

# PRFOODS

## **AS PRFoods**

2015 Consolidated Annual Report  
(translation from Estonian original)

13.04.2016

2015  
ANNUAL REPORT

# P R F O O D S

<b>Business name</b>	AS PRFoods
<b>Commercial register number</b>	1150713
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<b>Phone</b>	+372 603 3800
<b>Fax</b>	+372 603 3801
<b>Website</b>	prfoods.ee
<b>Main activities</b>	Production and sale of fish products Fish farming
<b>Reporting period</b>	1 January 2015– 31 December 2015
<b>Auditor</b>	AS PricewaterhouseCoopers

## TABLE OF CONTENTS

CORPORATE PROFILE .....	4
STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD .....	8
MANAGEMENT REPORT .....	10
ENVIRONMENTAL RESPONSIBILITY .....	25
SOCIAL RESPONSIBILITY .....	26
SHAREHOLDER INFORMATION .....	27
MANAGEMENT AND SUPERVISORY BOARD .....	27
SHARE AND SHAREHOLDERS .....	29
REPORT ON GOOD CORPORATE GOVERNANCE .....	33
MANAGEMENT BOARD'S CONFIRMATION TO THE ANNUAL REPORT .....	39
CONSOLIDATED FINANCIAL STATEMENTS .....	40
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	41
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME .....	42
CONSOLIDATED CASH FLOW STATEMENT .....	43
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	44
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	45
NOTE 1. GENERAL INFORMATION .....	45
NOTE 2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	45
NOTE 3. FINANCIAL RISKS .....	60
NOTE 4. MANAGEMENT JUDGEMENTS AND ESTIMATES .....	66
NOTE 5. CASH AND CASH EQUIVALENTS .....	68
NOTE 6. RECEIVABLES AND PREPAYMENTS .....	68
NOTE 7. INVENTORIES .....	69
NOTE 8. BIOLOGICAL ASSETS .....	69
NOTE 9. SUBSIDIARIES .....	71
NOTE 10. DEFERRED INCOME TAX .....	71
NOTE 11. PROPERTY, PLANT AND EQUIPMENT .....	72
NOTE 12. INTANGIBLE ASSETS .....	73
NOTE 13. FINANCE LEASE .....	74
NOTE 14. OPERATING LEASE .....	75
NOTE 15. BORROWINGS .....	75
NOTE 16. PAYABLES AND PREPAYMENTS .....	76
NOTE 17. GOVERNMENT GRANTS .....	76
NOTE 18. EQUITY .....	76
NOTE 19. SEGMENT REPORTING .....	78
NOTE 20. COST OF GOODS SOLD .....	79
NOTE 21. SALES AND MARKETING EXPENSES .....	79
NOTE 22. GENERAL AND ADMINISTRATIVE EXPENSES .....	80
NOTE 23. STAFF COSTS .....	80
NOTE 24. DEPRECIATION AND AMORTISATION .....	80
NOTE 25. OTHER INCOME AND EXPENSES .....	81
NOTE 26. FINANCE INCOME AND COSTS .....	81
NOTE 27. INCOME TAX EXPENSES .....	81
NOTE 28. EARNINGS PER SHARE .....	82
NOTE 29. RELATED PARTY TRANSACTIONS .....	82
NOTE 30. CONTINGENT LIABILITIES .....	83
NOTE 31. DISCONTINUED OPERATIONS .....	84
NOTE 32. EVENTS AFTER THE BALANCE SHEET DATE .....	85
NOTE 33. SUPPLEMENTARY DISCLOSURES ABOUT THE PARENT COMPANY OF THE GROUP .....	86
INDEPENDENT AUDITOR'S REPORT .....	90
LOSS ALLOCATION PROPOSAL .....	92

# 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.

The company is engaged in the production and sales of fish products in Finland and Estonia and fish farming in Sweden and Finland. The most significant trademarks of PRFoods are "Heimon Gourmet" and "Saaristomeren". The Group's other trademarks include "Gurmé" and "Polar Fish", which are marketed in the Baltic States.

As a result of the sale of the ice cream and frozen goods business segments at the end of the previous financial year, data from 2014 has been restated in these financial statements for the sake of comparability. The ice cream and frozen goods business segments are classified as discontinued operations.

GROUP COMPANIES					
Subsidiary	Domicile	Ownership interest 31.12.2015	Ownership interest 31.12.2014	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
<b>OOO Hladomagija</b>	Russia	0%	100%	Holding company	PRFoods AS

<sup>1)</sup> OOO Hladomagija is in liquidation. Additional information is provided in Note 32.

## 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

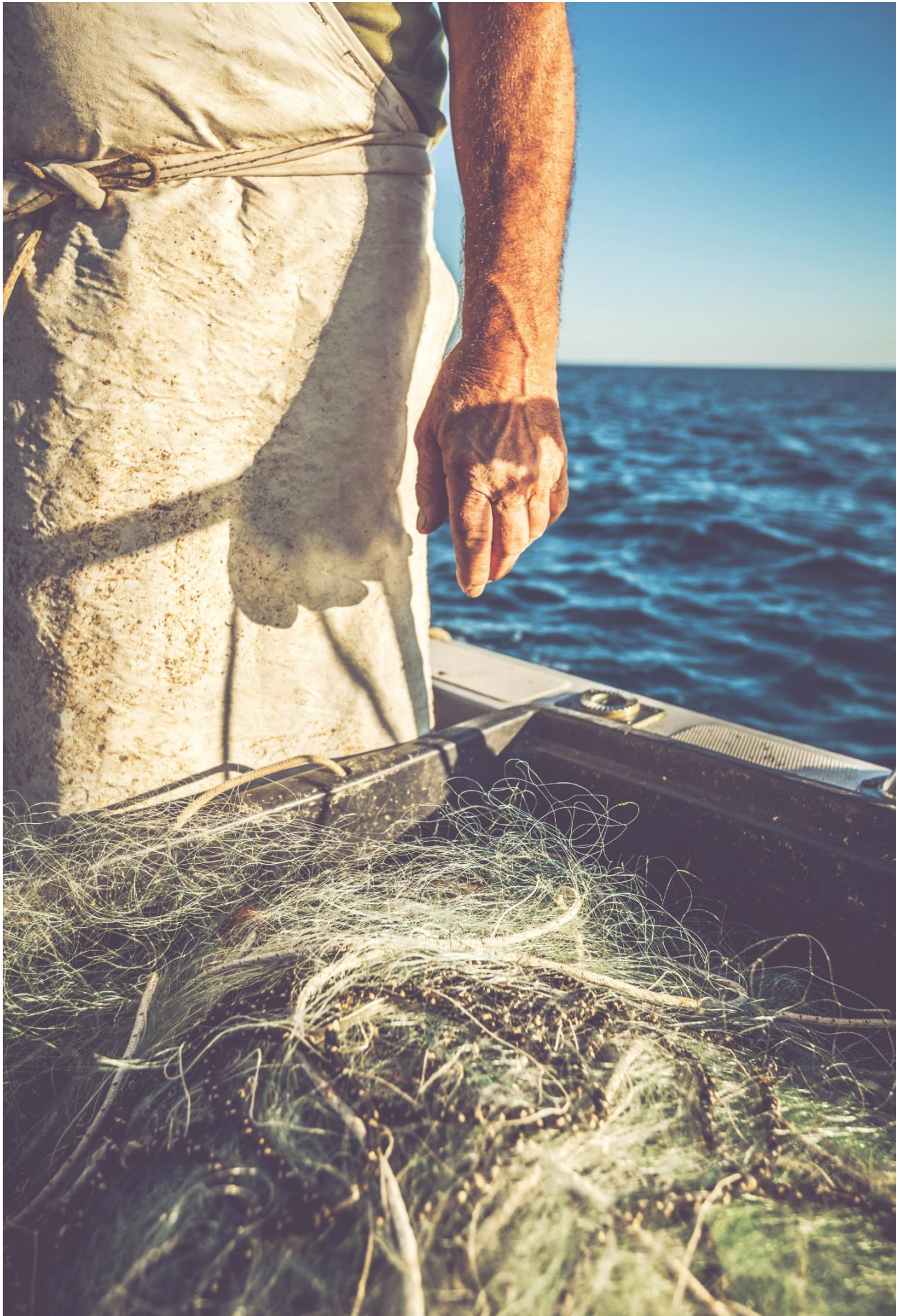
The objective of PRFoods is to increase production capacity and to boost sales volumes of fish products. The Group is actively involved in developing new products for expanding to new export markets. As a clear leader in its business area, the objective of PRFoods is to increase the Company's profitability and to re-focus on products with higher added value.

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 resolutions and evaluations" (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.







## STRUCTURE OF THE PRFOODS GROUP AS AT 31 DECEMBER 2015

### AS PRFoods

Group holding company

100%

### Saaremere Kala AS

Fish group holding company

100%

### Heimon Kala Oy

Fish farms, production and sales

100%

### Vettel OÜ

Fish production

100%

### Gourmethouse OÜ

Sale of fish products

100%

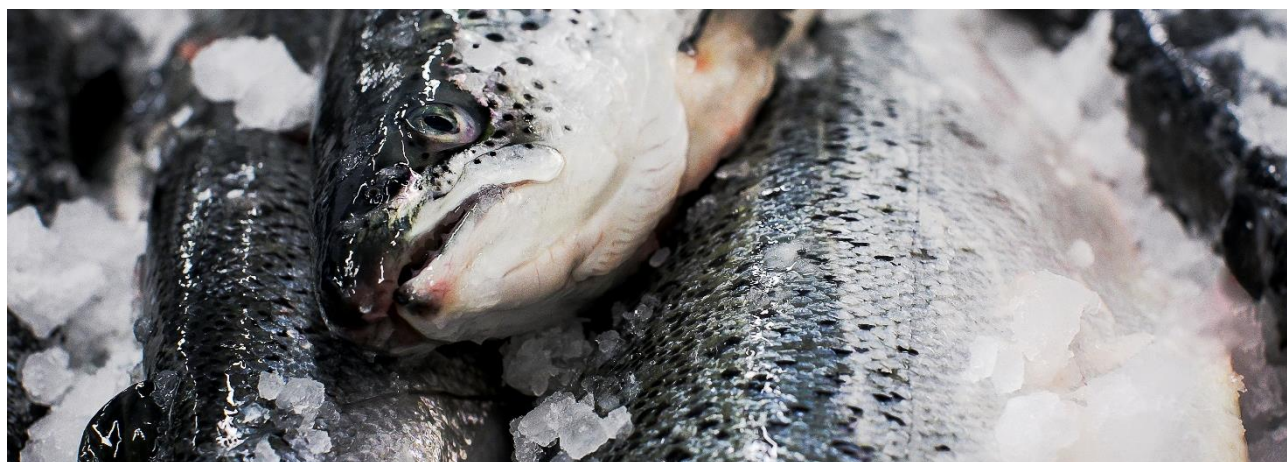
### Överumans Fisk AB

Fish farms

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

The financial year 2015 was vivid, marked by various positive and negative aspects and events. For the Group, it was the first year of operating with a focus as the international fish processing enterprise with high added value. We are proud to note that the Company is on the right track. Implementation of well-planned sales strategy mainly aimed at increasing the profit margin as well as the investment programme implemented in production facilities and fish farms have produced the expected results. From the less favourable side, we are being affected by the weakened macroeconomic situation in Finland and Estonia. It is difficult to predict future trends and there is no clear scale which means that we must be ready for a swift adjustment.

We offset the impact of foreign environment and volatility of price of raw fish through changes in the company's production and sales strategy, thereby improving the cooperation synergy between different production units. At the end of the third quarter we started significant cooperation projects in marketing the rainbow trout roe in Japan. We expect sales volumes in the Japanese market to increase also in the coming year. In spite of tough competition we managed to increase the Group's sales volumes and to improve all economic indicators. The revenue in 2015 amounted to EUR 50.3 million, growing 9.6% in a year. Gross profit in 2015 totalled EUR 6.8 million, increasing 27.8% in a year i.e. by EUR 1.5 million. At the same time, gross profitability increased by 1.9 percentage points to 13.4%. In 2015, EBITDA was EUR 2.0 million which is 3.9 times more than a year earlier. In 2015, the net profit increased by 2.7 million euros, and amounted to 1.2 million euros. The share of exports in revenue was 90.4%, of which the Finnish market accounted for 87.9%, having increased by 1.7 percentage points year on year. Revenue growth was mainly the result of hot and cold smoked and low-salt production groups, the sale of which increased in total by almost EUR 4.0 million, i.e. by 11.3%. The management of PRFoods is very satisfied with the results of 2015.

During the whole financial year, the company's solvency has been very good and the financial risk has been low. The strong balance sheet of the Group provides a good position and helps to withstand the fluctuations of market situations.

The year 2016 has started in a situation where it is difficult to predict the development of the economic environment, and we must be able to rapidly adjust to the market situation. I assure you that PRFoods continues to be a sign of compassion and quality and one of the fastest-growing food industry exporters in its region. In summary of a successful financial year, I thank all consumers of our products for their loyalty, our team in Finland, Estonia and Sweden for their excellent professional contribution as well as our shareholders.

Sincerely,  
**Indrek Kasela**





P R F O O D S

# Management Report

# Management Report

## OVERVIEW OF THE ECONOMIC ACTIVITIES



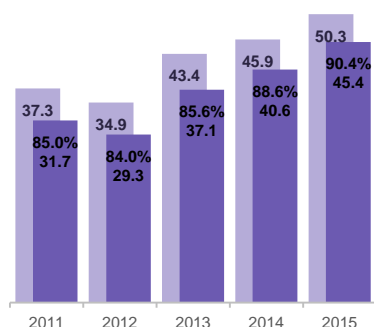
### KEY RATIOS

Profit & Loss, EUR mln	formula / comment	2015	2014	2013	2012	2011
Sales		50.3	45.9	43.4	34.9	37.3
Gross profit		6.8	5.3	4.2	6.4	7.4
EBITDA from operations	before one-offs and fair value adjustment of fish stock	2.9	0.4	0.3	2.9	3.2
EBITDA	profit (-loss) before interest, tax, depreciation and amortisation	2.0	0.5	1.3	1.0	2.8
EBIT	operating profit (-loss)	0.9	-0.6	0.2	0.0	1.5
EBT	Profit (-loss) before tax	1.1	-1.4	-0.8	-0.3	1.0
Net profit (-loss)		1.2	-1.5	-0.9	0.0	0.9
Gross margin	Gross profit / Net sales	13.5%	11.5%	9.6%	18.2%	19.9%
Operational EBITDA margin	EBITDA from operations/Net sales	5.8%	0.8%	0.8%	8.2%	8.7%
EBITDA margin	EBITDA / Net sales	4.0%	1.1%	3.0%	3.0%	7.5%
EBIT margin	EBIT / Net sales	1.7%	-1.3%	0.4%	-0.1%	4.0%
EBT margin	EBT / Net sales	2.1%	-3.0%	-1.7%	-1.0%	2.6%
Net margin	Net earnings / Net sales	2.3%	-3.3%	-2.0%	0.1%	2.3%
Operating expense ratio	Operating expenses / Net sales	10.8%	13.4%	12.8%	15.3%	16.2%
Balance Sheet, EUR mln	Formula	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Net debt	Short and Long term Loans and Borrowings - Cash	-0.6	-2.6	13.2	13.8	11.3
Equity		23.2	33.7	37.3	36.5	40.5
Working capital	Current Assets - Current Liabilities	11.4	22.6	9.9	11.9	13.4
Assets		29.5	40.4	63.8	63.2	64.1
Liquidity ratio	Current Assets / Current Liabilities	3.7	5.6	1.6	1.9	2.1
Equity ratio	Equity / Total Assets	78.8%	83.3%	58.4%	57.7%	63.2%
Gearing ratio	Net Debt / (Equity + Net Debt)	-2.5%	-8.3%	26.1%	27.5%	21.7%
Net debt-to-EBITDA	Net Debt / EBITDA from operations	-0.2	-7.0	38.0	4.8	3.5
ROE	Net Earnings / Average Equity	4.1%	-4.2%	-2.4%	0.1%	2.1%
ROA	Net Earnings / Average Assets	3.4%	-2.9%	-1.4%	0.1%	1.3%

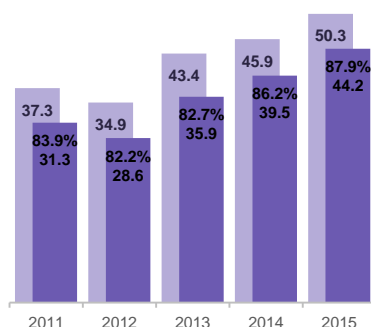
## REVENUE

The consolidated revenue for 2015 increased +9.6%, i.e. 4.4 million euros compared to the same period in 2014, reaching

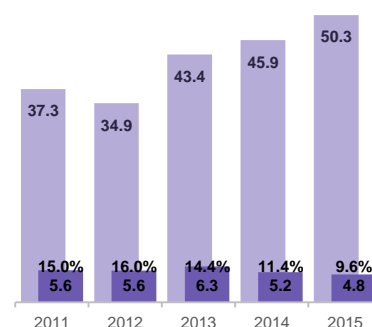
Share of exports revenue mln EUR



Share of Finnish revenue mln EUR

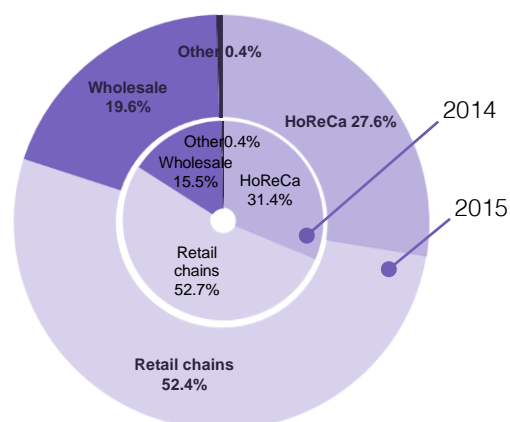
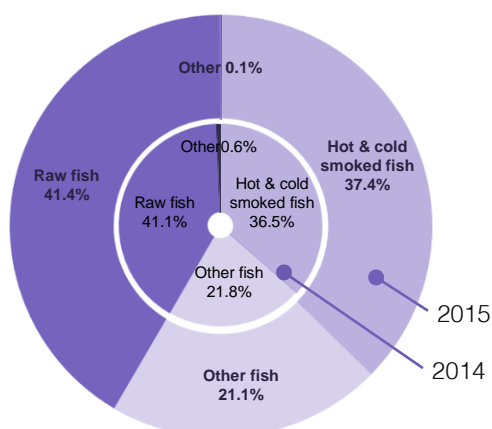


Share of Estonian revenue mln EUR



50.3 million euros. The revenue from the Finnish market increased +11.8%, i.e. 4.7 million euros. The proportion of Finnish revenue from AS PRFoods total revenue for 2015 accounted for 87.9%, increasing +1.7 percentage points as compared to the same period in 2014.

Estonian revenue, although -7.7% lower as compared to 2014, has come mostly from the sales of products with a higher margin, such as fish roe, in which AS PRFoods is one of the Estonian market leaders.

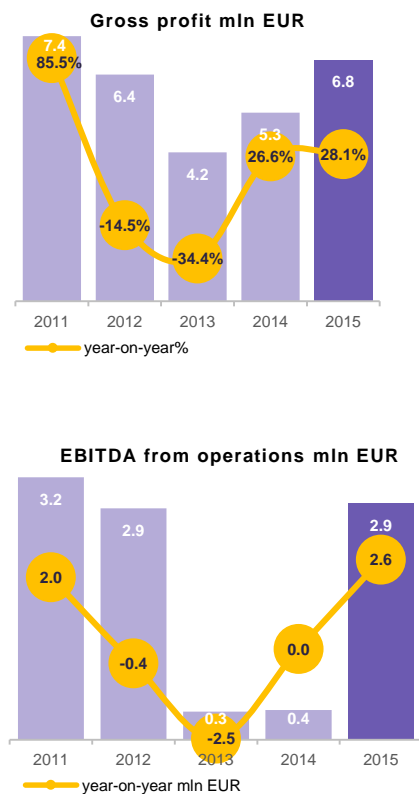


The largest increase in revenue came from hot and cold smoked products and raw fish and fillets product groups, increasing 2.0 million euros i.e. +12.2% and 2.0 million euros i.e. +10.5% respectively. The revenue from other product groups increased 0.6 million euros i.e. +6.0%.

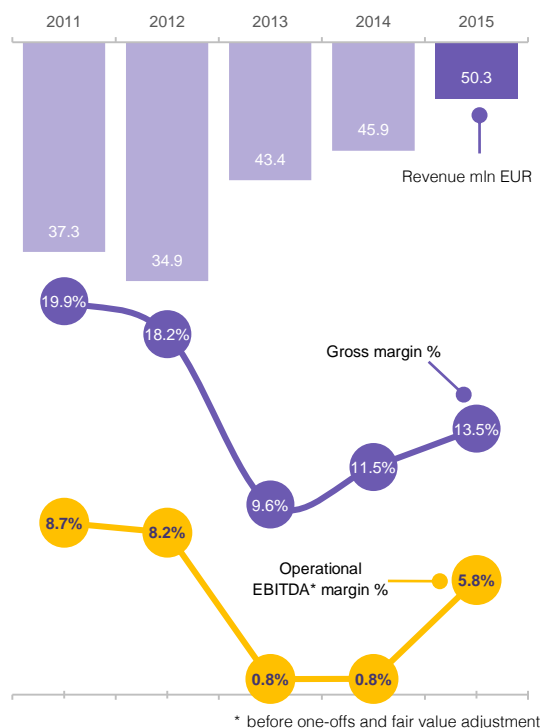
According to the client segments the revenue in the wholesale sector increased 2.7 million euros and 2.2 million euros in the retail sector. The increase in the wholesale sector was +38.5% and +8.9% in the retail sector. In HoReCa sector the revenue decreased 0.5 million euros i.e. -3.5% due to the loss of two main products from the product portfolio.

## PROFITABILITY

The gross profit for 2015 amounted to 6.8 million euros (2014: 5.3 million euros). EBITDA from business operations\* totalled 2.9 million euros, an increase of 2.6 million euros year on year. EBITDA for the reporting period was 2.0 million euros which is 3.9 times higher than in the previous year while at the same the comparison of EBITDA is negatively affected by the reimbursement of the claim in the amount of 0.8 million euros received in Q2 2014 from the Swedish Board of Agriculture.

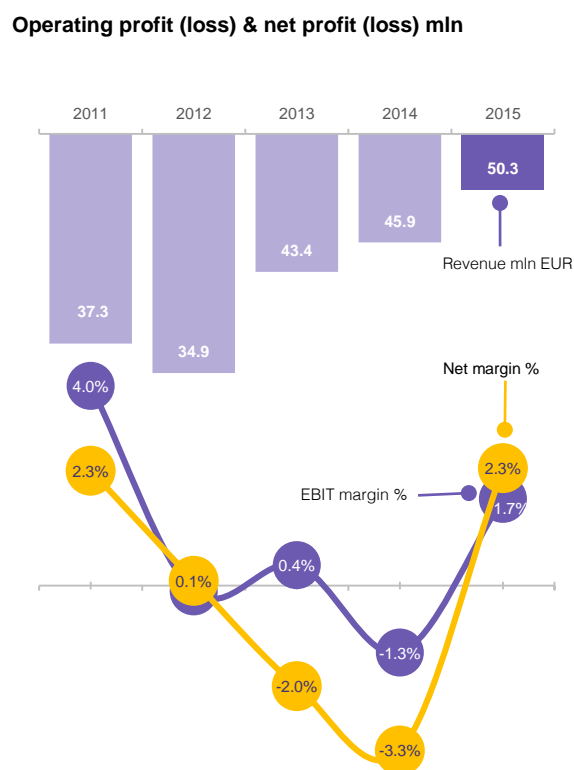
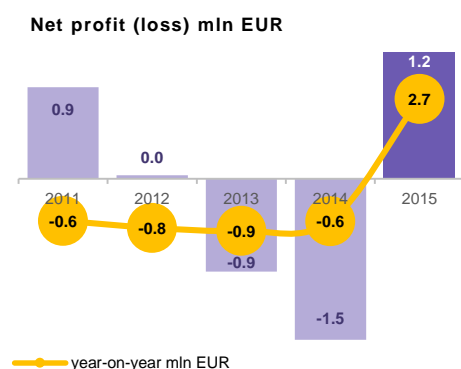
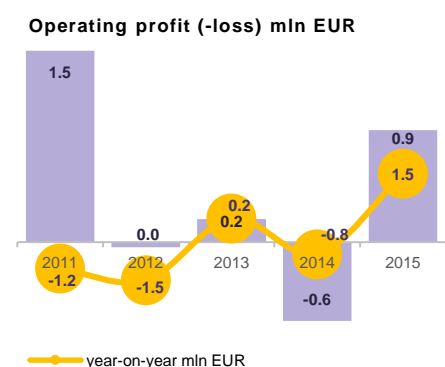


## Gross margin & operational EBITDA margin %



Truck with products from Saaremaa on the way to Finland

Operating profit for 12 months of 2015 was 0.9 million euros (operating loss for 2014: -0.6 million euros). Net profit totalled 1.2 million euros (2014: net loss of -1.5 million euros). Operating profit improved 1.5 million euros (2014: decreased -0.8 million euros). Net profit improved 2.7 million euros (2014: decreased -0.6 million euros). Operating margin was 1.7% (2014: -1.3%) and net profit margin was 2.3% (2014: -3.3%).



## CASH POSITION

As at the end of the reporting period, the Group's cash assets totalled 1.9 million euros and equity amounted to 23.2 million euros (78.7% of the balance sheet volume). Comparable indicators at the end of 2014 were 3.3 million euros and 33.7 million euros, respectively (83.3% of the balance sheet volume).

## LIQUIDITY AND SOLVENCY RATIOS

Ratio	Formula	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Liquidity ratio	Current Assets / Current Liabilities	3.7	5.6	1.6	1.9	2.1
Net debt-to-EBITDA	Net Debt/EBITDA from operations	-0.2	-7.0	38.0	4.8	3.5
Debt to total assets	Debt / Total Assets	0.2	0.2	0.4	0.4	0.4
Equity ratio	Equity / Total Assets	79%	83%	58%	58%	63%
Gearing ratio	Net Debt / (Equity + Net Debt)	-3%	-8%	26%	28%	22%

As at 31 December 2015, the Group's net debt constituted -0.6 million euros (31 December 2014: -2.6 million euros). Financial gearing, i.e. net debt percentage from total capital was -3% (31 December 2014: -8%).



As of 31.12.2015 net debt to EBITDA ratio was -0.2 (31.12.2014: -7.0). Liquidity ratio showing short time paying capability as of 31.12.2015 was 3.7 (31.12.2014: 5.6). Share capital amounted to 79% of total assets (31.12.2014: 83%) and the working capital of the company was 11.4 million euros (31.12.2014: 22.6 million euros).

## DIVIDEND POLICY

The retained loss as at 31.12.2015 amounted to -0.8 million euros, decreasing by net profit earned in 2015 in the amount of 1.2 million euros. According to the Commercial Code of Estonia dividends can only be distributed from retained earnings and the net profit of 2015 can not be used for distribution of dividends to shareholders. Distribution of dividends is planned to continue in 2017.

## FISH FARMING

The competitive advantage of the Group is its vertical integration – fish farming, production and sales. About 1/3 of the Group's fish production is harvested in the company's 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 raw fish is purchased from Norway and Denmark. To a smaller extent, the Company also purchases perch, pike perch, herring, vendace 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.



Fish farm in Ankarsund, Sweden

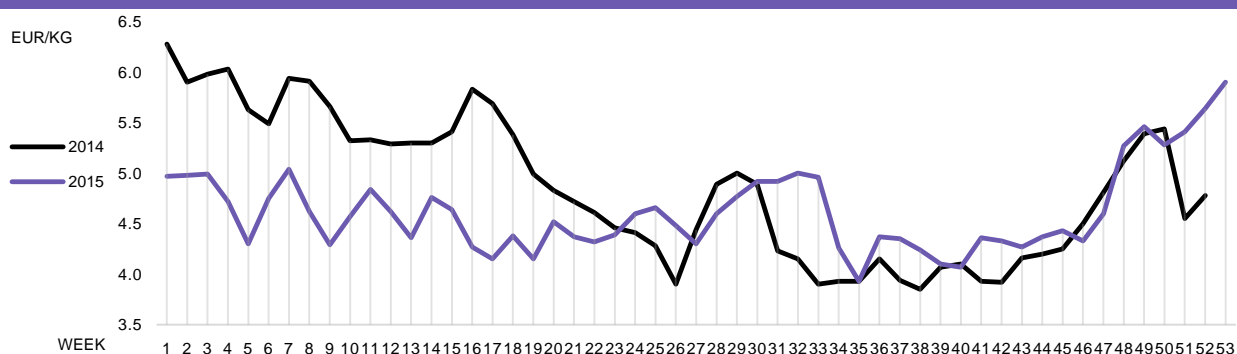
## THE MARKET PRICE OF FISH

Fish is perishable goods and is therefore sold fresh. For large producers, harvesting (slaughtering and gutting of fish) is a seasonal operation that is limited in time. In addition, the production must be sold in the same period. 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.

			Change
Market price EUR/KG	31.12.2015	31.12.2014	31.12.15 / 31.12.14
Salmon	5.90	4.80	22.9%
Rainbow trout	4.44	5.39	-17.6%

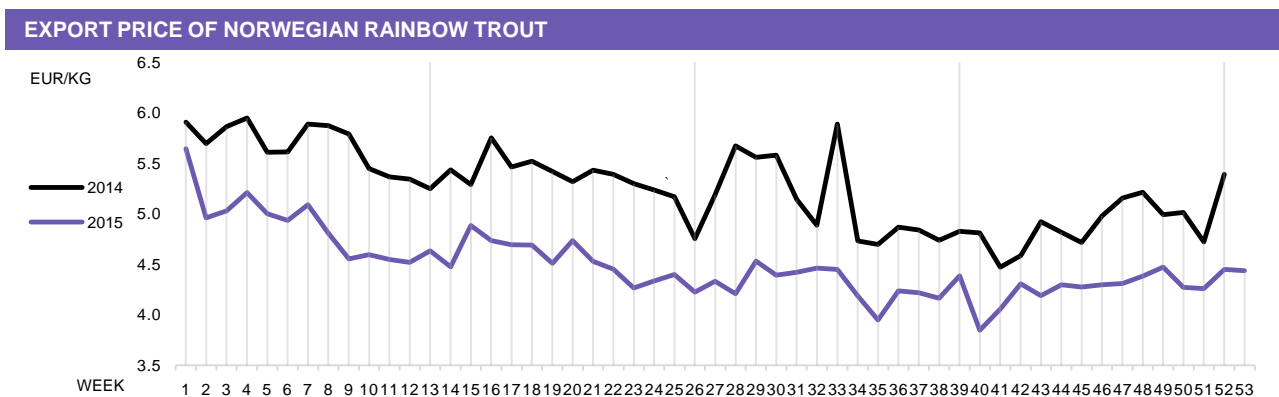
Compared to the position as of 31 December 2014, the market price for salmon increased by 22.9% and the market price for rainbow trout declined by -17.6%. As the fish sector is highly dependent on the availability and price of raw fish, owning fish farms is of critical importance for the Group as it provides control over these aspects.

### EXPORT PRICE OF NORWEGIAN SALMON



Source: [NASDAQ Salmon Index](#)





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*)

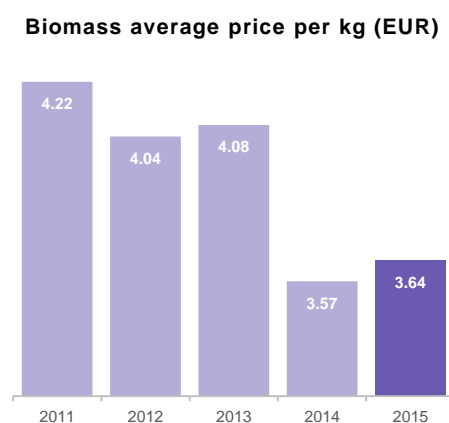
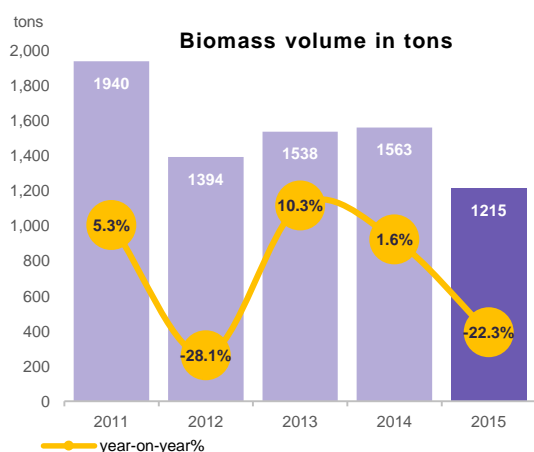
The Group uses the Norwegian export statistics for evaluation of the fish stock of rainbow trout (Source: [akvafakta.no](http://akvafakta.no)). For evaluation of the fish stock of whitefish, the monthly market price survey of the Finnish Fish Farmers' Association is used. When the market price of raw fish increases or decreases, so does the value of fish harvested in fish farms of PR Foods, which has a positive or negative impact on the company's financial results. The negative impact of change of value of fish assets to the company's EBITDA and operating revenue in 2015 amounted to -0.3 million euros as compared to 2014.

			Change	Change
Change in biological assets in tons	2015	2014	2015/ 2014	%
Biomass at beginning of the period	1,563	1,538	25	1.6%
Biomass at end of the period	1,215	1,563	-348	-22.2%
Harvested (in live weight)	-2,185	-1,686	499	29.6%

As at 31.12.2015, PRFoods's biological assets comprise in the volume 99.0% (31.12.2014: 97.2%) of biomass of the rainbow trout farmed in the Finnish and Swedish fish farms and 1.0% (31.12.2014: 2.8%) of biomass is whitefish. Compared to the same period in 2014, biological assets decreased by -348 tons, i.e. -22.3% in quantity and decreased

by 1.2 million euros in monetary value, i.e. -20.8% (fair value of biological assets as of 31.12.2015 constituted 4.4 million euros and as of 31.12.2014 5.6 million euros). It is caused by the decreased price of raw fish and strategic changes in production.

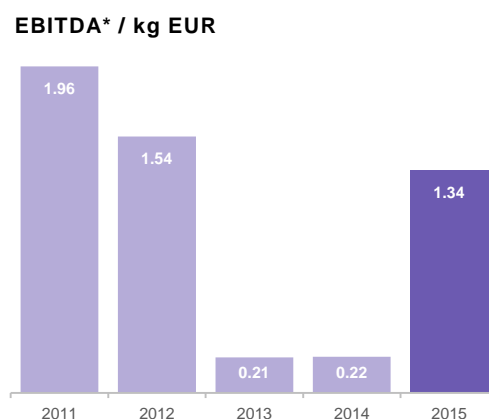
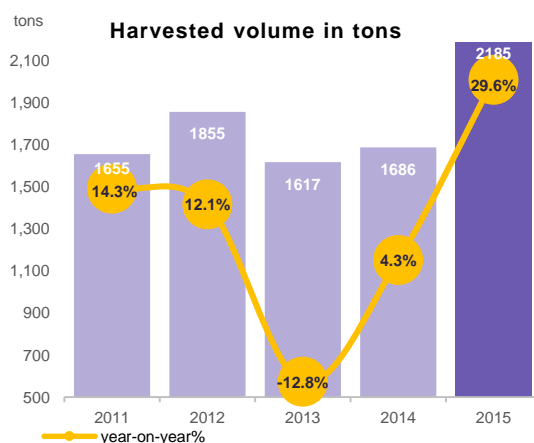
	2011	2012	2013	2014	2015
Biological assets (mln EUR)	8.2	5.6	6.3	5.6	4.4
Biomass volume in tons	1,940	1,394	1,538	1,563	1,215
Average price per kg (EUR)	4.22	4.04	4.08	3.57	3.64
Fair value adjustment on biological assets (mln EUR)	-0.46	-1.36	+0.74	-0.57	-0.89



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. In total, the company harvested 2.2 thousand tons of fish in 2015 (2014: 1.7 thousand tons).

	2011	2012	2013	2014	2015
Revenue (mln EUR)	37.3	34.9	43.4	45.9	50.3
EBITDA from operations* (mln EUR)	3.2	2.9	0.3	0.4	2.9
Harvested volume (tons)	1,655	1,855	1,617	1,686	2,185
EBITDA / kg* (EUR)	1.96	1.54	0.21	0.22	1.34

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



## SEASONALITY OF THE BUSINESS

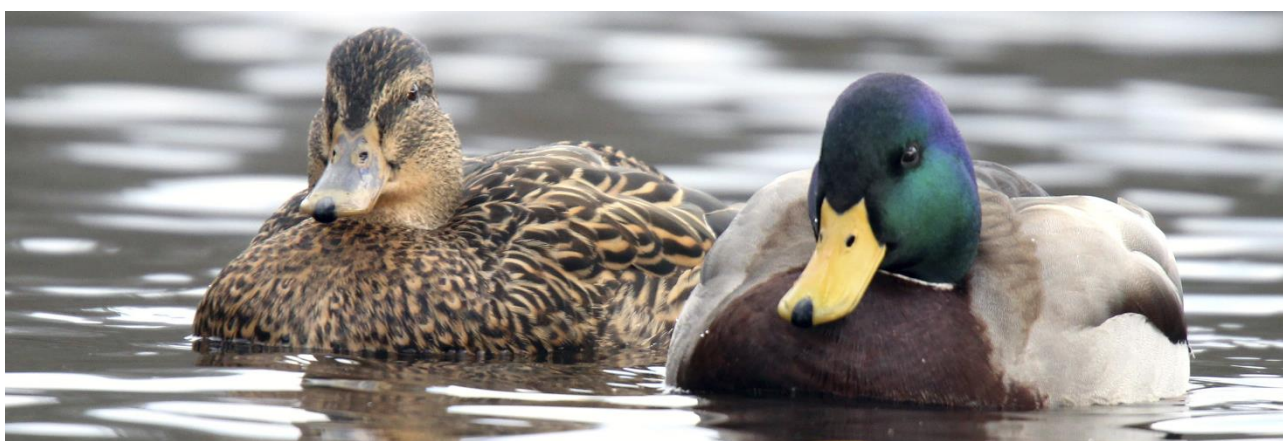
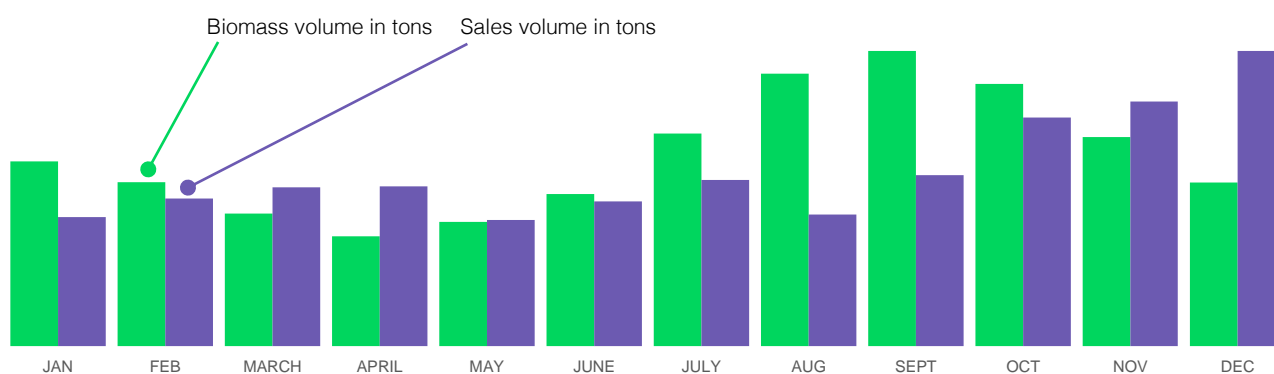
Due to the growth of biomass, the low season in fish farming lasts from November until May, while the high season lasts from June to September. Biomass growth is being influenced by the temperature in seas and lakes. Trout, for instance, grows faster from summer until autumn when the water is warmer. 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.

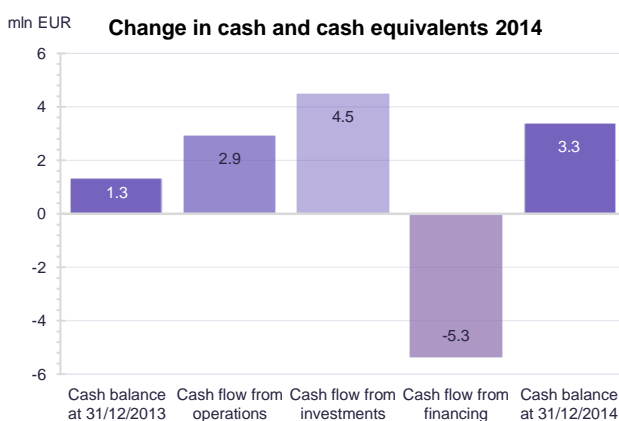
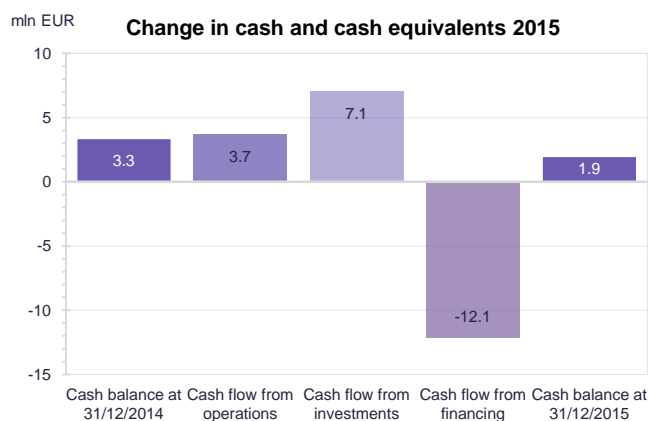




## CASH FLOWS

The change in financial assets of the Group in 2015 was -1.4 million euros and as at 31 December 2015, the Group bank accounts contained cash in the amount of 1.9 million euros (31.12.2014: 3.3 million euros).

Cash flow from operations in 2015 was positive with 3.7 million euros (2014: +2.9 million euros), cash flow from investments was positive with 7.1 million euros (2014: +4.5 million euros) and cash flow from financing operations was negative with 12.1 million euros (2014: -5.3 million euros).



Cash flow from operations was most influenced by the net profit in the amount of 1.2 million euros (2014: net loss from continued operations: -1.5 million euros). The negative effect of other non-financial changes was -0.2 million euros (2014: +2.4 million euros). In 2014, the effect of non-financial changes was linked to the elimination of loan and interest receivables and payables of continued and discontinued operations from the balance sheet. Positive change of receivables and prepayments related to operations in the amount of 0.5 million euros (2014: -0.1 million euros), positive change of inventories in the amount of 0.9 million euros (2014: -1.6 million euros) and positive change of biological assets in the amount of 1.2 million euros (2014: +0.7 million euros) and negative change of liabilities and prepayments related to operations in the amount of 0.9 million euros (2014: -0.2 million euros).

Positive effect on cash flow from operations from the decrease of inventories totalled 2.6 million euros, due to the reduced volume of raw material purchasing. In 2015, livestock reserves decreased by 348 tons as compared to the year earlier, resulting in the increase of cash flow from operations by 0.5 million euros. In 2014, the biggest effect on the cash flow from operations was the impact of non-financial changes in the amount of 2.4 million euros and increase of fish stock by 1.6 million euros.

Cash flow from investments includes as positive cash flow the instalments received from sale of ice-cream and frozen foods segments, of which 8.0 million euros was received in 2015 and 5.9 million euros was received in 2014. In addition, the cash flow from investments was influenced by negative cash flow from acquisition of fixed assets -1.0 million euros (2014: -1.0 million euros) and positive cash flow from sale of fixed assets 0.1 million euros (2014: 0.2 million euros). Capital investments in fixed assets were mainly targeted at production totalling 1.5 million euros. Investments in property, plant and equipment of Finnish and Swedish fish farms totalled 0.4 million euros. During the financial year, fixed assets were acquired under financial lease terms in the total amount of 1.0 million euros (2014: 0.4 million euros).

In cash flow from financing, the biggest negative cash flow was generated by disbursements to shareholders in connection with the reduction of share capital in the amount of -11.5 million euros. In the framework of own share buyback programme, the amount of -0.2 million euros (2014: 0.1 million euros) was disbursed. Financial lease principals were repaid in the amount of -0.4 million euros (2014: -0.2 million euros). At present the Group has not used bank loans for financing.

## 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:

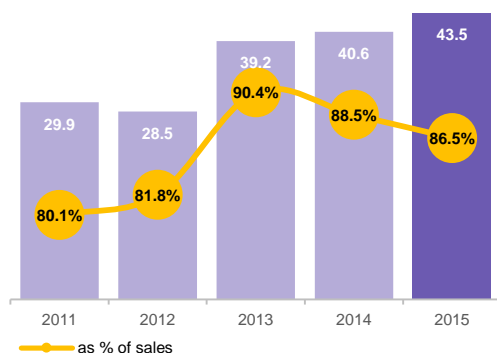
- Fried fish (Baltic herring fillet, salmon balls, fried fish fillets and rainbow trout fillets);
- Grilled fish (salmon);
- Salted fish (herring, Baltic herring);
- Fresh fish (unpacked or in vacuum package);
- Fish roe (rainbow trout, salmon, whitefish/*Coregonus lavaretus*, sturgeon, whitefish/*Coregonus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



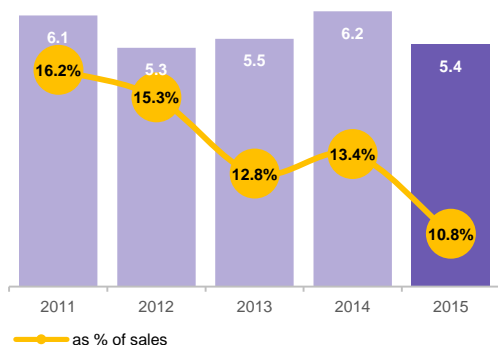
## COST ANALYSIS

In 2015, sales revenue increased by 4.4 million euros, i.e. 9.6%. At the same time, cost of goods sold increased by 2.9 million euros, i.e. 7.2% and its percentage of from the revenue decreased -1.9 percentage points for 12 months of 2015 compared to the same time in 2014. At the same time, the operating costs decreased by -0.7 million euros, altogether -12.1%. The operating expense ratio decreased during 12 months of 2015 by -2.7 percentage points compared to the previous year.

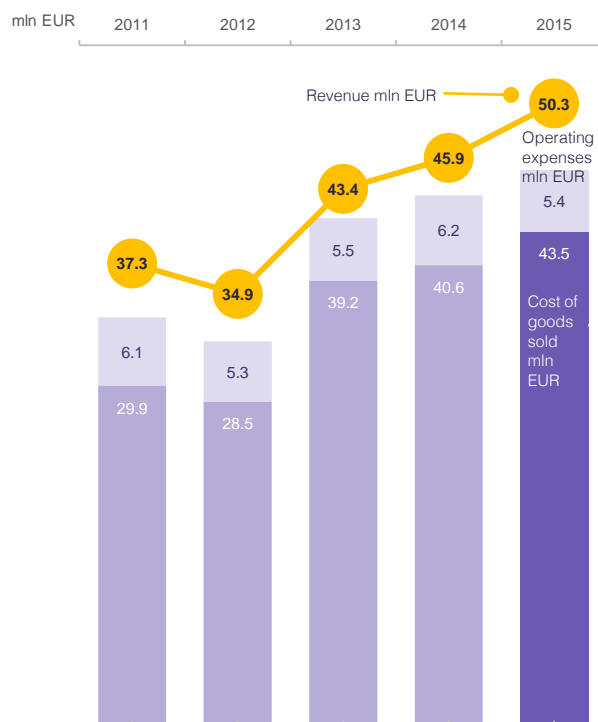
**Cost of goods sold mln EUR**



**Operating expenses mln EUR**

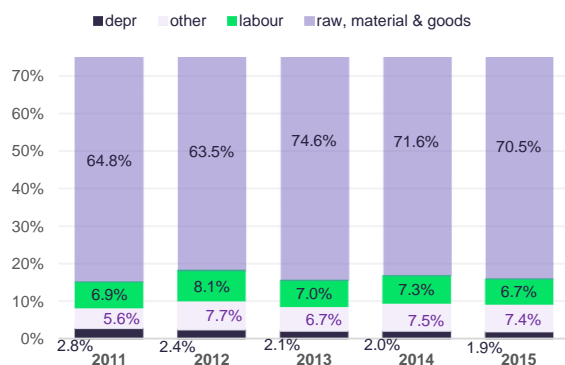


**Cost of goods sold & operating expenses**

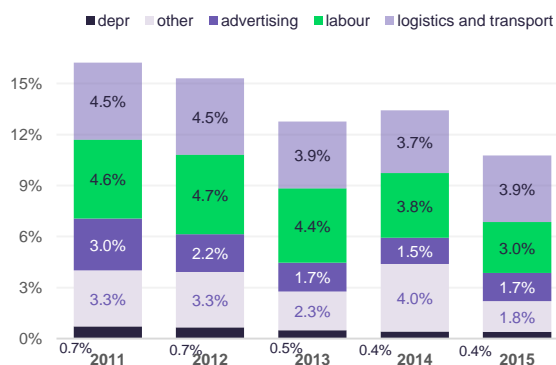


In the interest of overview, the structure of costs is presented over five years as percentage to revenue, i.e. the base (100%) is the revenue of the financial period.

**Cost of goods sold as % of sales**



**Operating expenses as % of sales**



At the time when revenue increased 9.6% in a year, sales costs on raw material and materials increased by 7.9%, i.e. -1.7 percentage points less than revenue growth. In monetary value, the hypothetical positive effect on gross profit from slower growth of raw material costs would have totalled 0.6 million euros. In absolute value, costs on raw materials and

materials increased by a total of 2.6 million euros from the period a year ago (2014: 0.5 million euros). Of costs of goods sold, the lion's share (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 6.7% of revenue, decreasing by -0.6 percentage points year on year, i.e. an improvement by 0.02 million euros. Group's total payroll expenses formed 9.7% of revenue (2014: 11.1%). The share of costs of other goods sold in revenue remained at the same level as the year before, totalling 7.4% of revenue (2014: 7.5%), 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 0.03 million euros (2014: +0.04 million euros). Rapid increase of other operating costs in 2014 was attributable to the costs related to the sale of a subsidiary at the end of last year.

## BALANCE SHEET ANALYSIS

The consolidated balance sheet total of AS PRFoods as at 31.12.2015 was 29.5 million euros, having decreased by 11.0 million euros, i.e. 27.1%, within a year. The reduction in balance sheet total was attributable to share capital payments in the amount of 11.5 million euros. The company's current assets as at 31.12.2015 amounted to 15.6 million euros and the balance of cash and bank accounts was 1.9 million euros.

Inventories have decreased by -0.9 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.

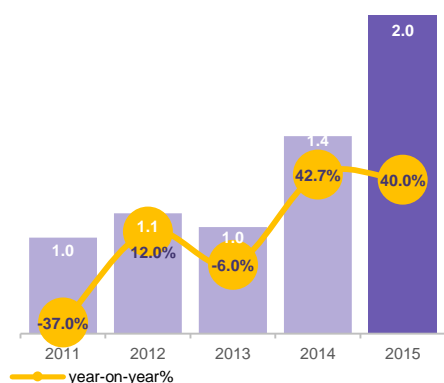
Biological assets decreased -1.2 million euros compared to the same period in 2014. The reason is that the market price which was effective as of 31.12.2015 was -17.6% lower than as of 31.12.2014 and due to strategic changes in production.

Accounts payables and prepayments as of 31.12.2015 amounted to 3.8 million euros (31.12.2014: 4.5 million euros). The equity of PRFoods as at 31.12.2015 amounted to 23.2 (31.12.2014: 33.7) million euro.

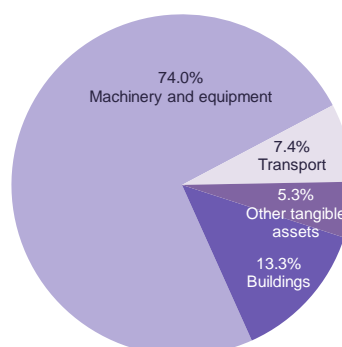
## INVESTMENTS

AS PRFoods' investments during the reporting period amounted to 2.0 million euros (12 months of 2014: 1.4 million euros from continuing operations), including investments in production machines amounted to 1.6 million euros and in enlargements of facilities amounted to 0.3 million euros. Under the financial lease terms, property, plant and equipment purchases were made in the amount of 1.0 million during the financial year of 2015 (2014: 0.4 million euros).

Investments mln EUR



Structure of investments

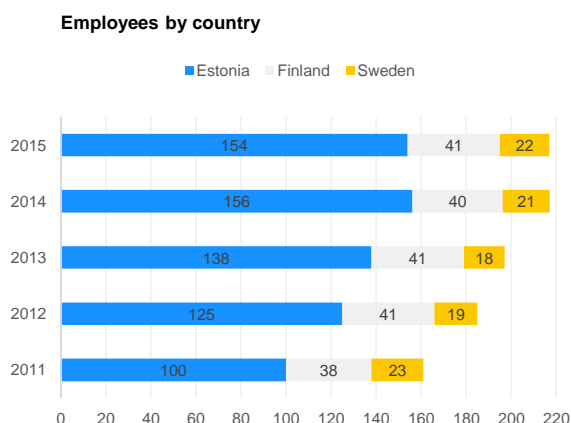
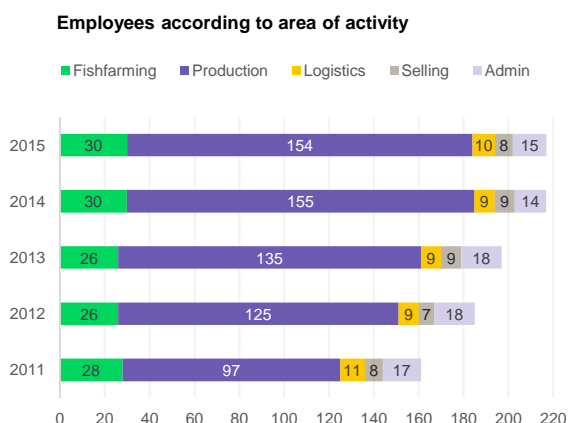
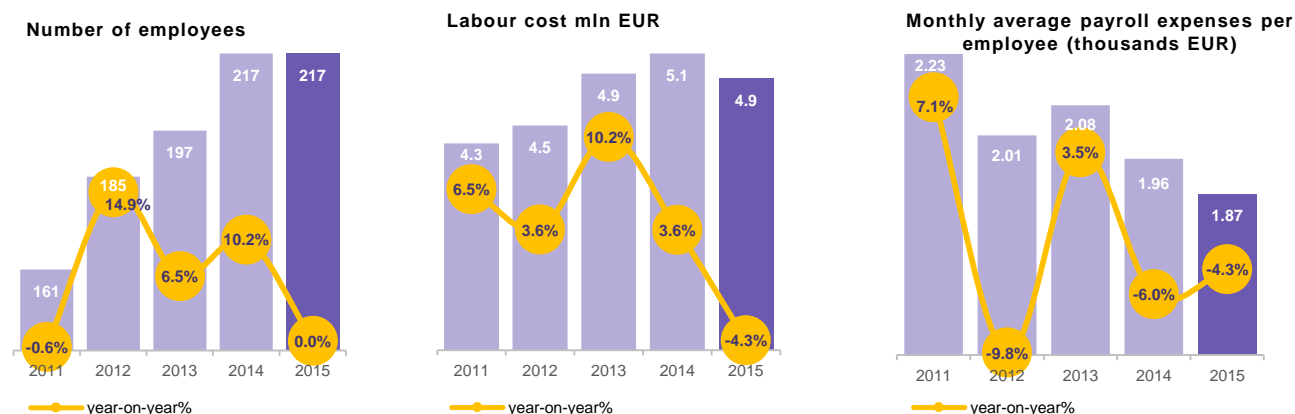


## TEAM

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.

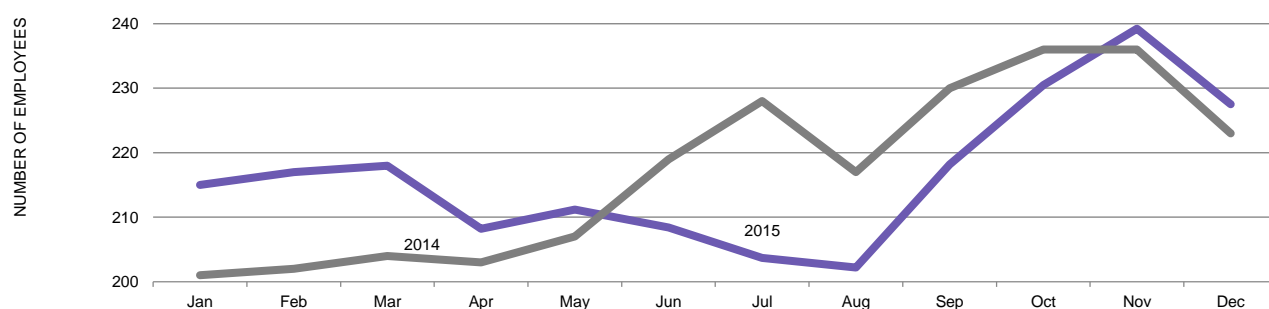
Fishing industry – it is much more than just work, it's a lifestyle. For us, every employee is important.

The average number of employees during 12 months of 2015 was 217. Compared to the same period of 2014, the average number of employees did not change. The labour costs in production during 12 months in 2015 were 3.4 million euros which also did not change compared to the same period in 2014.





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



The graph shows that 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.



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 2015, investments in the equipment of Finnish and Swedish fish farms totalled 0.4 million euros. For instance, 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.

In September 2014, on the basis of the decision made by Vaasa Higher Civil Court, the consolidation resolutions of fish farming permits entered into force, as a result of which the number of fish farms was reduced from ten to six. It is expected to improve the Company's efficiency and reduce the burden on the environment.

As an international fish producer, the Group continues to reduce the influence of its activities on the environment also in 2016.



## 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



Moonsund Regatta

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 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.

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.



Exhibition game in Hämeenlinna ice arena

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.

## SHAREHOLDER INFORMATION

### General meeting of shareholders

Annual general meeting of shareholders of AS PRFoods will be held on 26 May 2016 starting at 10:00 at the conference room "Beta" of hotel Radisson Blu Olümpia (address: Liivalaia 33, 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 2016 as follows:

week 15	Turnover of 1 <sup>st</sup> quarter and 3 months for 2016
week 20	1 <sup>st</sup> quarter and 3 months unaudited results for 2016
week 28	Turnover of 2 <sup>nd</sup> quarter and 6 months for 2016
week 33	2 <sup>nd</sup> quarter and 6 months unaudited results for 2016
week 41	Turnover of 3 <sup>rd</sup> quarter and 9 months for 2016
week 46	3 <sup>rd</sup> quarter and 9 months unaudited results for 2016

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 Külkhoone, Ekspress Grupi AS 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 Managetrade 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 31.12.2015, the members of Management and Supervisory Board and persons/companies related to them hold the shares in the company as indicated below:**

Shareholder	31.12.2015 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	41,823	0.11%
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	
Total number of shares owned by the members of the Supervisory and Management Board	1,567,917	4.05%

## 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). 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

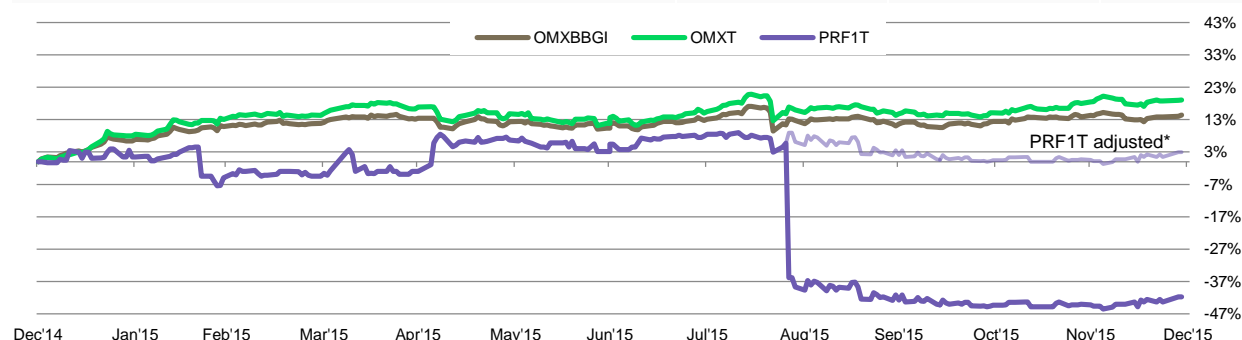
## AS OF DECEMBER 2015, THE PRFOODS SHARE WAS PART OF THE FOLLOWING INDICES:

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.

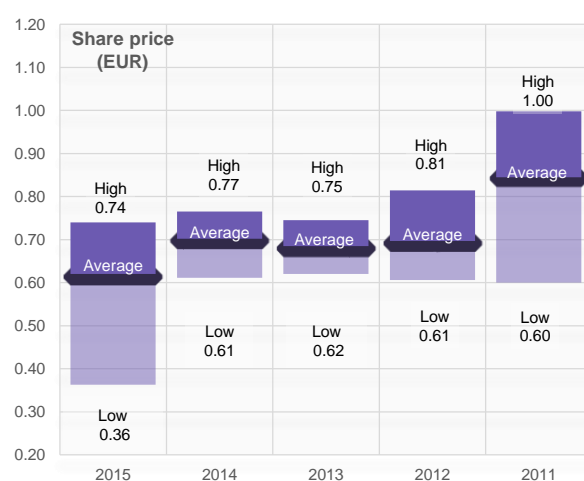
## THE YEARLY CHANGE OF PRFOODS SHARE AND PROFITABILITY INDEXES BETWEEN 31.12.2014 AND 31.12.2015:

Index / Equity	31.12.2014	31.12.2015	change %
OMX Baltic Benchmark GI	566.56 EUR	648.32 EUR	14.43%
OMX Tallinn	755.05 EUR	898.99 EUR	19.06%
PRF1T	0.670 EUR	0.390 EUR	-41.79%



Baltic comparison index increased 14.43% during the given period, Tallinn Stock Exchange All-Share index increased 19.06% and PRFoods share price decreased -41.79%, due to the decrease of the share nominal value in the amount of 30 euro cents. \*The increase of PRFoods's share, adjusted by the capital reduction payments during the named period was 2.99%.

TRADING HISTORY					
Price (EUR)	2015	2014	2013	2012	211
Open	0.670	0.710	0.640	0.671	0.952
High	0.740	0.765	0.745	0.814	0.998
Low	0.363	0.611	0.620	0.606	0.600
Last	0.390	0.670	0.700	0.640	0.640
Traded volume, thousand	1,896	1,891	1,732	1,393	4,564
Turnover, million	1.17	1.32	1.18	0.97	3.84
Market capitalization, million	15.09	25.92	27.08	24.76	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	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
EV/Sales	(Market Value + Net Debt) / Sales	0.289	0.509	0.929	1.107	0.965
EV/EBITDA from operations	(Market Value+ Net Debt) / EBITDA from operations	4.971	63.308	115.951	13.489	11.090
EV/EBITDA	(Market Value+ Net Debt) / EBITDA	7.143	44.972	31.216	37.324	12.915
Price/EBITDA from operations	Market Value/ EBITDA from operations	5.167	70.298	77.968	8.653	7.625
Price/EBITDA	Market Value/ EBITDA	8.017	49.937	20.991	23.944	8.880
Price-to-Earnings	Market Value/ Net Earnings	12.796	neg	neg	728.685	28.923
Price-to-Book	Market Value/ Equity	0.650	0.770	0.726	0.679	0.611

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 2015:



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. The share capital decrease payments to the shareholders in the amount of 0.30 euros per share were made on 04 January 2016 (Note 32).

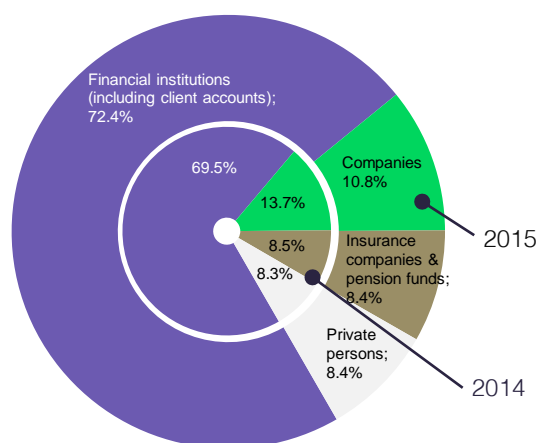
The reason for the reduction of share capital is to balance the adjustment of the capital structure of AS PRFoods, enabling to balance the company's debt to equity ratio. It also helps to restore the return on equity and other ratios of AS PRFoods to a more adequate level.

## SHAREHOLDERS STRUCTURE

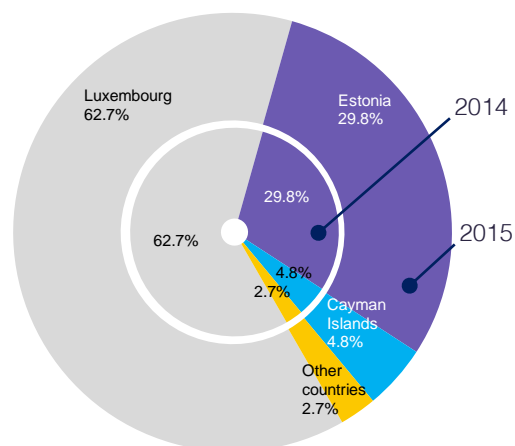
Shareholders of AS PRFoods as at 31.12.2015 and change compared to the previous year

1,289 SHAREHOLDERS -4.2% FROM 31.12.2015				
	Number of shares	% of total 31.12.2015	% of total 31.12.2014	Change
ING Luxembourg S.A. (Nominee account)	24,258,366	62.71%	62.71%	-
LHV Pensionifond L	1,765,346	4.56%	4.53%	+13 355
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%	-
Firebird Avrora Fund, Ltd.	648,220	1.68%	1.68%	-
Compensa Life Vienna Insurance Group SE	611,058	1.58%	1.66%	-32,000
LHV Pensionifond XL	588,611	1.52%	1.51%	+3,500
OÜ Footsteps Management	503,701	1.30%	1.31%	-2,000
OÜ Freespirit	363,899	0.94%	0.94%	-
<b>Total largest shareholders</b>	<b>32,472,292</b>	<b>83.94%</b>	<b>83.99%</b>	<b>-17,145</b>
Other minority shareholders	5,781,013	14.95%	15.58%	-244,969
Treasury shares	429,555	1.11%	0.43%	+262 114
<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	588	45.6%	296,582	0.7%
1,001 ... 10,000	599	46.5%	1,973,319	5.1%
10,001 ... 50,000	70	5.4%	1,380,551	3.6%
50,001 ... 100,000	9	0.7%	610,872	1.6%
More than 100,000	23	1.8%	34,415,536	89.0%
<b>Total</b>	<b>1,289</b>	<b>100.0%</b>	<b>38,682,860</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 2015, 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 2015. 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 2015.

#### 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 2015, 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 2015.

#### 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 28 May 2015 appointed AS PricewaterhouseCoopers as the Company's auditor for 2015. 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 28th May 2015 in the Radisson Blu Hotel Olümpia. 31 shareholders attended the meeting representing 31 701,234 votes or 82.45% 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 FY2014 and covering of losses, reduction of the Company's share capital, appointment of auditor for FY2015 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 2015, 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 2015, the Company's Supervisory Board members owned directly and indirectly 3.94% of the Company's shares (2014: 4.05%).

## 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 2015, the Company's Management Board member owned by direct and indirect holdings a total of 0.11% of the Company's shares (2014: 2.74%). 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 2015.

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.

### Auditors

In accordance with the resolution of the general meeting of shareholders from 28 May 2015, the audits of AS PRFoods in 2015 will be conducted by AS PricewaterhouseCoopers.

## MANAGEMENT BOARD'S CONFIRMATION TO THE ANNUAL REPORT

The Management Board confirms that The Management Report in pages 10-38 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 41-89 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 2016

P R F O O D S

## Consolidated financial statements



# Consolidated statement of financial position

EUR '000	Note	31.12.2015	31.12.2014
<b>ASSETS</b>			
Cash and cash equivalents	(Note 5)	1,921	3,330
Receivables and prepayments	(Note 6)	3,653	12,014
Inventories	(Note 7)	5,616	6,563
Biological assets	(Note 8)	4,421	5,583
<b>Total current assets</b>		<b>15,611</b>	<b>27,490</b>
Deferred income tax	(Note 10)	138	103
Long-term financial investments		161	134
Tangible fixed assets	(Note 11)	7,427	6,484
Intangible assets	(Note 12)	6,128	6,218
<b>Total non-current assets</b>		<b>13,854</b>	<b>12,939</b>
<b>TOTAL ASSETS</b>		<b>29,465</b>	<b>40,429</b>
<b>EQUITY AND LIABILITIES</b>			
Loans and borrowings	(Note 13, 15)	286	198
Payables	(Note 16)	3,760	4,493
Government grants	(Note 17)	177	190
<b>Total current liabilities</b>		<b>4,223</b>	<b>4,881</b>
Loans and borrowings	(Note 13, 15)	1,063	555
Deferred tax liabilities	(Note 10)	252	457
Government grants	(Note 17)	706	864
<b>Total non-current liabilities</b>		<b>2,021</b>	<b>1,876</b>
<b>TOTAL LIABILITIES</b>		<b>6,244</b>	<b>6,757</b>
Share capital		7,737	19,342
Share premium		16,026	16,026
Treasury shares		-172	-117
Statutory capital reserve		6	6
Currency translation reserve		471	441
Retained loss		-847	-2,026
<b>TOTAL EQUITY</b>	(Note 18)	<b>23,221</b>	<b>33,672</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29,465</b>	<b>40,429</b>

The notes on pages 41 to 89 are an integral part of these consolidated annual financial statements

# Consolidated statement of profit or loss and other comprehensive income

EUR '000	Note	2015	2014
Sales	(Note 19)	50,273	45,863
Cost of goods sold	(Note 20)	-43,509	-40,581
<b>Gross profit</b>		<b>6,764</b>	<b>5,282</b>
<b>Operating expenses</b>		<b>-5,411</b>	<b>-6,153</b>
Selling and distribution expenses	(Note 21)	-4,033	-3,598
Administrative expenses	(Note 22)	-1,378	-2,555
Other income / expenses	(Note 25)	406	831
Fair value adjustment on biological assets	(Note 8)	-888	-571
<b>Operating profit (-loss)</b>		<b>871</b>	<b>-611</b>
Financial income	(Note 26)	303	87
Financial expenses	(Note 26)	-105	-844
<b>Profit (-loss) before tax</b>		<b>1,069</b>	<b>-1,368</b>
Income tax	(Note 27)	110	-136
<b>Net profit (-loss) for the year from continuing operations</b>		<b>1,179</b>	<b>-1,504</b>
Net loss for the year from discontinuing operations (attributable to equity holders of the company)	(Note 31)	0	-1,310
<b>Net profit (-loss)</b>		<b>1,179</b>	<b>-2,814</b>
<b>Other comprehensive income (-expense) that might subsequently classified to profit or loss:</b>			
Foreign currency translation differences		30	-308
including continued operations		30	-98
including discontinued operations		0	-210
<b>Total comprehensive income (-expense)</b>		<b>1,209</b>	<b>-3,122</b>
<b>Profit (-loss) per share (EUR)</b>	(Note 28)	<b>0.03</b>	<b>-0.07</b>
including continued operations		0.03	-0.04
including discontinued operations		0.00	-0.03
<b>Diluted profit (-loss) per share (EUR)</b>	(Note 28)	<b>0.03</b>	<b>-0.07</b>
including continued operations		0.03	-0.04
including discontinued operations		0.00	-0.03

The notes on pages 41 to 89 are an integral part of these consolidated annual financial statements

# Consolidated cash flow statement

EUR '000	Note	2015	2014
<b>Continuing operations</b>			
Net profit (-loss)		1,179	-1,504
Adjustments:			
Depreciation	(Note 24)	1,161	1,130
Loss from sale and write off of fixed assets	(Note 25)	-65	0
Other non-cash items		-242	2,371
Changes in receivables and prepayments	(Note 6)	544	-142
Changes in inventories	(Note 7)	947	-1,631
Changes in biological assets	(Note 8)	1,162	687
Changes in payables and prepayments	(Note 16)	-966	-237
Corporate income tax paid		-55	-231
Discontinued operations		0	2,445
<b>Total cash flow from operations</b>		<b>3,665</b>	<b>2,888</b>
<b>Continuing operations</b>			
Sale of tangible and intangible fixed assets		95	232
Purchase of tangible and intangible fixed assets	(Note 11, 12, 13)	-1,042	-1,004
Sales of subsidiaries	(Note 31)	8,000	5,928
Repayments of loans granted		4	4
Interests received	(Note 26)	5	1
Profit from long-term investments		1	3
Discontinued operations		0	-707
<b>Total cash flow from investments</b>		<b>7,063</b>	<b>4,457</b>
<b>Continuing operations</b>			
Reduction of share capital	(Note 18)	-11,504	0
Repurchase of own shares	(Note 18)	-156	-117
Change in overdraft	(Note 15)	0	-1,835
Repayments of loans	(Note 15)	0	-1,244
Capital lease repayments	(Note 13, 15)	-381	-245
Dividends paid	(Note 18)	0	-387
Interests paid	(Note 13, 26)	-96	-413
Discontinued operations		0	-1,088
<b>Total cash flow from financing</b>		<b>-12,137</b>	<b>-5,329</b>
<b>Total cash flow</b>		<b>-1,409</b>	<b>2,016</b>
Cash and cash equivalents at beginning of year	(Note 5)	3,330	1,314
Change in cash and cash equivalents		-1,409	2,016
Cash and cash equivalents at the end of the period	(Note 5)	1,921	3,330

The notes on pages 41 to 89 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	Other reserve	Translation reserve	Retained earnings	Total equity
<b>Balance at 31.12.2013</b>	<b>19,342</b>	<b>16,026</b>	<b>0</b>	<b>6</b>	<b>62</b>	<b>748</b>	<b>1,113</b>	<b>37,297</b>
The own shares repurchase program	0	0	-117	0	0	0	0	-117
Share option programme	0	0	0	0	-62	0	62	0
Dividends	0	0	0	0	0	0	-387	-387
Transactions with equity holders of the company	0	0	-117	0	-62	0	-325	-504
Net loss for the year	0	0	0	0	0	0	-2,814	-2,814
Other comprehensive loss	0	0	0	0	0	-308	0	-308
Total comprehensive loss for the period	0	0	0	0	0	-308	-2,814	-3,122
<b>Balance at 31.12.2014</b>	<b>19,342</b>	<b>16,026</b>	<b>-117</b>	<b>6</b>	<b>0</b>	<b>441</b>	<b>-2,026</b>	<b>33,672</b>
<b>Balance at 31.12.2014</b>	<b>19,342</b>	<b>16,026</b>	<b>-117</b>	<b>6</b>	<b>0</b>	<b>441</b>	<b>-2,026</b>	<b>33,672</b>
Reduction of share capital	-11,605	0	101	0	0	0	0	-11,504
The own shares repurchase program	0	0	-156	0	0	0	0	-156
Transactions with equity holders of the company	-11,605	0	-55	0	0	0	0	-11,660
Net profit for the year	0	0	0	0	0	0	1,179	1,179
Other comprehensive profit	0	0	0	0	0	30	0	30
Total comprehensive profit for the period	0	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>0</b>	<b>471</b>	<b>-847</b>	<b>23,221</b>

Additional information about equity is disclosed in Note 18.

The notes on pages 41 to 89 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 2016. 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 2015 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

The following new or revised standards and interpretations became effective for the Group from 01.01.2015.

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 01.01.2015 that would be expected to have a material impact to the Group.

## Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015).

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The Group assesses that there is no impact of application of the amendments to its financial statements.

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

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.

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 01.01.2015 that would be expected to have a material impact to the Group.

**Annual Improvements to IFRSs 2014** (effective for annual periods beginning on or after 1 January 2016).

**IAS 34** will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

**Disclosure Initiative – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2016).

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group assesses that there is no impact of application of the amendments to 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.

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 33, 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. The ice cream and frozen goods business segment is presented in these financial statements as discontinued operations. The Management Board of the parent company of the Group has decided that the two remaining business segments, the fish segment and other segment, hereinafter will be presented together since the proportion of the other segment in the business is marginal. 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.

(a) 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.

(b) Available-for-sale financial assets are non-derivative financial assets, which have been designated as held for sale or have not been classified in any other category. Available-for-sale financial assets are carried as non-current financial investments except when the financial asset expires or the Group intends to sell it during 12 months after the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value, including transaction costs. Available-for-sale financial assets are subsequently carried at fair value; gains and losses arising from changes in fair value of available-for-sale financial assets are included in other comprehensive income. If the fair value of a financial asset cannot be measured reliably, they are measured at cost less any impairment losses.

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 and 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.

## DISCONTINUED OPERATIONS AND NONCURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs of selling.

Intra-Group transactions between discontinued and continuing operations are eliminated based on whether the arrangement between the continuing and discontinuing operations will continue subsequent to the disposal. The results of the discontinued operation include only those costs and revenues that will be eliminated from the Group on disposal.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss. In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss (Note 31).

## 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*)

The Group primarily farms rainbow trout in its fish farms located in Finland and Sweden, which makes up 99% (2014: 97%) 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.

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 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. From 01.01.2015 the effective tax rate is 20/80 (2014: 21/80) 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% (2014: 22%) and in Finland 20% (2014: 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.

## SHARE-BASED TRANSACTIONS

The fair value of the services provided by the employees to the Group (work contribution) in exchange for shares is recognised as an expense in the statement of comprehensive income and in the line "Other reserve" in equity over the vesting period (from the date of issue of a convertible bond until the beginning of the conversion period). The fair value of the services received is determined based on the fair value (market price) of equity instruments granted to employees at the grant date. As the employee has the right to convert the convertible bond for the shares only in case of an existing employment relationship under the share-based payment agreement, at each balance sheet date, an estimate is made as to the number of convertible bonds that are expected to vest, and the impact of the revision to original estimates, is recognised as an adjustment of the staff costs and "Other reserve" according to the number of convertible bonds that are expected to vest. Transaction costs attributable to equity transactions related to issue of new shares are deducted from equity on the assumption that they are treated as incremental costs directly attributable to the equity transaction. Upon conversion of convertible bonds into ordinary shares, the amount recognised in the line "Other reserve" (less any directly attributable transaction costs) is reclassified to the equity item "Share capital" and the amount above the nominal value of shares is reclassified in the item "Share premium".

## 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 31.12.2015				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>

FINANCIAL ASSETS AT 31.12.2014				FINANCIAL LIABILITIES AT 31.12.2014	
EUR '000	Available for sale financial assets	Loans and receivables	Total	EUR '000	Liabilities at amortised cost
Cash and bank (Note 5)	0	3,330	3,330	Borrowings (Note 15)	753
Trade receivables (Note 6)	0	3,755	3,755	Trade payables (Note 16)	3,542
Other receivables (Note 6)	1	8,014	8,015	Other payables (Note 16)	1
Long-term financial investments	71	0	71		
<b>Total</b>	<b>72</b>	<b>15,099</b>	<b>15,171</b>	<b>Total</b>	<b>4,296</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
31.12.2015	2,674	412	100	15	3,201
31.12.2014	3,549	97	109	4	3,759

In 2015, the Group wrote down doubtful receivables in the amount of EUR 11 thousand (2014: EUR 56 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 down receivables which are past due up to 90 days.

The Group mostly accepts banks and financial institutions with a rating of "A" as long-term counterparties in Baltic states and Scandinavia. As at 31.12.2015 available funds are held in Danske, SEB, Pohjola and Swedbank banks, whose credit rating according to Moody's Investor Service is „A“. As at 31.12.2014 available funds were held Danske, SEB, Pohjola, Swedbank and banks, whose credit rating according to Moody's Investor Service as at 31.12.2014 was „A“.

### TRADE RECEIVABLES (NOT DUE) BY COUNTRY

EUR '000	2015	2014
Finland	1,314	2,354
Estonia	1,356	1,195
Sweden	4	0
Total trade receivables not due (Note 6)	2,674	3,549

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 2015, the Group's working capital was EUR 11,388 thousand and as at 31 December 2014 EUR 22,609 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 not drawn down as at the balance sheet date. As at 31.12.2014, the balance of the unused overdraft facility was 0 thousand euros.

### Analysis of undiscounted financial liabilities by due date

#### 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
Total liabilities	2,401	231	1,109	3,742

#### FINANCIAL LIABILITIES AT 31.12.2014

EUR '000	less than 3 months	from 3 to 12 months	from 1 to 5 years	Total
Borrowings	51	161	584	796
Trade and other payables	3,529	14	0	3,543
Total liabilities	3,580	175	584	4,339

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 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	-

### Financial instruments at 31 December 2014 according to the underlying currency

EUR '000	EUR	SEK	Total
Cash and bank (Note 5)	3,277	53	3,330
Trade receivables (Note 6)	3,755	0	3,755
Other receivables (Note 6)	8,011	3	8,014
Long-term financial investments	69	3	72
<b>Total financial assets</b>	<b>15,112</b>	<b>59</b>	<b>15,171</b>
Borrowings (Note 15)	-368	-385	-753
Trade payables (Note 16)	-3,518	-24	-3,542
Other payables (Note 16)	-1	0	-1
<b>Total financial liabilities</b>	<b>-3,887</b>	<b>-409</b>	<b>-4,296</b>
<b>Net currency position</b>	<b>11,225</b>	<b>-350</b>	<b>10,875</b>
The potential change in average foreign currency rate against euro (%)	-	5.19%	-
Effect of exchange rate change on profit	-	± 18	-

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. In 2014, the Group was exposed to fluctuations of the exchange rate of RUB (Russian ruble). Information on foreign exchange gains and losses is provided in Note 26.

Possible impact of foreign exchange risks on the result of 2015 and 2014 is calculated on the percentage impact of the factual average exchange rate change of SEK (Swedish krona) 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 2015 or 31 December 2014, the base interest were 10 basis points lower or higher, interest expenses would be EUR 2 thousand (31.12.2014: EUR 1 thousand) higher or lower. Loans with a floating interest rate are linked to EURIBOR (1 to 6-month EURIBOR depending on the instrument). Receivables with floating interest rates are based on 6-month EURIBOR.

An overview of the Group's exposure to interest rate risk at 31 December 2015 and 31 December 2014

BALANCE AS AT 31.12.2015			
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
BALANCE AS AT 31.12.2014			
EUR '000	less than 1 year	over 1 year	Total
Floating interest rate			
Interest bearing receivables	4	0	4
Interest bearing liabilities (Note 15)	198	555	753
Net position	194	555	749

## CAPITAL MANAGEMENT

The Group's capital consists of borrowings and total equity. As at 31.12.2015 the equity totalled 23,221 thousand euros (31.12.2014: 33,672 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.

During the reporting year, the Company returned capital to shareholders by making disbursements through the reduction of nominal value of shares by reducing the nominal value of share by 30 euro cents, from the earlier 50 euro cents to 20 euro cents. The reason for the reduction of share capital is to adjust the capital structure of the Group, enabling to balance the debt to equity ratio.

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% (31.12.2015: 78.8%, 31.12.2014: 83.3%) and that the ratio of interest-bearing liabilities to assets does not exceed 25% (31.12.2015: 4.6%, 31.12.2014: 1.9%). 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.

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	31.12.2015	31.12.2014
Total borrowings	1,349	753
Less: Cash and cash equivalents	1,921	3,330
Net debt	-572	-2,577
Total equity	23,221	33,672
Total capital (net debt + equity)	22,649	31,095
Debt to equity ratio	-3%	-8%

The net debt of Group at 31.12.2015 was negative -0.6 (31.12.2014: negative -2.6 million euros) million euros.

## 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 2015 and 31 December 2014. 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:**

$$\text{final biomass} = \text{initial biomass} + \text{feed given to fish} / \text{feed coefficient} - \text{perished fish}$$

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 8.6% and which has been taken into account in the valuation of fish inventories.

The Group incurred loss in 2015 in the amount of EUR 89 (2014: EUR 369 thousand) thousand from the write off of biological assets.

#### 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 2015 in the amount of EUR 195 (2014: EUR 282 thousand) thousand from the write off of inventories.

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

As at 31.12.2015 the management has carried out impairment test of goodwill. As a result of the impairment test, no impairment loss on goodwill was recognised in 2015 or 2014.

The management has determined the useful lives of intangible assets considering the business conditions and volumes, past experience in the area, and future outlooks.

#### 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 117 thousand and if the useful life would be one year shorter, the negative effect to the income statement would be EUR -170 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 realised loss in 2015 in the amount of EUR 11 (2014: EUR 56 thousand) thousand with the write off of doubtful and uncollectible receivables.

## NOTE 5. CASH AND CASH EQUIVALENTS

EUR '000	31.12.2015	31.12.2014
Cash on hand	13	11
Bank accounts	1,908	3,319
Total cash and cash equivalents	1,921	3,330

## NOTE 6. RECEIVABLES AND PREPAYMENTS

EUR '000	31.12.2015	31.12.2014
Trade receivables	3,197	3,759
Allowance for doubtful receivables	-15	-4
Other receivables (Note 31)	7	7,792
Prepaid expenses	134	164
Prepaid taxes	180	303
Other prepayments	150	0
Total receivables and prepayments	3,653	12,014

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	31.12.2015	31.12.2014
Allowance for doubtful receivables at beginning of the period	-4	-151
Discontinued operations	0	147
Receivables recognised as doubtful receivables during the reporting period	-11	-56
Receivables written off the balance sheet during the reporting period	0	56
Allowance for doubtful receivables at end of the period	-15	-4

## NOTE 7. INVENTORIES

EUR '000	31.12.2015	31.12.2014
Raw materials and materials	2,488	3,860
Work-in-progress	1,158	169
Finished goods	1,302	1,947
Goods purchased for sale	648	513
Prepayments for inventories and goods in transit	20	74
<b>Total inventories</b>	<b>5,616</b>	<b>6,563</b>

The Group incurred a loss in 2015 in the amount of EUR 195 (2014: EUR 282 thousand) 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	31.12.2015	31.12.2014
Fries	244	282
Juveniles	1,742	2,089
Fish suitable for harvesting	2,435	3,212
<b>Total biological assets</b>	<b>4,421</b>	<b>5,583</b>

As at 31.12.2015, biological assets totalled 1,215 (31.12.2014: 1,563) tons. In the financial year, agricultural produce in the amount of 2,185 (2014: 1,686) 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*).

### CHANGE IN BIOLOGICAL ASSETS

EUR '000	2015	2014
Biological assets at beginning of the period	5,583	6,270
Purchased	860	482
Additions	5,035	4,963
Fair value adjustments	-888	-571
Harvested	-6,156	-5,087
Written off	-89	-369
Exchange rate differences	76	-105
<b>Biological assets at end of the period</b>	<b>4,421</b>	<b>5,583</b>

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 4,147 thousand (2014: EUR 4,392 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.

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 31.12.2015 was 16 tons (31.12.2014: 29 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 3 thousand higher or lower on the balance sheet date (2014: 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 31.12.2015 management estimated that the net realisable value of juveniles is not relatively lower than the acquisition cost. Therefore in the 31.12.2015 and 31.12.2014 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 the Management used the following inputs besides market value:

- Gutting loss 5% (31.12.2014: 5%)
- Harvesting cost 16% (31.12.2014: 16%)
- Volume of biomass 720 tons (31.12.2014: 799 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%
31.12.2015	+23	-30	+28	-28	+21	-28	+27	-27
31.12.2014	+32	-24	+32	-32	+40	-40	+32	-32

## NOTE 9. SUBSIDIARIES

GROUP COMPANIES					
Subsidiary	Domicile	Ownership interest 31.12.2015	Ownership interest 31.12.2014	Area of activity	Owner
Saaremere Kala AS	Estonia	100%	100%	Holding company of fish segment	PRFoods AS
Vettel OÜ	Estonia	100%	100%	Production of fish products	Saaremere Kala AS
GourmetHouse OÜ	Estonia	100%	100%	Sale of fish and fish products	Saaremere Kala AS
Heimon Kala Oy	Finland	100%	100%	Fishfarming, processing and sale of fish and fish products	Saaremere Kala AS
Överumans Fisk Ab	Sweden	100%	100%	Fishfarming and sales	Heimon Kala Oy
OOO Hladomagija	Russia	0%	100%	Holding company	PRFoods AS

<sup>1)</sup> OOO Hladomagija is in liquidation. Additional information is provided in Note 32.

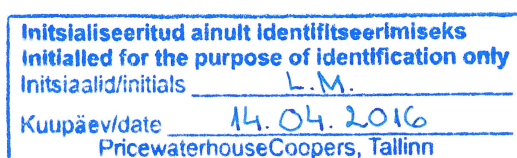
The ownership percentage of subsidiaries' equity represents their voting rights. The shares of subsidiaries are not listed on a stock exchange.

## NOTE 10. DEFERRED INCOME TAX

DEFERRED INCOME TAX ASSET			
EUR '000	Tax losses	Other	Total
Deferred income tax assets as at 01.01.2014	510	47	557
Discontinued operations	-360	-9	-369
Impact on income statement	-75	0	-75
Impact on other comprehensive income	-10	0	-10
Deferred income tax assets as at 31.12.2014	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

EUR '000	Accelerated income tax amortisation	Fair value adjustment	Other	Total
Deferred income tax liability as at 01.01.2014	72	393	251	716
Discontinued operations	10	0	-114	-104
Impact on income statement	-14	-125	-6	-145
Impact on other comprehensive income	-10	0	0	-10
Deferred income tax liability as at 31.12.2014	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

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 31.12.2013	8,638	25,323	1,477	222	35,660
Accumulated amortisation at 31.12.2013	-4,124	-17,904	-1,132	0	-23,160
Carrying amount at 31.12.2013	4,514	7,419	345	222	12,500
Changes occurred in 2014					
Unrealised currency effect	-32	-96	-2	-6	-136
Acquired during the period	310	1,514	100	408	2,332
Re-classification	0	8	0	-8	0
Depreciation	-348	-1,515	-92	0	-1,955
Assets sold and written off	-20	-113	-10	-110	-253
Sale in business combination	-1,770	-3,853	-88	-293	-6,004
Carrying amount at 31.12.2014	2,654	3,364	253	213	6,484
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
Changes occurred in 2015					
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

In the financial year, property, plant and equipment were purchased under the finance lease terms in the total amount of EUR 1.0 million euros (2014: EUR 0.4 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 31.12.2013	19,942	2,115	790	829	200	23,876
Accumulated amortisation at 31.12.2013	0	-563	-255	-685	0	-1,503
Carrying amount at 31.12.2013	19,942	1,552	535	144	200	22,373
Changes occurred in 2014						
Unrealised currency effect	0	-4	0	-6	-4	-14
Acquired during the period	0	296	28	19	83	426
Sale in business combination	-15,212	-1,087	-1	-61	0	-16,361
Write-offs	0	0	0	-3	0	-3
Depreciation	0	-98	-29	-76	0	-203
Carrying amount at 31.12.2014	4,730	659	533	17	279	6,218
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
Changes occurred in 2015						
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

The parent company has carried out an impairment test for goodwill of AS Saaremere Kala Group as at 31 December 2015 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 (2014: 0.7) and EV/EBITDA<sup>2</sup> 12.6 (2014: 8.9) which both were assigned 50% weight.

The recoverable amount determined as a result of the test conducted on 31 December 2015 and 2014 is higher than the carrying amount. If the following changes were made in the multiples 2015: -33.6% (2014: -17.9%) 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 31.12.2015	2,096
Accumulated depreciation as at 31.12.2015	-388
Carrying amount as at 31.12.2015	1,708
Cost as at 31.12.2014	1,165
Accumulated depreciation as at 31.12.2014	-246
Carrying amount as at 31.12.2014	919

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 977 thousand euros (2014: 417 thousand euros). Of financial lease added during 2015, the majority are production equipment of Vettel OÜ, a fillet line, a smoking oven, a washing machine for smoking trolleys and fish containers. The outstanding lease terms are 2 years for the workboat, 1 year for the tractor and 3.5 years for the fish harvesting equipment and 4 years for industrial equipment.

EUR '000	2015	2014
Principal payments in the financial year	381	245
Interest expenses in the financial year	22	23
Average interest rate	2.51%	1.13%
Finance lease liabilities at 31 December, including:	1,349	753
Due in less than 1 year	286	198
Due between 1-5 years	1,063	555
Minimum finance lease payments:		
Due in less than 1 year	308	212
Due between 1-5 years	1,109	584
Total	1,418	796
Future interest expense of finance lease	-69	-43
Present value of finance lease liability	1,349	753

See also Note 11 and 15.

## NOTE 14. OPERATING LEASE

### OPERATING LEASE PAYMENTS 2015

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

### OPERATING LEASE PAYMENTS 2014

EUR '000	Water areas	Machinery and equipment	Motor vehicles	Production facilities	Warehouse	Office premises	Software	Total
Operating lease expense in 2014	84	41	42	84	3	1	2	257
Future lease payments under non-cancellable lease agreements:								
Due in less than 1 year	107	35	16	0	5	1	0	164
Due between 1 and 5 years	237	94	15	0	0	0	0	346
Due after 5 years	11	3	0	0	0	0	0	14
Total	355	132	31	0	5	1	0	524

## NOTE 15. BORROWINGS

EUR '000	31.12.2015	31.12.2014
Finance lease liabilities (Note 13)	286	198
Total short-term loans	286	198
Finance lease liabilities (Note 13)	1,063	555
Total long-term loans	1,063	555
incl. payable within 1-5 years	1,063	555

At 29.12.2014 AS PRFoods and AS SEB Pank entered into a bank overdraft agreement, according to which a credit limit of 5,000 thousand euros for AS PRFoods was agreed. The term of the overdraft facility is 30.04.2016 and the interest rate is 3 month EURIBOR + 1.7%. The bank overdraft is secured by a mortgage of 10.1 million euros and a commercial pledge of 4.0 million euros.

The overdraft was not used as at 31.12.2015 and 31.12.2014.

## NOTE 16. PAYABLES AND PREPAYMENTS

EUR '000	31.12.2015	31.12.2014
Trade payables	2,322	3,542
Payables to employees	664	612
Other payables	2	1
Tax liabilities, incl.:	772	338
Social security tax	161	159
VAT	430	73
Personal income tax	82	83
Corporate income tax	84	10
Other taxes	15	13
Total payables and prepayments	3,760	4,493

## NOTE 17. GOVERNMENT GRANTS

EUR '000	2015	2014
Deferred income from government grants at the beginning of period	1,054	1,264
Change in value due to the exchange rates	6	-18
Recognition as income during the period	-177	-192
Deferred income from government grants at the end of period	883	1,054
incl. income within 1 year	177	190
incl. income within 2-17 years	706	864

## NOTE 18. EQUITY

As at 31.12.2015, the Company had 38,682,860 shares (31.12.2014: 38,682,860), including 429,555 treasury shares (31.12.2014: 167,441 treasury shares).

From 01.07.2014, the Company initiated a repurchasing programme of its own shares in accordance with the resolution of the general meeting held at 29.05.2014 and pursuant to the Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council with regards exemptions for buyback programmes and stabilisation of financial instruments.

At the general meeting of shareholders held on 29 May 2014, it was resolved to repurchase up to 500,000 of the company's own shares and established the conditions of the share repurchase programme. On 30.06.2014, the management board of AS PRFoods entered into a service contract with AS SEB Pank to conduct the share repurchase programme.

As at 31.12.2015, AS SEB Pank has acquired 429,555 shares at an average price of 0.6354 euros per share in the name and on the account of AS PRFoods.

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 2015, the Company's registered share capital was 7,736,572 euros. As at 31 December 2014 the Company's registered share capital was 19,341,430 euros.

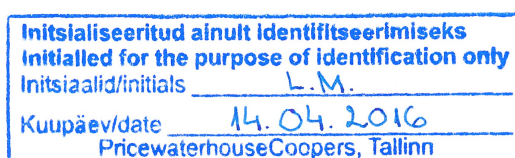
The reduction of the share capital of AS PRFoods and the related changes in the Commercial Register were entered in the Commercial Register at 2 October 2015. The share capital was reduced in accordance with the decision of the General Meeting held at 28 May 2015 through reducing the nominal value of 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 (Note 32). 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 31.12.2015	Ownership interest 31.12.2015	Number of shares 31.12.2014	Ownership interest 31.12.2014
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%
Total	24,258,366	62.71%	24,258,366	62.71%

Earnings per share are presented in Note 28.



## 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 0.09% in 2015 and 0.5% in 2014.

## SALES BY GEOGRAPHIC REGIONS

EUR '000	2015	2014
Finland	44,198	39,542
Estonia	4,841	5,245
Other	1,234	1,076
Total	50,273	45,863

## NON-CURRENT ASSETS BY LOCATION

EUR '000	2015	2014
Finland	5,201	5,126
Estonia	5,911	5,027
Russia	0	6
Sweden	2,443	2,543
Total	13,555	12,702

<sup>i)</sup> except financial assets (Note 3) and investments in associates

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

EUR '000	2015	2014
Client 1	18,174	18,462
Client 2	16,557	14,709
Total	34,730	33,171

## NOTE 20. COST OF GOODS SOLD

EUR '000	2015	2014
Cost of goods purchased for sale	-4,074	-2,558
Materials used in production	-31,366	-30,281
Staff costs (Note 23)	-3,376	-3,353
Depreciation and amortisation (Note 24)	-960	-938
Other costs of goods sold <sup>1</sup>	-3,733	-3,451
<b>Total cost of goods sold</b>	<b>-43,509</b>	<b>-40,581</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	2015	2014
Advertising, marketing and product development	-832	-704
Transportation and logistics services	-1,910	-1,608
Staff costs (Note 23)	-689	-676
Rent of warehouse premises	-74	-15
Depreciation and amortisation (Note 24)	-142	-135
Utilities	-109	-117
Other lease expenses (excl. cars)	-17	-33
Other sales and marketing expenses <sup>1</sup>	-260	-310
<b>Total sales and marketing expenses</b>	<b>-4,033</b>	<b>-3,598</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	2015	2014
Staff costs (Note 23)	-812	-1,067
Depreciation and amortisation (Note 24)	-59	-57
Consulting and advisory services	-74	-820
Information and communication services	-40	-75
Legal services	-46	-161
Transportation expenses	-61	-81
Business trips and costs of entertaining guests	-59	-59
Other general and administrative expenses <sup>1</sup>	-227	-235
<b>Total general and administrative expenses</b>	<b>-1,378</b>	<b>-2,555</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	2015	2014
Wages and salaries	-3,841	-4,004
Social security tax and other labour taxes	-1,036	-1,092
<b>Total staff costs (Notes 20, 21, 22)</b>	<b>-4,877</b>	<b>-5,096</b>
Number of employees at end of the period	228	223
Average number of employees during the year	217	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	2015	2014
Depreciation (Note 11)	-1,054	-1,036
Amortisation (Note 12)	-107	-94
<b>Total depreciation and amortisation (Notes 20, 21, 22)</b>	<b>-1,161</b>	<b>-1,130</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	2015	2014
Gain on disposal and write-off of non-current assets	65	0
Income from government grants (Note 17)	177	192
Insurance premium	0	46
Claim for compensation	0	751
Other income	219	206
Other expenses	-55	-364
Total other income/expenses	406	831

## NOTE 26. FINANCE INCOME AND COSTS

EUR '000	2015	2014
Interest income	227	66
Other finance income	28	21
Foreign exchange gains / losses	48	-349
Interest expenses	-96	-264
Other finance costs	-9	-231
Total	198	-757

## NOTE 27. INCOME TAX EXPENSES

EUR '000	2015	2014
Profit (loss) before tax (consolidated)	821	379
Income tax calculated at applicable tax rates	128	101
Impact to calculated income tax of:		
income tax expense on dividends	0	103
expenses not deductible from taxable income (+)	7	14
tax-free income and tax incentives	-1	-2
tax losses used (-)	-40	-75
tax losses carried forward (+)	33	65
Income tax expense /-income	128	206
Deferred income tax expense / -income (Note 10)	-238	-70
Effect on income statement	-110	136

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 attributable to the shareholders of the Parent Company by the average number of shares for the period.

	2015	2014
Net profit (loss) attributable to equity holders of the company EUR '000	1,179	-2,814
Average number of shares (in thousand)	38,683	38,683
Earnings (loss) per share (EUR)	0.03	-0.07
Earnings (loss) per share (EUR)	0.03	-0.07
including continuing operations	0.03	-0.04
including discontinued operations	0.00	-0.03
Diluted earnings (loss) per share (EUR)	0.03	-0.07
including continuing operations	0.03	-0.04
including discontinued operations	0.00	-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.

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

Party EUR '000	Type of transaction	2015 Purchase	2015 Sale	2014 Purchase	2014 Sale
Companies related to members of the Management and Supervisory Boards	services	49	2	525	2
	Total	49	2	525	2

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

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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	2015	2014
Short-term benefits	512	776
Total	512	776

Management benefits decreased -264 thousand euros, i.e. -34.0% compared to the same period in 2014 due to significant structure changes in the Group management.

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 (31.12.2014: 167 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 6 years in Sweden, and may as a result of their inspection impose additional tax assessments, interests and penalties. In 2015 and 2014 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. DISCONTINUED OPERATIONS

The ice cream and frozen goods business segment and the Russian trademarks owned by AS PRFoods that were sold during the year 2014 are presented in these financial statements as discontinued operations.

The sale price of business segments amounts to a total of 27,109 thousand euros. All payments from the sale of ice-cream and frozen products segments have been received according to the previously publicly disclosed terms and conditions.

The receivable of 8,000 thousand euros was presented at discounted present value. The negative impact of discounting on the result of the sale transaction was 288 thousand euros in 2014. In 2015 the income from interest in discounting was in the amount of 222 thousand euros (2014: 66 thousand euros).

#### AN EXTRACT OF THE REVENUE AND EXPENSES OF DISCONTINUED OPERATION

EUR '000	2015	2014
Sales	0	50,633
Cost of goods sold	0	-32,326
Gross profit	0	18,307
Operating expenses	0	-14,375
Selling and distribution expenses	0	-12,516
Administrative expenses	0	-1,859
Other income / expenses	0	-293
Operating profit	0	3,639
Financial income	0	205
Financial expenses	0	-140
Profit before tax	0	3,704
Income tax	0	8
Profit from discontinued operations	0	3,713
Loss on disposal of subsidiaries	0	-5,023
Net profit for the period from discontinuing operations	0	-1,310

## NOTE 32. EVENTS AFTER THE BALANCE SHEET DATE

### Registration of share capital reduction in the commercial register and disbursements

On 2 October 2015, the decrease of the share capital of AS PRFoods and related amendments to the Articles of Association were registered in the Commercial Register based on the resolutions adopted by the General Meeting of Shareholders of the Company held on 28 May 2015. The new registered share capital of the Company is EUR 7,736,572, which is divided into 38,682,860 ordinary shares with nominal value of EUR 0.20 (20 euro cents) per share.

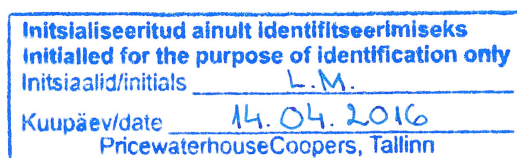
According to the Commercial Code, upon reduction of the share capital, payments to shareholders may be made no earlier than after 3 months as from the registration of the share capital decrease in the Commercial Register. On 31 December 2015, PRFoods made the monetary payment to the bank account of Estonian Central Register of Securities in the amount of 11,503,722.30 euros for payments to the shareholders. The share capital decrease payments to the shareholders, i.e. 0.30 euro per share, were made by Estonian Central Register of Securities on 4 January 2016.

### Conclusion of agreement for the transfer of shares of OOO Hladomagija or to the liquidation of the subsidiary

AS PRFoods signed on 30 December 2015 an agreement for the transfer of the Company's subsidiary OOO Hladomagija share(s) or to the liquidation of company registered in Russia.

OOO Hladomagija is a wholly-owned subsidiary of AS PRFoods. Considering that the subsidiary is currently not engaged in any business activity and no business activity is planned for the future, the Company has decided to transfer the share(s) of OOO Hladomagija or to liquidate the company.

The transaction does not have material economical effect on the activities of AS PRFoods and does not qualify as a transfer of significant holding nor a related party transaction within the meaning of "Requirements for Issuers" of the NASDAQ OMX Tallinn Stock Exchange Rules. The members of the supervisory board and management board of AS PRFoods do not have any personal interests in the incorporation of the company.



### NOTE 33. 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	31.12.2015	31.12.2014
<b>ASSETS</b>		
Cash	702	3,011
Short-term financial investments	815	1,886
Receivables and prepayments	2,934	11,264
<b>Total current assets</b>	<b>4,451</b>	<b>16,161</b>
Investments in subsidiaries	10,378	10,378
Long-term financial investments	3,718	3,306
Property, plant and equipment	99	16
<b>Total non-current assets</b>	<b>14,195</b>	<b>13,700</b>
<b>TOTAL ASSETS</b>	<b>18,646</b>	<b>29,861</b>
<b>EQUITY AND LIABILITIES</b>		
Loans and borrowings	15	22
Payables and prepayments	714	571
<b>Total current liabilities</b>	<b>729</b>	<b>593</b>
Loans and borrowings	61	0
<b>Total non-current liabilities</b>	<b>61</b>	<b>0</b>
<b>Total liabilities</b>	<b>790</b>	<b>593</b>
Share capital	7,737	19,342
Share premium	16,026	16,026
Statutory capital reserve	6	6
Treasury shares	-172	-117
Retained loss	-5,741	-5,989
<b>TOTAL EQUITY</b>	<b>17,856</b>	<b>29,268</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>18,646</b>	<b>29,861</b>

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## STATEMENT OF COMPREHENSIVE INCOME

EUR '000	2015	2014
Revenue	101	296
Cost of goods sold	0	0
<b>Gross profit</b>	<b>101</b>	<b>296</b>
<b>Operating expenses</b>		
Sales and marketing expenses	-45	0
Administrative and general expenses	-462	-1,699
Other income / expenses	-9	-222
<b>Operating loss</b>	<b>-415</b>	<b>-1,625</b>
Gain (loss) on subsidiaries and associates	0	-1,903
Finance income	713	852
Finance costs	-50	-836
<b>Profit (-loss) before tax</b>	<b>248</b>	<b>-3,512</b>
Income tax	0	-40
<b>Net profit (loss)</b>	<b>248</b>	<b>-3,552</b>
<b>Total comprehensive income (-expense)</b>	<b>248</b>	<b>-3,552</b>



## CASH FLOW STATEMENT

EUR '000	2015	2014
Net profit (-loss)	248	-3,552
Adjustments:		
Depreciation	16	81
Loss on sale and write off of fixed assets	-2	8
Loss on disposal of subsidiaries	0	1,914
Income from associates	-27	-11
Other non-cash items	-636	-74
Changes in receivables and prepayments	50	34
Changes in payables and prepayments	-167	139
Corporate income tax paid	0	-40
<b>Total cash flow from operations</b>	<b>-518</b>	<b>-1,501</b>
Cash flows from investing activities		
Sale of tangible and intangible fixed assets	15	90
Purchase of tangible and intangible fixed assets	-29	-9
Sales of subsidiaries	8,000	6,921
Change in cash pool account	503	-1,656
Loans granted	0	-748
Repayments of loans granted	686	1,501
Dividends received	0	237
Interests received	463	423
<b>Total cash flow from investments</b>	<b>9,638</b>	<b>6,759</b>
Cash flows from financing activities		
Reduction of share capital	-11,504	0
Change in overdraft	0	-1,835
Change in cash pool account	310	2,032
Repayments of loans	0	-1,244
Capital lease repayments	-29	-101
Own shares buy-back	-156	-117
Dividends paid	0	-387
Interest paid	-50	-595
<b>Total cash flow from financing</b>	<b>-11,429</b>	<b>-2,247</b>
<b>Total cash flow</b>	<b>-2,309</b>	<b>3,011</b>
Cash and cash equivalents at beginning of year	<b>3,011</b>	<b>0</b>
Change in cash and cash equivalents	-2,309	3,011
Cash and cash equivalents at the end of the period	<b>702</b>	<b>3,011</b>

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# STATEMENT OF CHANGES IN EQUITY

EUR '000	Share capital	Share premium	Own shares	Statutory capital reserve	Other reserve	Retained earnings	Total equity
<b>Balance at 31 December 2013</b>	<b>19,342</b>	<b>16,026</b>	<b>0</b>	<b>6</b>	<b>62</b>	<b>-2,112</b>	<b>33,324</b>
Carrying amount of interests under control and significant influence							-36,372
Value of interests under control and significant influence under the equity method							40,345
Adjusted unconsolidated equity at 31 December 2013							37,297
Share option programme	0	0	0	0	-62	62	0
The own shares repurchase program	0	0	-117	0	0	0	-117
Dividends	0	0	0	0	0	-387	-387
Comprehensive expense for reporting period	0	0	0	0	0	-3,552	-3,552
Total change	0	0	-117	0	-62	-3,877	-4,056
<b>Balance at 31 December 2014</b>	<b>19,342</b>	<b>16,026</b>	<b>-117</b>	<b>6</b>	<b>0</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
Adjusted unconsolidated equity at 31 December 2014							33,672
Reduction of the nominal value of shares	-11,605	0	101	0	0	0	-11,504
The own shares repurchase program	0	0	-156	0	0	0	-156
Comprehensive expense for reporting period	0	0	0	0	0	248	248
Total change	-11,605	0	-55	0	0	248	-11,412
<b>Balance at 31 December 2015</b>	<b>7,737</b>	<b>16,026</b>	<b>-172</b>	<b>6</b>	<b>0</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
Adjusted unconsolidated equity at 31 December 2015							23,221

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



## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of AS PRFoods

We have audited the accompanying consolidated financial statements of AS PRFoods and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated statement of profit or loss and other comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management Board's Responsibility for the Consolidated Financial Statements**

Management Board is responsible for the preparation and fair presentation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS PRFoods and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Ago Vilu'.

Ago Vilu  
Auditor's Certificate No. 325

A handwritten signature in blue ink, appearing to read 'Lauri Past'.

Lauri Past  
Auditor's Certificate No. 567

14 April 2016

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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.*

## LOSS ALLOCATION PROPOSAL

As of 31.12.2015 the retained loss of AS PRFoods Group totalled -847 thousand euros.

The Management Board proposes to the general meeting of shareholders to cover the accumulated loss from the share premium. In addition, the Management Board proposes to the general meeting of shareholders to transfer 5% of the net profit of the financial year 2015 of parent company AS PRFoods in the amount of 12.4 thousand euros to the statutory reserve.



Indrek Kasela  
Member of the Management Board

April 13, 2016