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other income or other expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months are reclassified as non-current assets held for sale.

## INTANGIBLE ASSETS

Intangible assets (client contracts, trademarks, connection fees, patents, licenses, software) are recognised in the statement of financial position when the asset is controlled by the Group, future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An acquired intangible asset is initially recognised at cost, comprising its purchase price and any expenditure directly attributable to the acquisition. Intangible assets are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is carried at its acquisition cost less any impairment losses.

Intangible assets are divided into assets with finite useful lives and assets with indefinite useful lives.

Intangible assets with indefinite useful lives (goodwill) are not amortised, but they are tested for impairment at least once a year (or more frequently if an event or change in circumstances indicates that goodwill may be impaired); and if their recoverable amount is below carrying amount, the asset is written down to its recoverable amount.

Intangible assets with finite useful lives are amortised using the straight-line method, over the asset's estimated useful life. The appropriateness of the amortisation periods and method is assessed at each balance sheet date.

The following useful lives have been determined for intangible assets:

- Trademarks 20 - 25 years
- Permits and connection fees 3 - 50 years
- Software licenses 5 years

The useful lives of trademarks have been determined on the basis of management estimates of the expected length of the cash generating period by these assets. The duration of usage rights of assets is used as the basis for determining the useful lives of permits (fish farming and slaughter permits) and connection fees as well as software licenses.

Intangible assets with finite useful lives are tested for impairment whenever there is any indication of impairment.

## IMPAIRMENT OF ASSETS

Intangible assets with indefinite useful lives (including goodwill) are not subject to amortisation but they are tested annually for impairment by comparing their carrying amounts with their recoverable amount. Items of property, plant and equipment with unlimited useful lives (land) and assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and compared with the carrying amount.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Goodwill is tested for impairment by performing an impairment test on the cash-generating unit which goodwill has been allocated to. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in profit or loss of the reporting period.

At each balance sheet date, impaired assets are evaluated to determine whether it is probable that the recoverable amount of the assets has increased (except for goodwill whose impairment losses are not reversed). If the impairment test indicates that the recoverable value of an asset or group of assets (cash-generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in the profit or loss as a reduction of the impairment loss.

## BIOLOGICAL ASSETS

Biological assets are recognised in the statement of financial position when the asset is controlled by the Group, it is expected that future economic benefits associated with the asset will flow to the Group and the fair value of the asset or its cost can be determined reliably.

Biological assets are carried in the separate line "Biological assets" in the statement of financial position.

Biological assets are fish stocks, including the following fish species:

- rainbow trout (*Oncorhynchus mykiss*)
- whitefish (*Coregonus lavaretus*)

Biological assets are classified based on their stage of completion, which are relevant for formation of market prices.

Accounting policies for each class of biological assets have been determined as follows:

- Fries (fertilised roe and up to 250 g fries)

Fries are carried at fair value. Fair value is determined on the basis of the biomass volume of fry and its weighted average market price at the balance sheet date.

- Juveniles (250 g fries up to fish suitable for harvesting)

The fair value of juveniles cannot be determined reliably due to the absence of an active market, and they are carried in the statement of financial position at cost. The direct expenditures incurred in breeding the juveniles to fish suitable for harvesting is capitalised as part of the cost.

At each balance sheet date, the cost is compared with the net realisable value of the juveniles. The net realisable value is the estimated fair value of fish suitable for harvesting at the time the juveniles are expected to become

suitable for harvesting, less estimated costs on breeding the juveniles to make them suitable for harvesting, and on subsequent sale. When it is probable that the cash flows from future sales cover both the cost as well as the additional expenditure related to breeding and sale, juveniles are recognised at cost. Otherwise, juveniles are written down to their net realisable value. Impairment losses are recognised in profit or loss.

- Fish suitable for harvesting (reclassification from juveniles to fish suitable for harvesting is based on the weight which depends on fish species)

On initial recognition (at acquisition or reclassification from juveniles) and at each balance sheet date, the fish suitable for harvesting are measured at their fair value less estimated costs to sell. The basis for determination of fair value is the estimated biomass of fish suitable for harvesting, less the weight loss occurring at disposal, and the weighted average market price at the balance sheet date, i.e. the latest market price for similar assets sold by independent parties, adjusted for the effect of existing differences, assuming no major changes have occurred in the economic environment between the transaction date and the balance sheet date. In the areas where external market prices are unavailable, the estimate is based on internal market prices. The quality class (higher or regular) is also taken into account in the determination of prices.

Costs to sell include fees to intermediaries, levies and non-refundable taxes. Costs to sell do not include transportation and other costs necessary to get an asset to a market, however, such expenditures are taken into account when determining fair value.

Subsequent expenditure directly related to bringing the immature biological assets up to the point they are suitable for harvesting are capitalised as part of the cost of biological assets. The cost is adjusted periodically by the re-measurement of the biological assets at fair value.

Gains and losses arising from fair value adjustments of biological assets are recognised in the separate line "Fair value adjustment on biological assets" in the statement of comprehensive income. Agricultural produce is recognised at fair value less estimated costs to sell.

## FINANCE AND OPERATING LEASES

Leases of property, plant and equipment which transfer all significant risks and rewards of ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

### The Group is the lessee

Assets acquired under the finance lease terms are recognised in the statement of financial position at the lower of the fair value of the asset, and the present value of minimum lease payments. Each lease payment is allocated between the finance charges (interest expense) and reduction of the liability. Finance costs are allocated to rental period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance leases are depreciated similarly to other non-current assets whereas the depreciation period is the shorter of the useful life of the asset and the lease term (if there is no reasonable certainty that the lessee will obtain ownership).

Operating lease payments are recognised in the statement of comprehensive income as expenses on a straight-line basis over the lease term. Fees payable to the lessor upon the conclusion of lease agreements are treated as part of the lease transaction and these fees are recognised as prepaid rent in the statement of financial position and as a rental expense on a straight-line basis over the lease term.

## The Group is the lessor

Assets leased out under the operating lease terms are recognised similarly to other assets recognised in the consolidated statement of financial position. For depreciation of assets that are leased out, the Group uses the depreciation policies applied to similar assets. Operating lease payments are recognised on a straight-line basis over the lease term.

## FINANCIAL LIABILITIES

All financial liabilities (trade payables, other short and long-term liabilities, borrowings) are initially recognised at their fair value, less any transaction costs. They are subsequently recognised at amortised cost, using the effective interest rate method.

The amortised cost of the current financial liabilities generally equals their nominal value; therefore current financial liabilities are stated in the statement of financial position at redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest expense is calculated on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as long-term, are recognised as short-term borrowings. Also, borrowings are classified as short-term if the lender had at the balance sheet date the contractual right to demand immediate payment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs (interest) to finance the construction of assets are capitalised during the period that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed at the time they are incurred.

## PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the statement of financial position when the Group has an obligation (legal or contractual) as a result of an event which occurred before the balance sheet date; it is probable that an outflow of resources is required to settle the obligation, but the final amount or settlement date of the obligation is not exactly known.

Provisions are recognised based on management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the statement of financial position in the amount which according to the management's estimate is required to settle the present obligation at the end of the reporting period or to transfer it to a third party at that time. Provisions are recognised at a discounted value (present value of the expenditures expected to be required to settle the obligation), unless the discounting effect is immaterial. The expenses related to provisions are recognised in the statement of comprehensive income

Other obligations whose realisation is not probable or the amount of the obligation cannot be measured with sufficient reliability but which in certain circumstances may become liabilities are disclosed in the notes to the financial statements as contingent liabilities (Note 30).



## CORPORATE INCOME TAX AND DEFERRED INCOME TAX

Income tax assets and liabilities, and income tax expenses and income comprise current (payable) income tax and deferred income tax. Payable income tax is classified as a current asset or a liability; and deferred income tax as a non-current asset or a liability.

### Estonian entities of the Group

According to the applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on their profits. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The effective tax rate is 20/80 (2015: 20/80) of the amount paid out as net dividends. As it is the dividends and not the profit that is subject to income tax, no temporary differences between the taxable values and the carrying amounts of assets and liabilities arise, which could give rise to deferred income tax assets and liabilities.

Income tax payable on dividends is recognised as an income tax expense in the statement of comprehensive income and as a liability in the statement of financial position at the time dividends are declared, regardless of the actual payment date or the period for which dividends are paid. An income tax liability is due at the 10th day of the month following the payment of dividends.

### Foreign entities of the Group

In Sweden and Finland corporate profits are taxable with income tax. For identification of the taxable income, the pre-tax profit is adjusted for temporary or permanent income and expense additions as required by local income tax laws.

For foreign subsidiaries, deferred income tax assets or liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised in the statement of financial position only when it is probable that future taxable profit will be available against which the deductions can be made.

Income tax rate in Sweden is 22% (2015: 22%) and in Finland 20% (2015: 20%).

## REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, taking into account any trade discounts and volume rebates granted.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recorded upon rendering of the service, or based on the stage of completion if services are performed over a longer period of time.

Interest and dividend income is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Interest income is recognised using the effective interest rate of an asset. Dividends are recognised when the right to receive payment is established.

## SHARE CAPITAL

Ordinary shares are included within equity. The expenditures related to the issue of ordinary shares are recognised as a reduction of equity. Treasury shares repurchased by the parent company are recognised as a reduction of equity (in the line item "Treasury shares"). Disbursements and contributions related to treasury shares are recognised in equity.

## STATUTORY RESERVE CAPITAL

Reserve capital is formed to comply with the requirements of the Commercial Code of the Republic of Estonia. During each financial year, at least 5% of the net profit shall be transferred to reserve capital until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss or to increase share capital. Payments shall not be made to shareholders from reserve capital.

## EARNINGS PER SHARE

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares issued. Treasury shares are not included in the weighted average number of shares. Diluted earnings per share are calculated by adjusting the net profit and the weighted average number of shares outstanding for the effects of dilutive potential ordinary shares.

## PAYABLES TO EMPLOYEES

Payables to employees include the performance pay payable to employees on the basis of employment contracts which are calculated by reference to the Group's financial results and fulfilment of the employees' individual performance objectives. Performance pay is recognised as an expense and a payable to employees if the disbursement takes place during the next reporting period. In addition to performance pay, this accrual also includes expenses on social security tax and unemployment insurance tax calculated on the performance pay. Payables to employees include the accrued vacation pay calculated according to employment contracts and employment laws effective in Estonia.

The Group makes contributions to several mandatory funded pension funds, which are recognised as expenses in the statement of comprehensive income (this expense is included within the social security tax for the parent company and the subsidiaries located in Estonia). The Group has neither a legal nor a factual obligation to make other pension or similar payments in addition to those mentioned above.

## GOVERNMENT GRANTS

Government grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants for non-current assets are included within non-current liabilities and are credited to income in the income statement over the useful life of the acquired asset.

### NOTE 3. FINANCIAL RISKS

The Group's risk management policy is based on the requirements established by regulatory bodies, generally accepted practices and the Group's internal rules. The Group is guided by the principle to manage risks in a manner that ensures an optimal risk to reward ratio. As part of the Group's risk management, all potential risks, their measurement and control are defined, and an action plan is prepared to reduce risks while ensuring the attainment of the Company's financial and other strategic objectives.

The Management Board of the Parent Company has the main role in management of risks. The Supervisory Board of the Parent Company exercises supervision over the measures taken by the Management Board to manage risks. The Group assesses and limits risks through systematic risk management. For managing financial risks, the Group has involved its financial unit that finances the Parent Company as well as its subsidiaries and, directly as a result of that, also manages liquidity risk and interest rate risk.

#### Financial instruments by category

FINANCIAL ASSETS AT 31.12.2016				FINANCIAL LIABILITIES AT 31.12.2016	
EUR '000	Available for sale financial assets	Loans and receivables	Total	EUR '000	Liabilities at amortised cost
Cash and bank (Note 5)	0	4,374	4,374	Borrowings (Note 15)	4,656
Trade receivables (Note 6)	0	3,546	3,546	Trade payables (Note 16)	3,969
Other receivables (Note 6)	0	7	7	Other payables (Note 16)	14
Long-term financial investments	69	0	69		
<b>Total</b>	<b>69</b>	<b>7,927</b>	<b>7,996</b>	<b>Total</b>	<b>8,639</b>

FINANCIAL ASSETS AT 31.12.2015				FINANCIAL LIABILITIES AT 31.12.2015	
EUR '000	Available for sale financial assets	Loans and receivables	Total	EUR '000	Liabilities at amortised cost
Cash and bank (Note 5)	0	1,921	1,921	Borrowings (Note 15)	1,349
Trade receivables (Note 6)	0	3,182	3,182	Trade payables (Note 16)	2,322
Other receivables (Note 6)	1	7	8	Other payables (Note 16)	2
Long-term financial investments	71	0	71		
<b>Total</b>	<b>72</b>	<b>5,110</b>	<b>5,182</b>	<b>Total</b>	<b>3,673</b>

Management of financial risks is a significant and integral part in managing the Group's business processes. The ability of the management to identify, measure and control different risks have a significant effect on the Group's profitability. Risk is defined by the Group's management as a possible negative deviation from the expected financial result.

The activities of the Group are accompanied by several financial risks, of which the credit risk, liquidity risk and market risk, including currency risk and interest rate risk, have the most significant influence.

## CREDIT RISK

Credit risk expresses a potential loss that arises in the event of clients failing to perform their contractual obligations. To reduce credit risk, the payment discipline of clients is consistently monitored.

To minimize credit risk, solvency of a potential future contractual partner is assessed based on the information received from the Commercial Register, Tax Board or other public sources. Contracts for purchase and sale of products are concluded with all contractual partners, and a payment term is granted only to reliable partners. If possible, the Group uses factoring without recourse as an additional measure to manage credit risk.

Maximum credit risk that arises from the Group's trade receivables is presented below:

TRADE RECEIVABLES						
EUR '000	Not yet due	Not impaired, past due up to 90 days	Not impaired, past due over 90 days	Impaired	Total	
31.12.2016	2,697	747	102	12	3,558	
31.12.2015	2,674	412	100	15	3,201	

In 2016, the Group wrote off doubtful receivables in the amount of EUR 3 thousand (2015: EUR 11 thousand), in accordance with the Group's rules for assessing trade receivables on the basis of expected cash flows. The client base of the Group is stable and long-term and up to now the credit history has not given base to write off receivables which are past due up to 90 days. At the time of preparing this report, majority of receivables have been settled.

### TRADE RECEIVABLES (NOT DUE) BY COUNTRY

EUR '000	2016	2015
Finland	1,506	1,314
Estonia	1,191	1,356
Sweden	0	4
Total trade receivables not due (Note 6)	2,697	2,674

The Group mostly accepts banks and financial institutions with a rating of "A" as long-term counterparties in Baltic states and Scandinavia. As at 31.12.2016 available funds are held in Danske, SEB, Pohjola and Swedbank banks, whose credit rating according to Moody's Investor Service is „A“. As at 31.12.2015 available funds were held Danske, SEB, Pohjola, Swedbank and banks, whose credit rating according to Moody's Investor Service as at 31.12.2015 was „A“.

See Note 6.

## LIQUIDITY RISK

Liquidity risk represents a threat to solvency of the company. Liquidity risk means that the Group might not have available resources to settle its financial liabilities in a timely manner.

The Group aims at keeping the financing need and financing possibilities of the Group in balance. Cash flow planning is used as a tool to manage liquidity risks. For efficient management of the Group's cash flows, the bank accounts of the Parent Company and Estonian subsidiaries make up a cash pool account that enables the members of the cash pool account to use the Group's financial resources within the limit established by the Parent Company.

To manage liquidity risks, the Group uses different financing sources, including bank loans, overdraft facilities, continuous monitoring of trade receivables and delivery contracts.

Overdraft facilities are used to finance working capital. Long-term bank loans or finance lease agreements are used to purchase non-current assets.

As at 31 December 2016, the Group's working capital was EUR 12,398 thousand and as at 31 December 2015 EUR 11,388 thousand.

The management considers it important to monitor liquidity risks; the additional need for capital can be covered by overdraft facilities or by refinancing the loan portfolio. The overdraft facility was used in amount of 3,367 thousand euros as at the balance sheet date. As at 31.12.2015, the balance of the unused overdraft facility was 0 thousand euros.

#### Analysis of undiscounted financial liabilities by due date

##### FINANCIAL LIABILITIES AT 31.12.2016

EUR '000	less than 3 months	from 3 to 12 months	from 1 to 5 years	Total
Borrowings	101	3,649	981	4,731
Trade and other payables	3,966	17	0	3,983
<b>Total liabilities</b>	<b>4,067</b>	<b>3,666</b>	<b>981</b>	<b>8,714</b>

##### FINANCIAL LIABILITIES AT 31.12.2015

EUR '000	less than 3 months	from 3 to 12 months	from 1 to 5 years	Total
Borrowings	77	231	1,109	1,418
Trade and other payables	2,324	0	0	2,324
<b>Total liabilities</b>	<b>2,401</b>	<b>231</b>	<b>1,109</b>	<b>3,742</b>

Interest cash flows are recognised using the spot interest rates as at the balance sheet date.

## CURRENCY RISK

Currency risk arises when business transactions, assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is operating in Estonia (currency EUR), Finland (currency EUR) and Sweden (currency SEK). For hedging the currency risk, all substantial agreements with foreign parties are signed in EUR. The Group has no substantial receivables and liabilities in foreign currency, which is not bound with EUR. Majority of existing long-term capital rent contracts are signed in EUR, therefore they are treated as liabilities free from currency risk.

### Financial instruments at 31 December 2016 according to the underlying currency

EUR '000	EUR	SEK	CAD	USD	Total
Cash and bank (Note 5)	4,342	32	0	0	4,374
Trade receivables (Note 6)	3,186	0	0	360	3,546
Other receivables (Note 6)	7	0	0	0	7
Long-term financial investments	69	0	0	0	69
<b>Total financial assets</b>	<b>7,604</b>	<b>32</b>	<b>0</b>	<b>360</b>	<b>7,996</b>
Borrowings (Note 15)	-4,645	-11	0	0	-4,656
Trade payables (Note 16)	-3,799	-113	-55	-2	-3,969
Other payables (Note 16)	-14	0	0	0	-14
<b>Total financial liabilities</b>	<b>-8,458</b>	<b>-124</b>	<b>-55</b>	<b>-2</b>	<b>-8,639</b>
<b>Net currency position</b>	<b>-854</b>	<b>-92</b>	<b>-55</b>	<b>358</b>	<b>-643</b>
The potential change in average foreign currency rate against euro (%)	-	1.23%	1.64%	-0.28%	-
Effect of exchange rate change on profit	-	±1	±1	±1	-

The effect of exchange rate on profit is calculated using potential change in foreign currency rate against euro using balance as of 31.12.2016. Potential change in foreign currency rate is annual change in rate against Euro.

### Financial instruments at 31 December 2015 according to the underlying currency

EUR '000	EUR	SEK	Total
Cash and bank (Note 5)	1,911	10	1,921
Trade receivables (Note 6)	3,178	4	3,182
Other receivables (Note 6)	7	1	8
Long-term financial investments	68	3	71
<b>Total financial assets</b>	<b>5,164</b>	<b>18</b>	<b>5,182</b>
Borrowings (Note 15)	-1,342	-7	-1,349
Trade payables (Note 16)	-2,226	-96	-2,322
Other payables (Note 16)	-2	0	-2
<b>Total financial liabilities</b>	<b>-3,570</b>	<b>-103</b>	<b>-3,673</b>
<b>Net currency position</b>	<b>1,594</b>	<b>-85</b>	<b>1,509</b>
The potential change in average foreign currency rate against euro (%)	-	2.78%	-
Effect of exchange rate change on profit	-	± 2	-



Pursuant to the above, the management considers that the Group is not significantly exposed to currency risks and therefore has not used financial instruments to secure itself against currency risks that may arise from business transactions, assets and liabilities in the future. Information on foreign exchange gains and losses is provided in Note 26.

Possible impact of foreign exchange risks on the result of 2016 and 2015 is calculated on the percentage impact of the factual average exchange rate change of SEK (Swedish krona), CAD (Canadian dollar) and USD (US dollar) during the reporting period in relation to euro to the net currency position.

## INTEREST RATE RISK

In case of short- and long-term loans, the Group uses interest rates based on EURIBOR base interest. In managing interest rate risks, possible losses arising from changes in interest rates are regularly compared to the expenses incurred for hedging them.

If at 31 December 2016 or 31 December 2015, the base interest were 10 basis points lower or higher, interest expenses would be EUR 2 thousand (31.12.2015: EUR 2 thousand) higher or lower. Loans with a floating interest rate are linked to 1 to 6-month EURIBOR depending on the instrument.

### An overview of the Group's exposure to interest rate risk at 31 December 2016 and 31 December 2015

<b>BALANCE AS AT 31.12.2016</b>			
EUR '000	less than 1 year	over 1 year	Total
Floating interest rate			
Interest bearing liabilities (Note 15)	3,716	940	4,656
Net position	3,716	940	4,456
<b>BALANCE AS AT 31.12.2015</b>			
EUR '000	less than 1 year	over 1 year	Total
Floating interest rate			
Interest bearing liabilities (Note 15)	286	1,063	1,349
Net position	286	1,063	1,349

## CAPITAL MANAGEMENT

The Group's capital consists of borrowings and total equity. As at 31.12.2016 the equity totalled 23,809 thousand euros (31.12.2015: 23,221 thousand euros). The Group's principle is to maintain strong equity base with the purpose of maintaining credibility for shareholders, creditors and the market as well as for ensuring sustainable development of the Company. In the long term, the Company's objective is to increase shareholder income and to ensure the capacity to pay dividends.

For preserving or improving the capital structure, the Group may regulate the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce the debt.

The Group considers it important to ensure that its equity structure is at the optimum level. Therefore, it is monitored that the Group's equity-to-assets ratio is at least 35% (31.12.2016: 67.9%, 31.12.2015: 78.8%) and that the ratio of interest-bearing liabilities to assets does not exceed 25% (31.12.2016: 13.3%, 31.12.2015: 4.6%). According to the overdraft contract signed with AS SEB Pank, the Company's working capital financing rate cannot fall below 70% and the Group has met this requirement. Working capital financing rate is calculated using following formula: Trade receivables + Inventories + Prepayment of taxes – Trade payables.

According to the practice prevailing in the industry, the Group uses the debt to equity ratio to monitor capital. That ratio is arrived at by dividing net debt by total capital. Net debt equals total debt (total amount of short-term and long-term borrowings recognised in the consolidated statement of financial position) less cash and cash equivalents.

EUR '000	31.12.2016	31.12.2015
Total borrowings	4,656	1,349
Less: Cash and cash equivalents	4,374	1,921
Net debt	282	-572
Total equity	23,809	23,221
Total capital (net debt + equity)	24,091	22,649
Debt to equity ratio	1%	-3%

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

The Group's management estimates that the carrying amounts of financial assets and liabilities carried at amortised cost are not significantly different from their fair values at 31 December 2016 and 31 December 2015. Cash and bank balances, trade receivables, other receivables, trade payables and other payables are expected to be settled within 12 months or are recognised immediately before the balance sheet date and therefore their fair value is not significantly different from their carrying amount. The Group's long-term borrowings have a floating interest rate that changes according to fluctuations in the market interest rates. The Group's management estimates that the Group's risk level has not significantly changed since the assumption of borrowings. Thus, the fair value of non-current financial liabilities is approximately equal to their carrying amount.

## NOTE 4. MANAGEMENT JUDGEMENTS AND ESTIMATES

The preparation of financial statements in compliance with IFRSs requires the use of accounting estimates. It also requires management to make judgements in the process of application of the accounting policies. Estimates and judgments are reviewed on an ongoing basis and they are based on historical experience and other factors, including projections of future events which are believed to be reasonable under the circumstances. The management makes certain judgements (in addition to judgments related to estimates) in the process of application of the accounting policies. The estimates that have a significant impact on the information presented in these financial statements and assumptions which may cause material adjustments to the carrying amounts of assets and liabilities within the next reporting period include: assessment of quantities and fair value of biological assets (Note 8), assessment of net realisable value of assets (Note 7, 20), impairment of goodwill (Note 12), useful life of property, plant and equipment (Note 11) and recoverability of trade receivables (Note 6).

## ASSESSMENT OF QUANTITIES AND FAIR VALUE OF BIOLOGICAL ASSETS (NOTE 8)

Assessment of the fair value of biological assets always involves consideration of certain estimates, although the Group has internal experts to assess these factors. The quantity of the biomass is an estimated figure that is based on juvenile fish let to a lake or sea, their expected growth and death rates, based on the death rate coefficient identified during the period. The quantity is adjusted by descaling losses. The Group tests the biomass by conducting the actual test weighing of fish inventories at least once a year. The group did not perform the weighing of fish inventory in autumn in Sweden due to the experience from previous year where we have discovered that the weighing in autumn will cause water mould on fish due to the unsuitable water temperature. This will result with a bigger death rate. In order to estimate the biomass, calculatory model was used. The results of the usage of model have not materially differed from real weighing during previous periods. Due to the weather conditions and the amount of time required for the process, physical inventory cannot be taken at the balance sheet date.

**The following model is used to determine the biomass of fish:**

final biomass = initial biomass + feed given to fish / feed coefficient – perished fish

The Group uses special computer programmes and a web-based programme (Finnish marine farms) developed by the Company itself for calculating the biomass. The Group makes its estimates according to its best knowledge, relying on its previous experience. The results of inventory checks in the spring are influenced by losses incurred over the winter period (mortality of fish) which during recent years has been up to 8.4% and which has been taken into account in the valuation of fish inventories.

The positive change in fair value of biological assets was 2.3 million euros (2015: -0,9 million euros) (Note 8). The Group incurred loss in 2016 in the amount of EUR 251 thousand (2015: EUR 89 thousand) from the write off of biological assets (Note 8).

#### ESTIMATING NET REALISABLE VALUE OF INVENTORIES (NOTE 7)

The management assesses inventories on the basis of available information, taking into account historical experience, general background information and possible assumptions and conditions of future events. For finished goods, write down of inventories is determined on the basis of their sales potential and net realisable value. Raw materials are assessed on the basis of their potential to be used for preparation of finished goods and generating revenue. Work-in-progress is assessed on the basis of stage of completion that can be reliably measured.

The Group incurred loss in 2016 in the amount of EUR 10 thousand (2015: EUR 195 thousand) from the write off of inventories.

#### ASSESSMENT OF IMPAIRMENT OF GOODWILL AND USEFUL LIVES OF INTANGIBLE ASSETS (NOTE 12)

As at 31.12.2016 the management has carried out impairment test of goodwill. The balance sheet value of goodwill was 4 370 thousand euros as at 31.12.2016. As a result of the impairment test, no impairment loss on goodwill was recognised in 2016 or 2015. If the values used for market-based comparable multiples would be 23.2% (2015: 33.6%) lower, the recoverable amount of goodwill would be equal to the carrying amount in the balance sheet.

The management has determined the useful lives of intangible assets considering the business conditions and volumes, past experience in the area, and future outlooks. The balance sheet value for intangible assets was 1 301 thousand euros as at 31.12.2016. If the useful life of intangible assets would be one year longer, the positive effect to the income statement would be EUR 8 thousand and if the useful life would be one year shorter, the negative effect to the income statement would be EUR -5 thousand.

#### ASSESSMENT OF USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT (NOTE 11)

The management has assessed the useful lives of property, plant and equipment, relying on the volume and conditions of production, past experience and future projections. If the useful life of property, plant and equipment would be one year longer, the positive effect to the income statement would be EUR 126 thousand and if the useful life would be one year shorter, the negative effect to the income statement would be EUR -181 thousand.

## ASSESSMENT OF RECOVERABILITY OF TRADE RECEIVABLES (NOTE 3, 6)

The management assesses accounts receivable on the basis of its best knowledge, taking also into account past experience. The Group uses an individual assessment of the amount of the receivables. Generally the receivables shall be deemed to be uncollectible if:

- the buyer does not correspond to the reminder letters from the company;
- the company has submitted the claim against the buyer;
- the buyer is declared bankrupt;
- the owners/shareholders of the buyer or the court has decided to terminate the company's operations.

The Group wrote off balance sheet the receivables in year 2016 in the amount of 3 thousand euros (2015: 11 thousand euros) with the write off of doubtful and uncollectible receivables.

## NOTE 5. CASH AND CASH EQUIVALENTS

EUR '000	31.12.2016	31.12.2015
Cash on hand	9	13
Bank accounts	4,365	1,908
Total cash and cash equivalents	4,374	1,921

## NOTE 6. RECEIVABLES AND PREPAYMENTS

EUR '000	31.12.2016	31.12.2015
Trade receivables	3,558	3,197
Allowance for doubtful receivables	-12	-15
Other receivables	7	7
Prepaid expenses	133	134
Prepaid taxes	290	180
Other prepayments	80	150
Total receivables and prepayments	4,056	3,653

The aging analysis of trade receivables is disclosed in Note 3 and 4. A commercial pledge set as collateral for loans also covers receivables (see Note 15).

## CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES

EUR '000	31.12.2016	31.12.2015
Allowance for doubtful receivables at beginning of the period	-15	-4
Receivables recognised as doubtful receivables during the reporting period	0	-11
Receivables written off the balance sheet during the reporting period	3	0
Allowance for doubtful receivables at end of the period	-12	-15

## NOTE 7. INVENTORIES

EUR '000	31.12.2016	31.12.2015
Raw materials and materials	2,703	2,488
Work-in-progress	903	1,158
Finished goods	1,281	1,302
Goods purchased for sale	484	648
Prepayments for inventories and goods in transit	22	20
<b>Total inventories</b>	<b>5,393</b>	<b>5,616</b>

The Group incurred a loss in 2016 in the amount of EUR 10 thousand (2015: EUR 195 thousand) from the write off of inventories.

A commercial pledge set as collateral for loans also covers inventories (see Note 4 and 15).

## NOTE 8. BIOLOGICAL ASSETS

BIOLOGICAL ASSETS		
EUR '000	31.12.2016	31.12.2015
Fries	629	244
Juveniles	1,347	1,742
Fish suitable for harvesting	5,608	2,435
<b>Total biological assets</b>	<b>7,584</b>	<b>4,421</b>

As at 31.12.2016, biological assets totalled 1,418 tons (31.12.2015: 1,215). In the financial year, agricultural produce in the amount of 2,045 tons (2015: 2,185 tons) was harvested.

The Group produces in its fish farms located in Finland and Sweden mainly rainbow trout (*Oncorhynchus mykiss*), and, in a lesser degree, also whitefish (*Coregonus lavaretus*). Rainbow trout in its fish farms located in Finland and Sweden, makes up 99% (2015: 99%) of its total annual fish volume. The Group uses the Norwegian export statistics for evaluation of the fish stocks of rainbow trout /Source: <http://www.akvafakta.no/>. For valuation of the fish stocks of whitefish, the monthly market price survey of the Finnish Fish Farmers' Association.

The aggregate gain attributable to the growth of biological assets and the changes in fair value less costs to sell of biological assets amounted to EUR 7,880 thousand (2015: EUR 4,147 thousand), comprising of amounts presented under "additions" and "fair value adjustments" above.

In the amount of "additions", the Group has capitalised subsequent expenditures incurred on development of immature biological assets, therefore in the income statement, only the gain/loss from "fair value adjustments" is presented as a separate line.



CHANGE IN BIOLOGICAL ASSETS		
EUR '000	2016	2015
Biological assets at beginning of the period	4,421	5,583
Purchased	1,431	860
Additions	5,617	5,035
Fair value adjustments	2,263	-888
Harvested	-5,748	-6,156
Written off	-251	-89
Exchange rate differences	-149	76
Biological assets at end of the period	7,584	4,421

Group measures biological assets in fair value or acquisition cost.

The fair value of fries is determined by purchase offers and volume of biomass, which on 31.12.2016 was 61 tons (31.12.2015: 16 tons). If the volume of biomass or the price of purchase offers were 1% higher or lower, the fair value of fries would be respectively EUR 6 thousand higher or lower on the balance sheet date (2015: EUR 3 thousand).

The fair value of juveniles cannot be determined reliably due to the absence of an active market, and they are carried in the statement of financial position at cost. At each balance sheet date, the cost is compared to the net realisable value of the juveniles. On 31.12.2016 management estimated based on historical experience that the net realisable value of juveniles is not relatively lower than the acquisition cost. Therefore in the 31.12.2016 and 31.12.2015 financial statements juveniles were measured in their acquisition cost.

Fish suitable for harvesting is measured at their fair value, taking into consideration the latest market price for similar assets which is corrected with the influence of existing differences. In order to determine the fair value of Fish suitable for harvesting the Management used the following inputs besides market value:

- Gutting loss 5% (31.12.2015: 5%)
- Harvesting cost 16% (31.12.2015: 16%)
- Volume of biomass suitable for harvesting 962 tons (31.12.2015: 720 tons)

Group classifies such biological assets in fair value on Level 3.

**FOLLOWING IS THE POSSIBLE EFFECT TO THE FAIR VALUE OF FISH SUITABLE FOR HARVESTING IN CASE OF CHANGE IN INPUTS:**

EUR '000	Market price		Harvesting loss		Gutting expenses		Volume of biomass	
	+1%	-1%	-1pp	+1pp	-1pp	+1pp	+1%	-1%
31.12.2016	+64	-57	+68	-68	+65	-61	+62	-62
31.12.2015	+23	-30	+28	-28	+21	-28	+27	-27

## NOTE 9. SUBSIDIARIES

GROUP COMPANIES					
Subsidiary	Domicile	Ownership interest 31.12.2016	Ownership interest 31.12.2015	Area of activity	Owner
<b>Saaremere Kala AS</b>	Estonia	100%	100%	Holding company of fish segment	PRFoods AS
<b>Vettel OÜ</b>	Estonia	100%	100%	Production of fish products	Saaremere Kala AS
<b>GourmetHouse OÜ</b>	Estonia	100%	100%	Sale of fish and fish products	Saaremere Kala AS
<b>Heimon Kala Oy</b>	Finland	100%	100%	Fishfarming, processing and sale of fish and fish products	Saaremere Kala AS
<b>Överumans Fisk Ab</b>	Sweden	100%	100%	Fishfarming and sales	Heimon Kala Oy

The ownership percentage of subsidiaries' equity represents their voting rights. The shares of subsidiaries are not listed on a stock exchange.

## NOTE 10. DEFERRED INCOME TAX

DEFERRED INCOME TAX ASSET			
EUR '000	Tax losses	Other	Total
Deferred income tax assets as at 01.01.2015	65	38	103
Impact on income statement	33	0	33
Impact on other comprehensive income	2	0	2
Deferred income tax assets as at 31.12.2015	100	38	138
Impact on income statement	96	0	96
Impact on other comprehensive income	-4	0	-4
Deferred income tax assets as at 31.12.2016	192	38	230

EUR '000	Accelerated income tax amortisation	Fair value adjustment	Other	Total
Deferred income tax liability as at 01.01.2015	58	268	131	457
Impact on income statement	-7	-194	-4	-205
Deferred income tax liability as at 31.12.2015	51	74	127	252
Impact on income statement	2	497	-4	495
Deferred income tax liability as at 31.12.2016	53	571	123	747

See also Note 27.

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT

EUR '000	Land and buildings	Machinery and equipment	Other tangible assets	Construction in progress, prepayments	Total
Cost at 31.12.2014	5,132	7,277	482	213	13,104
Accumulated amortisation at 31.12.2014	-2,478	-3,913	-229	0	-6,620
Carrying amount at 31.12.2014	2,654	3,364	253	213	6,484
<b>Changes occurred in 2015</b>					
Unrealised currency effect	12	24	3	0	39
Acquired during the period	266	1,629	93	0	1,988
Re-classification	77	0	0	-77	0
Depreciation	-251	-747	-56	0	-1,054
Assets sold and written off	0	-28	-2	0	-30
Carrying amount at 31.12.2015	2,758	4,242	291	136	7,427
Cost at 31.12.2015	5,497	8,762	574	136	14,969
Accumulated amortisation at 31.12.2015	-2,739	-4,520	-283	0	-7,542
Carrying amount at 31.12.2015	2,758	4,242	291	136	7,427
<b>Changes occurred in 2016</b>					
Unrealised currency effect	-21	-42	-4	0	-67
Acquired during the period	137	462	76	386	1061
Re-classification	188	300	0	-488	0
Depreciation	-265	-805	-63	0	-1,133
Assets sold and written off	0	-1	-2	0	-3
Carrying amount at 31.12.2016	2,797	4,156	298	34	7,285
Cost at 31.12.2016	5,783	9,361	642	34	15,820
Accumulated amortisation at 31.12.2016	-2,986	-5,205	-344	0	-8,535
Carrying amount at 31.12.2016	2,797	4,156	298	34	7,285

In the financial year, property, plant and equipment were purchased under the finance lease terms in the total amount of EUR 0.3 million euros (2015: EUR 1.0 million euros).

Property, plant and equipment acquired under the finance lease terms are disclosed in Note 13. Additional information about collateral for loans is disclosed in Note 15.

## NOTE 12. INTANGIBLE ASSETS

EUR '000	Goodwill	Trademarks and patents	Immaterial rights	Software licenses	Pre-payments	Total
Cost at 31.12.2014	4,730	1,091	808	202	279	7,110
Accumulated amortisation at 31.12.2014	0	-432	-275	-185	0	-892
Carrying amount at 31.12.2014	4,730	659	533	17	279	6,218
<b>Changes occurred in 2015</b>						
Unrealised currency effect	0	-1	0	0	10	9
Acquired during the period	0	0	0	13	0	13
Re-classification	0	0	51	71	-122	0
Depreciation	0	-55	-25	-27	0	-107
Sale in business combination	0	-5	0	0	0	-5
Carrying amount at 31.12.2015	4,730	598	559	74	167	6,128
Cost at 31.12.2015	4,730	1,085	859	286	167	7,127
Accumulated amortisation at 31.12.2015	0	-487	-300	-212	0	-999
Carrying amount at 31.12.2015	4,730	598	559	74	167	6,128
<b>Changes occurred in 2016</b>						
Unrealised currency effect	0	0	0	0	-4	-4
Acquired during the period	0	0	0	8	0	8
Depreciation	0	-55	-22	-24	0	-101
Carrying amount at 31.12.2016	4,730	543	537	58	163	6,031
Cost at 31.12.2016	4,730	1,085	859	294	163	7,131
Accumulated amortisation at 31.12.2016	0	-542	-322	-236	0	-1,100
Carrying amount at 31.12.2016	4,730	543	537	58	163	6,031

The parent company has carried out an impairment test for goodwill of AS Saaremere Kala Group as at 31 December 2016 using market-based comparable valuation multiples. Under the market-based method, an entity is compared with a similar entity in the same sector whose shares are traded in a market or which has recently been sold, and for which there is sufficient information available about the transaction price. In this case, the European manufacturers of food products, fish farms and fish product manufacturers are treated as the sector, and the price levels and various ratios of these companies have been compared. To determine the fair value, the average valuation multiples of the industry have been applied to the actual financial indicators of subsidiaries. For goodwill tests of AS Saaremere Kala the multiples used were EV/Sales<sup>1</sup> 0.7 (2015: 0.7) and EV/EBITDA<sup>2</sup> 9.1 (2015: 12.6) which both were assigned 50% weight. Using multiples, it was determined that AS Saaremere Kala entity value was 31.5 million euros (2015: 33.7 million euros). The book value of AS Saaremere Kala was 24.2 million euros (2015: 22.4 million euros), which was calculated using following formula: Goodwill + Equity + Debt – Cash.

The recoverable amount determined as a result of the test conducted on 31 December 2016 and 2015 is higher than the carrying amount. If the multiples were 23.2% (2015: 33.6%) higher, i.e. EV/Sales 0.5 (2015: 0.5) and EV/EBITDA 7.0 (2015: 8.3), then the recoverable amount would be equal to the carrying amount in the balance sheet.

<sup>1</sup> Entity Value/Sales

<sup>2</sup> Entity Value/EBITDA

## NOTE 13. FINANCE LEASE

EUR '000	Machinery, equipment
Cost as at 31.12.2016	2,279
Accumulated depreciation as at 31.12.2016	-264
Carrying amount as at 31.12.2016	2,015
Cost as at 31.12.2015	2,096
Accumulated depreciation as at 31.12.2015	-388
Carrying amount as at 31.12.2015	1,708

The Group is leasing under financial lease terms fish industry production equipment, fish harvesting equipment, a workboat, a tractor, passenger cars and computers. During the financial year, fixed assets were leased as financial lease in the total amount of 262 thousand euros (2015: 977 thousand euros). Of financial lease added during 2016, the majority are production equipment of Heimon Kala Oy. The outstanding lease terms are 1 years for the workboat, 0.1 year for the tractor and 2.5 years for the fish harvesting equipment and 4-5 years for industrial equipment.

EUR '000	2016	2015
Principal payments in the financial year	343	381
Interest expenses in the financial year	24	22
Average interest rate	1.78%	2.51%
Finance lease liabilities at 31 December, including:	1,268	1,349
Due in less than 1 year	328	286
Due between 1-5 years	940	1,063
Minimum finance lease payments:		
Due in less than 1 year	352	308
Due between 1-5 years	970	1,109
Total	1,322	1,418
Future interest expense of finance lease	-54	-69
Present value of finance lease liability	1,268	1,349

See also Note 11 and 15.

## NOTE 14. OPERATING LEASE

OPERATING LEASE PAYMENTS 2016							
EUR '000	Water areas	Machinery and equipment	Motor vehicles	Warehouse	Office premises	Software	Total
Operating lease expense in 2016	99	89	5	142	5	2	342
Future lease payments under non-cancellable lease agreements:							
Due in less than 1 year	97	64	17	31	1	0	210
Due between 1 and 5 years	391	129	10	0	0	0	530
Due after 5 years	0	0	0	0	0	0	0
<b>Total</b>	<b>488</b>	<b>193</b>	<b>27</b>	<b>31</b>	<b>1</b>	<b>0</b>	<b>740</b>

OPERATING LEASE PAYMENTS 2015							
EUR '000	Water areas	Machinery and equipment	Motor vehicles	Warehouse	Office premises	Software	Total
Operating lease expense in 2015	102	42	19	223	5	2	393
Future lease payments under non-cancellable lease agreements:							
Due in less than 1 year	99	39	14	5	1	0	158
Due between 1 and 5 years	398	79	2	0	0	0	479
Due after 5 years	7	0	0	0	0	0	7
<b>Total</b>	<b>504</b>	<b>118</b>	<b>16</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>644</b>

## NOTE 15. BORROWINGS

EUR '000	31.12.2016	31.12.2015
Finance lease liabilities (Note 13)	328	286
Overdraft	3,367	0
Factoring	21	0
<b>Total short-term loans</b>	<b>3,716</b>	<b>286</b>
Finance lease liabilities (Note 13)	940	1,063
<b>Total long-term loans</b>	<b>940</b>	<b>1,063</b>
incl. payable within 1-5 years	940	1,063

At 06.09.2016 AS Saaremere Kala and AS SEB Pank entered into a bank overdraft agreement, according to which a credit limit of 5,000 thousand euros for AS Saaremere Kala was agreed. The term of the overdraft facility is 30.04.2017 and the interest rate is 6 month EURIBOR + 1.7%. The bank overdraft is secured by a mortgage of 10.1 million euros, a commercial pledge of 4.0 million euros and AS PRFoods guarantee in amount of 5.0 million euros. AS Saaremere Kala and subsidiaries OÜ Vettel and OÜ Gourmethouse have signed new group account agreement with AS SEB Pank. The overdraft was used in the amount of 3.4 million euros as at 31.12.2016. The overdraft was not used as at 31.12.2015.



## NOTE 16. PAYABLES AND PREPAYMENTS

EUR '000	31.12.2016	31.12. 2015
Trade payables	3,969	2,322
Payables to employees	623	664
Interest payables	4	0
Other payables	10	2
Tax liabilities, incl.:	525	772
Social security tax	167	161
VAT	266	430
Personal income tax	77	82
Corporate income tax	0	84
Other taxes	15	15
<b>Total payables and prepayments</b>	<b>5,131</b>	<b>3,760</b>

## NOTE 17. GOVERNMENT GRANTS

EUR '000	2016	2015
Deferred income from government grants at the beginning of period	883	1,054
Change in value due to the exchange rates	-8	6
Recognition as income during the period	-162	-177
<b>Deferred income from government grants at the end of period</b>	<b>713</b>	<b>883</b>
incl. income within 1 year	162	177
incl. income within 2-17 years	551	706

The government grants have been granted for investments in Group's fish farming and fish processing in Sweden and Finland, as well as fish production facilities in Finland and Estonia.

## NOTE 18. EQUITY

As at 31.12.2016, the Company had 38,682,860 shares (31.12.2015: 38,682,860), including 653,182 treasury shares (31.12.2015: 429,555 treasury shares).

As of 01.07.2014, the Company initiated its own shares buy-back programme in accordance with the resolution of the general meeting of shareholders held on 29.05.2014, according to which up to 500,000 own shares will be bought back before 31 May 2017. The initial own shares buy-back programme was completed on 18.05.2016. The ordinary general meeting of shareholders held on 26 May 2016 adopted a resolution to expand the existing buy-back programme, according to which up to 500,000 additional own shares will be bought back before 29.05.2019. On 14 June 2016, the Management Board of AS PRFoods entered into a service agreement with AS SEB Pank to continue the implementation of the own shares buy-back programme.

The buy-back programme is implemented in compliance with the resolutions of the general meetings of shareholders held on 29.05.2014 and 26.05.2016, and Commission Regulation (EU) No. 2016/1052 of 8 March 2016 supplementing

Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

As at 31.12.2016, AS SEB Pank has acquired a total of 653,182 own shares with average price 0.3919 euro per share in the name and on behalf of AS PRFoods. As at 31.12.2015, the Company had bought back 429,555 own shares.

Basic earnings per share are calculated by dividing the net profit for the reporting period attributable to shareholders of the parent company by the weighted average number of shares of common stock outstanding.

### Decreasing share capital

At 31 December 2016, the Company's registered share capital was 7,736,572 euros. As at 31 December 2015 the Company's registered share capital was 7,736,572 euros.

The reduction of the share capital of AS PRFoods and the related changes in the Commercial Register were entered in the Commercial Register at 2 October 2015. The share capital was reduced in accordance with the decision of the General Meeting held at 28 May 2015 through reducing the nominal value of a share by 0.3 euros (30 euro cents), as a result of which the new nominal value of the share of AS PRFoods is 0.2 euros (20 euro cents). The total reduction of the share capital of AS PRFoods was 11,604,858 euros. The new amount of the share capital is 7,736,572 euros. The list of shareholders who participated in the reduction of the share capital was fixed as at 28 August 2015 at 23.59 and the distributions related to the reduction of the share capital in the amount of 0.3 euros (30 euro cents) per share were made to the shareholders at 4 January 2016. The reduction of the share capital was related to the adjustment of the Group's capital structure with the goal of bringing the return on equity and other ratios to a more adequate level.

In conjunction with the reduction of the share capital, the Company's Articles of Association were amended to the extent necessary for the recognition of the lower nominal value of the share. The amount of the minimum share capital as stipulated in the articles of association is EUR 7,000,000 and the maximum share capital is EUR 28,000,000. The new version of the Articles of Association of the company is available on the website of AS PRFoods [www.prfoods.ee](http://www.prfoods.ee).

List of shareholders with over 5% participation at the balance sheet date:

ING LUXEMBOURG S.A., CUSTODIAN FOR THE FOLLOWING SHAREHOLDERS				
EUR '000	Number of shares 31.12.2016	Ownership interest 31.12.2016	Number of shares 31.12.2015	Ownership interest 31.12.2015
Amber Trust II S.C.A	14,813,540	38.3%	14,813,540	38.3%
Amber Trust S.C.A	5,381,370	13.9%	5,381,370	13.9%
KJK Fund SICAV:SIF	4,063,456	10.5%	4,063,456	10.5%
<b>Total</b>	<b>24,258,366</b>	<b>62.71%</b>	<b>24,258,366</b>	<b>62.71%</b>

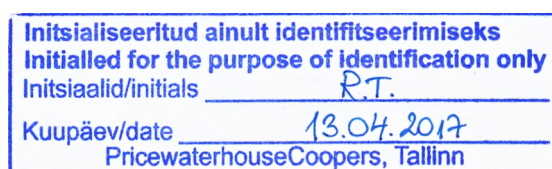
Earnings per share are presented in Note 28.

### Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve. Each year at least 1/20 of profit for the year has to be transferred to the capital reserve until the reserve amounts to 1/10 of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. The shareholders adopted a resolution at the general meeting held on 26 May to cover the retained loss from previous periods of AS PRFoods from reserve and share premium in the amount of 2,026,000 euros and transfer 12,400 euros from the profit of 2015 of the parent company to the reserve, and not to distribute the remaining profit. The loss covered from the reserve was in the amount of 6,500 euros.

PRFOODS

2016 Consolidated Annual Report



## NOTE 19. SEGMENT REPORTING

The Group's segments are determined based on the reports monitored and analysed by the Management Board of the Parent Company. The Management Board of the Parent Company monitors financial performance by business areas and geographic areas. Reports by business areas include information of more significant importance for the management of the Group for monitoring financial performance and allocating resources. Therefore, this division is used to define business segments.

Two business segments – the fish segment and other segments - are presented together since the proportion of other segments in business operations is marginal. The proportion of other segments was 0.08% in 2016 and 0.09% in 2015.

### SALES BY GEOGRAPHIC REGIONS

EUR '000	2016	2015
Finland	38,956	44,198
Estonia	4,974	4,841
Other	3,499	1,234
Total	47,429	50,273

### NON-CURRENT ASSETS BY LOCATION

EUR '000	2016	2015
Finland	4,803	5,201
Estonia	6,747	5,911
Sweden	1,766	2,443
Total	13,316	13,555

<sup>i)</sup> except deferred tax asset (Note 3) and long-term financial investments

### REVENUE FROM CLIENTS WHOSE SALES ARE HIGHER THAN 10% OF CONSOLIDATED REVENUES

EUR '000	2016	2015
Client 1	17,468	18,174
Client 2	10,689	16,557
Total	28,157	34,730

## NOTE 20. COST OF GOODS SOLD

EUR '000	2016	2015
Cost of goods purchased for sale	-3,891	-4,074
Materials used in production	-31,809	-31,366
Staff costs (Note 23)	-3,217	-3,376
Depreciation and amortisation (Note 24)	-1,020	-960
Other costs of goods sold <sup>1</sup>	-3,473	-3,733
<b>Total cost of goods sold</b>	<b>-43,410</b>	<b>-43,509</b>

<sup>1</sup> Other costs of goods sold includes expenses related to production and fish farming assets (rent, maintenance, insurance, utilities, etc.), staff-related costs and other expenses and subcontracted services.

## NOTE 21. SALES AND MARKETING EXPENSES

EUR '000	2016	2015
Advertising, marketing and product development	-226	-832
Transportation and logistics services	-1,803	-1,910
Staff costs (Note 23)	-720	-689
Rent of warehouse premises	-79	-74
Depreciation and amortisation (Note 24)	-146	-142
Utilities	-107	-109
Other lease expenses (excl. cars)	-10	-17
Other sales and marketing expenses <sup>1</sup>	-255	-260
<b>Total sales and marketing expenses</b>	<b>-3,346</b>	<b>-4,033</b>

<sup>1</sup> Other sales and marketing expenses include costs related to real estate (lease, maintenance, insurance, utilities etc.), staff related costs and other services.

## NOTE 22. GENERAL AND ADMINISTRATIVE EXPENSES

EUR '000	2016	2015
Staff costs (Note 23)	-878	-812
Depreciation and amortisation (Note 24)	-68	-59
Consulting and advisory services	-60	-74
Information and communication services	-37	-40
Legal services	-26	-46
Transportation expenses	-50	-61
Business trips and costs of entertaining guests	-68	-59
Other general and administrative expenses <sup>1</sup>	-252	-227
<b>Total general and administrative expenses</b>	<b>-1,439</b>	<b>-1,378</b>

<sup>1</sup> Other general and administrative expenses include subcontracted services, advisory fees, IT expenses, staff-related costs and other expenses.

## NOTE 23. STAFF COSTS

EUR '000	2016	2015
Wages and salaries	-3,761	-3,841
Social security tax and other labour taxes	-1,054	-1,036
<b>Total staff costs (Notes 20, 21, 22)</b>	<b>-4,815</b>	<b>-4,877</b>
Number of employees at end of the period	198	228
Average number of employees during the year	200	217

Staff costs are included in the lines of the statement of comprehensive income "Cost of goods sold", "General and administrative expenses" and "Sales and marketing expenses".

## NOTE 24. DEPRECIATION AND AMORTISATION

EUR '000	2016	2015
Depreciation (Note 11)	-1,133	-1,054
Amortisation (Note 12)	-101	-107
<b>Total depreciation and amortisation (Notes 20, 21, 22)</b>	<b>-1,234</b>	<b>-1,161</b>

Depreciation and amortisation expenses are included in the lines of the statement of comprehensive income "Cost of goods sold", "General and administrative expenses" and "Sales and marketing expenses".

## NOTE 25. OTHER INCOME AND EXPENSES

EUR '000	2016	2015
Gain on disposal and write-off of non-current assets	6	65
Income from government grants (Note 17)	162	177
Insurance premium	4	0
Other income	227	219
Other expenses	-517	-55
Total other income/expenses	-118	406

## NOTE 26. FINANCE INCOME AND COSTS

EUR '000	2016	2015
Interest income	1	227
Other finance income	1	28
Foreign exchange gains / losses	-68	48
Interest expenses	-108	-96
Other finance costs	-64	-9
Total	-238	198

## NOTE 27. INCOME TAX EXPENSES

EUR '000	2016	2015
Profit (loss) before tax (consolidated)	1,774	821
Income tax calculated at applicable tax rates	23	128
Impact to calculated income tax of:		
income tax expense from previous periods	2	0
expenses not deductible from taxable income (+)	7	7
non-taxable income and tax incentives	-1	-1
tax losses used (-)	-100	-40
tax losses carried forward (+)	96	33
Income tax expense /-income	27	128
Deferred income tax expense / -income (Note 10)	399	-238
Effect on income statement	-426	-110

Negative accounting tax loss is primarily attributable to the revaluation of biological assets.



## NOTE 28. EARNINGS PER SHARE

Earnings per share have been calculated by dividing the net profit by the average number of shares for the period.

	2016	2015
Net profit (loss) attributable to equity holders of the company EUR '000	715	1,179
Average number of shares (in thousand)	38,683	38,683
Earnings (loss) per share (EUR)	0.02	0.03
Earnings (loss) per share (EUR)	0.02	0.03
Diluted earnings (loss) per share (EUR)	0.02	0.03

See also Note 18.

## NOTE 29. RELATED PARTY TRANSACTIONS

The Company considers parties to be related when one party has control over the other party or has significant influence over the business decision of the other party.

Related parties include:

- shareholders with significant influence (the largest shareholder of PRFoods is the international investment fund Amber Trust II S.C.A.)
- members of the Supervisory Board and members of all management board of group entities
- close family members of the persons mentioned above and the companies related to them

At the balance sheet date, there were no receivables from related parties. No write-downs on receivables from related parties have been recognised.

Company	Creditor	Payables and prepayments	Payable as at 31.12.2016 EUR '000	Payable as at 31.12.2015 EUR '000
Vettel OÜ	Companies related to members of the Management and Supervisory Boards	Trade payables	2	0
	Total		2	0

During the reporting period group entities have performed purchase and sales transactions with related parties as follows:

Party EUR '000	Type of transaction	2016 Purchase	2016 Sale	2015 Purchase	2015 Sale
Companies related to members of the Management and Supervisory Boards	services	13	2	49	2
	Total	13	2	49	2

Management estimates that all related party transactions have been concluded at market prices and at market condition.

Benefits including employment taxes to members of the Management Boards and Supervisory Boards of AS PRFoods and its subsidiaries and other key members of management were as follows:

EUR '000	2016	2015
Short-term benefits	565	512
Total	565	512

Management benefits increased by 53 thousand euros, i.e. 10.4% compared to the same period in 2015, which was mainly influenced by the annual management bonuses paid to the management of subsidiaries in 2<sup>nd</sup> quarter for the results of the 2015 financial year.

The members of the Management and Supervisory Boards are not entitled to any pension-related rights from the company. The members of the Management Boards are entitled to termination benefits. The maximum expense related to payment of termination benefits including taxes totals 205 thousand euros (31.12.2015: 205 thousand euros).

### NOTE 30. CONTINGENT LIABILITIES

#### Contingent liabilities in connection with setting a mortgage for the benefit of the Customs Board of Finland

A mortgage was set for the benefit of the Finnish Customs Board in the amount of 84 thousand euros. The purpose of the transaction was a more streamlined organisation of the day-to-day operations by reducing persistent prepayments to the Customs Board.

The management estimated that it is improbable that the Finnish Customs Board will liquidate the pledged asset.

#### Contingent liabilities relating to the Tax Board

The tax authorities may at any time inspect the books and records of the Group within 5 years subsequent to the reported tax year in Estonia and Finland and within 7 years in Sweden, and may as a result of their inspection impose additional tax assessments, interests and penalties. In 2016 and 2015 the tax authorities did not conduct any tax audits. The management of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

## NOTE 31. SUPPLEMENTARY DISCLOSURES ABOUT THE PARENT COMPANY OF THE GROUP

Pursuant to the Accounting Act of the Republic of Estonia, the separate (primary) financial statements of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the separate primary financial statements of the Parent Company, the same accounting policies have been applied as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27 "Consolidated and Separate financial Statements".

In the Parent Company's financial statements, which are disclosed in the notes to these financial statements (supplementary information about the Parent Company of the Group), investments in the shares of subsidiaries are measured at cost, less any impairment losses.

### STATEMENT OF FINANCIAL POSITION

EUR '000	31.12.2016	31.12.2015
<b>ASSETS</b>		
Cash	3,281	702
Short-term financial investments	661	815
Receivables and prepayments	221	2,934
<b>Total current assets</b>	<b>4,163</b>	<b>4,451</b>
Investments in subsidiaries	10,378	10,378
Long-term loans	3,002	3,718
Property, plant and equipment	76	99
<b>Total non-current assets</b>	<b>13,456</b>	<b>14,195</b>
<b>TOTAL ASSETS</b>	<b>17,619</b>	<b>18,646</b>
<b>EQUITY AND LIABILITIES</b>		
Loans and borrowings	15	15
Payables and prepayments	416	714
<b>Total current liabilities</b>	<b>431</b>	<b>729</b>
Loans and borrowings	46	61
<b>Total non-current liabilities</b>	<b>46</b>	<b>61</b>
<b>Total liabilities</b>	<b>477</b>	<b>790</b>
Share capital	7,737	7,737
Share premium	14,007	16,026
Statutory capital reserve	12	6
Treasury shares	-245	-172
Retained loss	-4,358	-5,741
<b>TOTAL EQUITY</b>	<b>17,142</b>	<b>17,856</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17,619</b>	<b>18,646</b>

## STATEMENT OF COMPREHENSIVE INCOME

EUR '000	2016	2015
Revenue	145	101
Cost of goods sold	0	0
<b>Gross profit</b>	<b>145</b>	<b>101</b>
<b>Operating expenses</b>		
Sales and marketing expenses	-83	-45
Administrative and general expenses	-477	-462
Other income / expenses	-398	-9
<b>Operating loss</b>	<b>-813</b>	<b>-415</b>
Gain (loss) on subsidiaries and associates	0	0
Finance income	287	713
Finance costs	-104	-50
<b>Profit (-loss) before tax</b>	<b>-630</b>	<b>248</b>
Income tax	0	0
<b>Net profit (loss)</b>	<b>-630</b>	<b>248</b>
<b>Total comprehensive income (-loss)</b>	<b>-630</b>	<b>248</b>

## CASH FLOW STATEMENT

EUR '000	2016	2015
Net profit (-loss)	-630	248
<b>Adjustments:</b>		
Depreciation	25	16
Loss on sale and write off of fixed assets	0	-2
Loss/income from associates	55	-27
Other non-cash items	-258	-636
Changes in receivables and prepayments	-62	50
Changes in payables and prepayments	356	-167
<b>Total cash flow from operations</b>	<b>-514</b>	<b>-518</b>
<b>Cash flows from investing activities</b>		
Sale of tangible and intangible fixed assets	0	15
Purchase of tangible and intangible fixed assets	-4	-29
Sales of subsidiaries	0	8,000
Change in cash pool account	2,777	503
Repayments of loans granted	815	686
Interests received	306	463
<b>Total cash flow from investing activities</b>	<b>3,894</b>	<b>9,638</b>
<b>Cash flows from financing activities</b>		
Reduction of share capital	0	-11,504
Change in cash pool account	-654	310
Capital lease repayments	-15	-29
Own shares buy-back	-84	-156
Interest paid	-48	-50
<b>Total cash flow used in financing activities</b>	<b>-801</b>	<b>-11,429</b>
<b>Total cash flow</b>	<b>2,579</b>	<b>-2,309</b>
Cash and cash equivalents at beginning of year	702	3,011
Change in cash and cash equivalents	2,579	-2,309
Cash and cash equivalents at the end of the period	3,281	702

**STATEMENT OF CHANGES IN EQUITY**

EUR '000	Share capital	Share premium	Own shares	Statutory capital reserve	Retained earnings	Total equity
<b>Balance at 31 December 2014</b>	<b>19,342</b>	<b>16,026</b>	<b>-117</b>	<b>6</b>	<b>-5,989</b>	<b>29,268</b>
Carrying amount of interests under control and significant influence						-10,378
Value of interests under control and significant influence under the equity method						14,782
<b>Adjusted unconsolidated equity at 31 December 2014</b>						<b>33,672</b>
Reduction of the nominal value of shares	-11,605	0	101	0	0	-11,504
The own shares repurchase program	0	0	-156	0	0	-156
Comprehensive expense for reporting period	0	0	0	0	248	248
<b>Total change</b>	<b>-11,605</b>	<b>0</b>	<b>-55</b>	<b>0</b>	<b>248</b>	<b>-11,412</b>
<b>Balance at 31 December 2015</b>	<b>7,737</b>	<b>16,026</b>	<b>-172</b>	<b>6</b>	<b>-5,741</b>	<b>17,856</b>
Carrying amount of interests under control and significant influence						-10,378
Value of interests under control and significant influence under the equity method						15,743
<b>Adjusted unconsolidated equity at 31 December 2015</b>						<b>23,221</b>
Covering the loss from previous year	0	-2,019	0	-6	2,025	0
Formation of statutory reserve capital	0	0	0	12	-12	0
The own shares repurchase program	0	0	-84	0	0	-84
Comprehensive expense for reporting period	0	0	0	0	-630	-630
<b>Total change</b>	<b>0</b>	<b>-2,019</b>	<b>-84</b>	<b>0</b>	<b>1,383</b>	<b>-714</b>
<b>Balance at 31 December 2016</b>	<b>7,737</b>	<b>14,007</b>	<b>-256</b>	<b>12</b>	<b>-4,358</b>	<b>17,142</b>
Carrying amount of interests under control and significant influence						-10,378
Value of interests under control and significant influence under the equity method						17,045
<b>Adjusted unconsolidated equity at 31 December 2016</b>						<b>23,809</b>

Adjusted unconsolidated equity is used as the basis for determining distributable equity in accordance with the Accounting Act of Estonia.





# ***Independent auditor's report***

## ***To the Shareholders of AS PRFoods***

(Translation of the Estonian original)\*

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### ***Our opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS PRFoods and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

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### ***What we have audited***

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

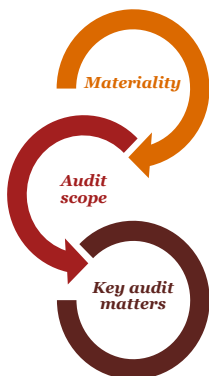
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### ***Independence***

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

## Our audit approach

### Overview



#### Materiality

Overall Group materiality is EUR 475 thousand which represents 1% of consolidated revenue.

#### Audit scope

We and other PwC network firms, under our instructions, performed a full scope audit for Group entities covering 95% of the Group's assets and 91% of the Group's revenues. We then performed selected audit procedures on remaining balances.

#### Key audit matter

- Assessment of fair value of biological assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<b>Overall group materiality</b>	EUR 475 thousand
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<b>How we determined it</b>	1% of consolidated revenue
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<b>Rationale for the materiality benchmark applied</b>	We consider total revenues to be a key performance indicator that determines the Group's value. This figure is monitored by management, investors, analysts and lenders.
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#### Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Key audit matter*

**Assessment of fair value of biological assets** (refer to Note 2 “Bases of preparation of the consolidated financial statements”, Note 4 “Management judgements and estimates” and Note 8 “Biological assets”)

The carrying amount of biological assets as at 31 December 2016 was EUR 7.6 million and the gain from fair value adjustments recorded in 2016 amounted to EUR 2.3 million.

The biological assets consist of fish growing in the Group’s fish farms in Finland and Sweden.

The measurement basis depends on the maturity of the fish. Fry and fish suitable for harvesting are measured at fair value based on market prices less estimated gutting loss, harvesting cost and cost to sell. Due to lack of active market, juvenile fish are accounted for at cost less potential impairment losses.

Taking into account the specifics of the measurement, the Group’s management has engaged an internal expert for making the fair value estimates and calculations.

Due to the magnitude and related estimation uncertainty, valuation of biological assets is considered a key audit matter.

### *How our audit addressed the key audit matter*

We assessed whether the Group’s accounting policies in relation to accounting for biological assets are in compliance with IFRS.

We evaluated the competence, capabilities and objectivity of the management’s expert.

We evaluated the work of the management’s expert, including the source data, assumptions and methods used and relevance and reasonableness of the expert’s conclusions.

In particular, using historical data and available market information, we assessed the reasonableness of the management’s estimates used for:

- Market prices
- Gutting loss
- Harvesting cost
- Selling costs
- Future breeding expenditure for juvenile fish to assess the necessity for impairment

We also recalculated the fair value calculations prepared by management.

Furthermore, we assessed the adequacy of the disclosures related to biological assets.

As a result of our work, we noted no material exceptions.

### *How we tailored our audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that are further disclosed in Note 9 “Subsidiaries”. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for entities covering 95% of the Group’s assets and 91% of the Group’s revenues. We performed certain audit procedures on the Group level, including the assessment of fair value of biological assets. We also performed selected audit procedures relating to specified account balances or disclosures on the remaining Group’s subsidiary.

Where work was performed by component auditors from other PwC network firms, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The nature, timing and extent of the work impacting the Group audit opinion is set and monitored in Estonia, with input from the teams outside Estonia at the risk assessment stage.



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## ***Other information***

The Management Board is responsible for the other information contained in the Group's 2016 Consolidated Annual Report, in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## ***Responsibilities of the Management Board and those charged with governance for the consolidated financial statements***

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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## ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

Ago Vilu  
Certified auditor in charge, auditor's certificate no.325

Lauri Past  
Auditor's certificate no.567

13 April 2017


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*\* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## PROFIT ALLOCATION PROPOSAL

As of 31.12.2016 the retained profit of AS PRFoods Group totalled 1 881 thousand euros.

The Management Board proposes to the general meeting of shareholders to transfer 5% of the net profit of the financial year 2016 of in the amount of 35.8 thousand euros to the statutory reserve.



Indrek Kasela  
Member of the Management Board

April 13, 2017