

JOINT STOCK COMPANY PUTNU FABRIKA ĶEKAVA
(UNIFIED REGISTRATION NUMBER 500030054711)

ANNUAL REPORT FOR THE FINANCIAL YEAR
1 JULY 2016 THROUGH 30 JUNE 2017

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
AND CONSOLIDATED ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2017

CONTENTS

General information	3
Management report	4
Financial statements:	
Statement of profit or loss	6
Balance sheet	7
Statement of cash flows	9
Statement of changes in equity	9
Notes to the financial statements	11
Independent auditors' report	28

General information

Name of the company	Putnu fabrika Ķekava
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	000300741 11 June 1991, Riga Re-registered with the Commercial Register on 24 May 2004; Unified registration number: 50003007411
Registered office	Putnu fabrika Ķekava, Ķekava municipality, Ķekava pagasts, LV-2123
Board Members	Andrius Pranckevičius, Chairman of the Board, appointed on 10/10/2015 Saulius Petkevičius, Board Member, appointed on 31/03/2014 Donatas Petkevičius, Board Member, appointed on 31/03/2015 Dominykas Chlebinkas, Board Member, appointed on 04/07/2015 Almantas Sadauskas, Board Member, appointed on 10/06/2016, resigned on 23/12/2016 Ilze Kaparšmite, Board Member, appointed on 25/04/2016, resigned on 23/12/2016
Council Members	Darius Zubas, Chairman of the Council, appointed on 30/04/2014 Šidlauskas Vytautas, Council Member, appointed on 06/10/2015 Arunas Zubas, Council Member, appointed on 06/10/2015
Subsidiaries	SIA PFK trader (100%) Ķekava municipality, Ķekava pagasts, LV-2123 SIA Erfolg group (100%) Gaismas iela 2A-48, Ķekava municipality, Ķekava pagasts, LV-2123
Financial year	1 July 2016 – 30 June 2017
Auditors	SIA Ernst & Young Baltic Muitas iela 1a, Riga Latvia, LV – 1010 License No 17 Iveta Vimba Latvian Certified Auditor Certificate No 153

Management report

The Board of AS Putnu fabrika Ķekava presents the management report and the financial statements for the business year of AS Putnu fabrika Ķekava (hereinafter – the Company) ended 30 June 2017.

Operations during the reporting year

AS Putnu fabrika Ķekava was founded in 1967 and is the leading poultry farming and poultry meat manufacturer in Latvia. The Company carries out a complete cycle of poultry meat production, which includes hatching eggs and chicken production, bird rearing, production of fresh poultry meat and its processing. The Company's product mix includes fresh poultry meat, pickled chicken meat for grilling, smoked chicken meat and meat-rolls, sausages and culinary preparations. The Company produces more than 100 different poultry products

The Company operates according to ISO 22000:2006. The standard confirms that products are systematically inspected in terms of food safety – starting from the suppliers of raw materials and packaging, production process control and traceability, including delivery to customers. Potential risks are identified and a control mechanism for their elimination is introduced at each stage of the production. In the reporting year, the Company obtained the BRC (British Retail Consortium) certificate, the most recognized world-wide food safety certificate. The certificate is an internationally recognized evidence of the food manufacturer's reliability, quality and safety and it will facilitate the increase of exports in the future.

The Company's net turnover in 2016/2017 reached EUR 62.1 million (2015/2016: EUR 55.8 million). During the reporting year, the Company produced the total of 31.5 tonnes of carcass weight (2015/2016: 28.4 tonnes). Company has finished the year with net losses of EUR 695 thousand (2015/2016.: net losses EUR 462 thousand).

The reporting year can be characterized as partly stable for the poultry industry. No significant global fluctuations were observed either in the prices of the poultry feedstuffs or energy prices. At the same time, on the Company's main markets the demand for poultry meat remained steady with a tendency to grow.

During the reporting year, the Company continued investing in the maintenance and upgrading of equipment and technological processes. In the reporting year, 6 poultry houses were renovated and put into operation. Their reconstruction was carried out with the support of the Rural Development Program of the European Agricultural Fund for Rural Development. In the reporting year, new sausage production equipment as well as new cold stores and new meat grinders were installed. The Company's total capital expenditure reached EUR 4 million in the reporting year (2015/2016: EUR 7.93 million).

In the reporting year, the Company created its export brand *Top choice poultry*. Both fresh and frozen poultry meat under this brand is offered directly to export customers. In spring 2017, the Company obtained official permission to use the internationally recognized quality label *Antibiotic Free*. This quality label confirms that over the last years the Company has made large investments in creating and developing the chicken growth monitoring system which now fully enables growing 80% chicken without using any antibiotics. It is mostly due to the fact that the Company has provided good and safe poultry welfare conditions, as a result of which there are less sick poultry. During the reporting year, the Company started to produce the following new products: *Chicken Sausages "Hot Dog Original"*, *Parboiled Chicken sausages*, two types of grill sausages – *Boiled Chicken Meat White Grill Sausages with Greens* and *Boiled Chicken Meat Grill Sausages with Cheese*, as well as two *Gill* line products– *Boned Chicken Thighs in White Pepper Marinade* and *Chicken Upper Wings in Creamy Dill Marinade*.

The Company is aware of and understands the environmental impact of its activities. Consequently, the Company is continuously investing in the reduction of negative environmental impact by facilitating stable and sustainable business in order to preserve clean and healthy environment. In the area of environmental protection the Company's goal is maintaining and continuously improving environment-friendly production in accordance with the regulations for environment protection by using the best available technologies and constantly reducing the negative environmental impact created by its operations.

The Company acknowledges its responsibility for its employees' health and considers unacceptable any activities which can be detrimental to health or cause loss of life of any employee involved in the production process. In building safe work environment the Company's aim is to constantly improve the working conditions by regularly assessing work environment risks, adapting the work environment for disabled persons both regarding the work place equipment and the selection of activity and production techniques as well as by regularly organizing the required employee training in respect of safety at work and by providing the employees with collective and personal protective equipment.

Investments in other companies

At the end of the reporting year, the Company owned two subsidiaries – SIA PFK trader, which is engaged in the retail sale of the AS Putnu fabrika Ķekava products through 22 retail stores in Latvia, and SIA Erfolg group. For the financial year 2016/2017, SIA PFK trader had net turnover of EUR 3.2 million and net profit of EUR 6.3 thousand. SIA Erfolg group did not perform any operations and incurred a loss of EUR 71 for the reporting year.

Further development of the Company

The Company's main objectives for 2017/2018 are to proceed with the efforts aimed at improving production efficiency and ensuring the implementation of capital investment projects as well increasing its product quality. Ensuring high-quality products and increasing productivity are the basic preconditions for enhancing the Company's competitiveness. In the following reporting year, the Company plans the renovation of additional 10 broiler houses, internal roads and yards, renovation of energy supply system as well as the acquisition of various equipment for a total amount of EUR 6.8 million.

Management report (cont'd)

Exposure to risks

The Company's principal financial instruments comprise loans from credit institutions and related companies, finance lease, and cash and cash equivalents. The main purpose of these financial instruments is to ensure financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main financial risks arising from the Company's financial instruments are market risk, credit risk liquidity risk and interest rate risk.

In order to manage key risks, the management has established the following procedures:

Market risk

Market risk means the risk of loss, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. The Company regularly monitors prices in the respective industry, namely, the prices of poultry meat and follows the actual market developments and, if necessary, makes changes in its pricing policy.

Credit risk

The Company is exposed to credit risk through its trade receivables, loans and borrowings. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

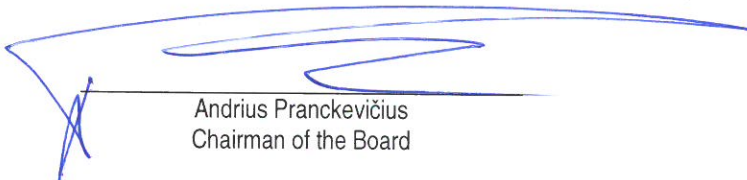
The Company has no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

Liquidity risk

The Company manages its liquidity risk by maintaining an adequate level of cash and cash equivalents for ensuring its operating activities.

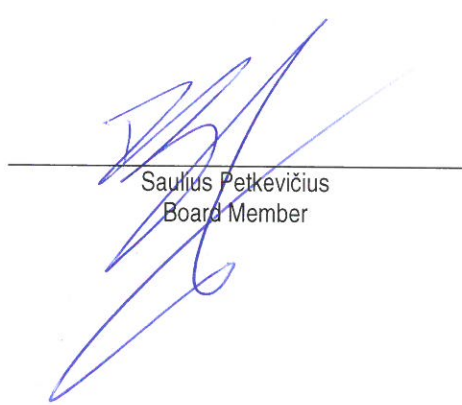
Interest rate risk

The Company is exposed to interest rate risk mainly through its current and non-current borrowings. The Company's policy is to ensure that the majority of its borrowings are at a fixed rate.



Andrius Pranckevičius
Chairman of the Board

13 December 2017

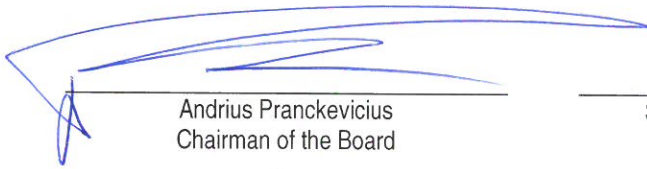


Saulius Petkevičius
Board Member

Statement of profit or loss

	Notes	01/07/2016 - 30/06/2017	01/07/2015 - 30/06/2016 (restated)
		EUR	EUR
Net turnover	3	62 056 625	55 790 331
Cost of sales	4	(55 600 752)	(49 298 564)
Gross profit or loss		6 455 873	6 491 767
Distribution costs	5	(5 743 603)	(5 190 379)
Administrative expense	6	(1 253 188)	(1 254 122)
Other operating income	7	363 869	219 195
Other operating expense	8	(164 645)	(340 549)
Interest and similar expense:	9		
• related companies		(155 112)	(91 450)
• other parties		(198 136)	(182 774)
Profit or loss before corporate income tax		(694 942)	(348 312)
Profit or loss after corporate income tax		(694 942)	(348 312)
Income or expense from changes in deferred tax assets or deferred tax liabilities	10	-	(113 561)
Net profit or loss for the reporting year		(694 942)	(461 873)

The accompanying notes form an integral part of these financial statements.



Andrius Pranckevicius
Chairman of the Board



Saulius Petkevicius
Board Member



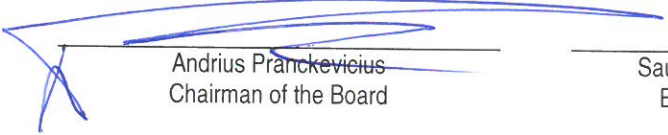
Zaiga Ozola
Chief Accountant

13 December 2017

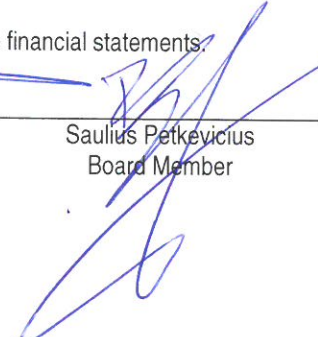
Balance sheet**ASSETS**

	Notes	30/06/2016	30/06/2017 (adjusted)
		EUR	EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights		6 564	-
Other intangible assets		34 215	42 554
TOTAL	12	40 779	42 554
Property, plant and equipment			
Real estate:			
• land plots, buildings and engineering constructions		19 597 858	18 446 560
Equipment and machinery		10 731 834	7 977 266
Other fixtures and fittings, tools and equipment		360 526	211 032
Construction in progress		1 495 560	3 921 493
Prepayments for property, plant and equipment		414 237	105 808
TOTAL	13	32 600 015	30 662 159
Non-current financial assets			
Investments in related companies	14	2 849	2 849
TOTAL		2 849	2 849
TOTAL NON-CURRENT ASSETS		32 643 643	30 707 562
CURRENT ASSETS			
Inventories			
Raw materials and consumables		1 250 551	1 248 858
Work in progress		290 030	357 015
Finished goods and goods for sale		818 141	1 191 738
Prepayments for inventories		105 618	3 123
Animals and plants			
• animals		2 376 566	1 731 132
TOTAL	15	4 840 906	4 531 866
Receivables			
Trade receivables	16	4 199 601	3 999 637
Receivables from related companies		148 956	178 419
Other receivables		1 932	12 043
Prepaid expense	17	61 558	99 248
TOTAL		4 412 047	4 289 347
Cash			
	18	2 116 277	2 663 771
TOTAL CURRENT ASSETS		11 369 230	11 484 984
TOTAL ASSETS		44 012 873	42 192 546

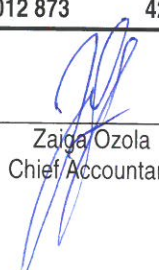
The accompanying notes form an integral part of these financial statements.



Andrius Pranckevicius
Chairman of the Board



Saulius Petkevicius
Board Member



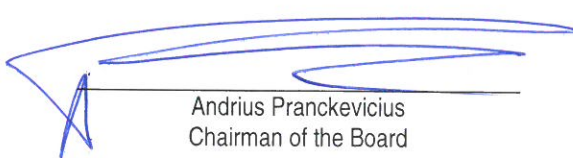
Zaiga Ozola
Chief Accountant

13 December 2017


Balance sheet**EQUITY AND LIABILITIES**

	Notes	30/06/2016 EUR	30/06/2017 (adjusted) EUR
EQUITY			
Share capital	19	18 928 084	18 928 084
Non-current asset revaluation reserve	10,20	4 424 960	3 761 216
Reserves:			
• statutory reserves		19 219	19 219
Accumulated loss		(5 159 809)	(4 390 946)
Loss for the reporting year		(694 942)	(461 873)
	TOTAL EQUITY	17 517 512	17 855 700
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	21	8 833 088	4 035 214
Loans from related companies	28	5 426 192	3 802 139
Finance lease liabilities	22	216 684	271 802
Trade payables		4 507	6 145
Deferred tax liabilities	10	-	356 754
Deferred income	26	1 882 531	1 982 683
	TOTAL	16 363 002	10 454 737
Current liabilities			
Loans from credit institutions	21	1 817 963	7 523 424
Loans from related companies	28	171 479	140 422
Finance lease liabilities	22	108 529	104 192
Prepayments received from customers		22 099	22 347
Trade payables		1 920 771	2 307 667
Payables to related companies	23	3 734 489	1 981 549
Taxes payable	24	528 853	440 453
Other liabilities	25	506 372	522 780
Deferred income	26	100 153	101 779
Undrawn dividends		362	362
Accrued liabilities	27	1 221 289	737 134
	TOTAL	10 132 359	13 882 109
	TOTAL LIABILITIES	26 495 361	24 336 846
TOTAL EQUITY AND LIABILITIES		44 012 873	42 192 546

The accompanying notes form an integral part of these financial statements.


Andrius Pranckevicius
Chairman of the Board


Saulius Petkevicius
Board Member


Zalgita Ozola
Chief Accountant

13 December 2017

Statement of cash flows

	01/07/2016 - 30/06/2017	01/07/2015 - 30/06/2016 (restated)
	EUR	EUR
Cash flows to/ from operating activities		
<i>Profit or loss before corporate income tax</i>	(694 942)	(348 312)
Adjustments for:		
• depreciation and impairment of property, plant and equipment	2 327 400	1 755 295
• amortization and impairment of intangible assets	18 797	18 180
• interest and similar expense	353 248	274 224
<i>Profit or loss before adjustments for the effect of changes in current assets and current liabilities</i>	2 004 503	1 699 387
• (increase) or decrease in receivables	(823 442)	26 737
• (increase) or decrease in inventories	(309 040)	1 014 086
• increase or (decrease) in trade and other payables	1 819 102	2 128 006
<i>Cash generated from operations</i>	2 691 123	4 868 216
Interest paid	(198 712)	(185 788)
Net cash flows to/ from operating activities	2 492 411	4 682 428
Cash flows to/ from investing activities		
Purchase of property, plant and equipment and intangible assets	(3 665 420)	(8 089 866)
Proceeds from sale of property, plant and equipment and intangible assets	83 884	-
Net cash flows to/ from investing activities	(3 581 536)	(8 089 866)
Cash flows to/ from financing activities		
Proceeds from borrowings	2 472 834	7 469 579
Subsidies, grants, gifts or donations received	-	57 588
Repayment of borrowings	(1 809 153)	(1 490 314)
Payment of finance lease liabilities	(122 050)	(151 497)
Net cash flows to/ from financing activities	541 631	5 885 356
Net cash flow for the year	(547 494)	2 477 918
Cash and cash equivalents at the beginning of the year	2 663 771	185 853

The accompanying notes form an integral part of these financial statements.

Andrius Pranckevicius
Chairman of the Board

Saulius Petkevicius
Board Member

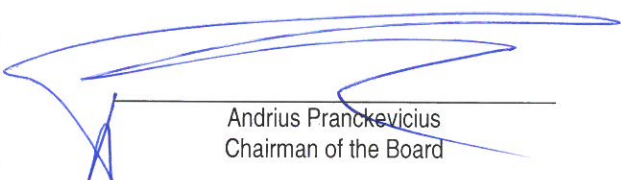
Zajga Ozola
Chief Accountant

13 December 2017

Statement of changes in equity

	Share capital	Non-current asset revaluation reserve	Reserves	Accumulated deficit	Total
Balance as at 30 June 2015	18 928 084	3 761 216	19 219	(4 390 946)	18 317 573
Loss for the reporting year (restated)	-	-	-	(461 873)	(461 873)
Balance as at 30 June 2016	18 928 084	3 761 216	19 219	(4 852 819)	17 855 700
Derecognition of deferred tax	-	663 744	-	(306 990)	356 754
Loss for the reporting year	-	-	-	(694 942)	(694 942)
Balance as at 30 June 2017	18 928 084	4 424 960	19 219	(5 854 751)	17 517 512

The accompanying notes form an integral part of these financial statements.



Andrius Pranckevicius
Chairman of the Board

13 December 2017



Saulius Petkevicius
Board Member



Zaiga Ozola
Chief Accountant