

AB Žemaitijos Pienas
Audit Committee Report
for the period from 2 April, 2013 to 2 April, 2014

2 April, 2014
Klaipėda, Telšiai.

To the Board of Directors, and the General Meeting of Shareholders of AB Žemaitijos Pienas

INTRODUCTION

The Audit Committee (hereinafter referred to as the Committee) of AB Žemaitijos Pienas (hereinafter referred to as the Company) was elected on 26 April, 2013 at the Ordinary General Meeting of the Shareholders of the Company.

During the reporting period, the Committee had three members, one of them is independent:

1. Angelė Taraškevičienė (Chairwoman, and the independent member)
2. Stanislava Vaičienė
3. Daiva Katarškienė

Performing its activities, the Committee follows the Provisions on the Audit Committee Formation and Performance (hereinafter referred to as the Provisions) approved by the decision of the Ordinary General Meeting held on 26 April, 2013, the decision of the Ordinary General Meeting held on 26 April, 2013, the Law on Audit of the Republic of Lithuania, and the Guidelines on Requirements for Audit Committees No.13K-12 approved by the decision of the Lithuanian Securities Commission of 28 November 2008 (Minutes of Commission Meeting No.6K-25).

The Committee monitors the Company's internal control, risk management, financial reporting, external audit processes, and whether the external audit company complies with the independence and objectivity principles, reviews the internal control and risk management and internal systems at least once a year to ensure that the key risks (including a risk associated with compliance with the existing laws and regulations) are properly identified, managed and disclosed; and performs other functions laid down in the Lithuanian legislation and Recommendations of the Management Code for the companies listed on Vilnius Stock Exchange.

ISSUES RELATED TO THE COMMITTEE OPERATIONS

The Committee meetings are called upon demand. During the reporting period, the Committee held three meetings (on 3 April, 2013, 17 July 2013, and 2 April, 2014), at which the questions of its competence were discussed.

REVIEW OF THE COMMITTEE MEMBERS' COMPLIANCE WITH THE REQUIREMENTS OF THE PROVISIONS

In accordance with the Paragraphs 8–10.7 of the Provisions, members of the Committee reviewed their compliance with the Provisions' requirements on 26 April, 2013. During this review, assessment of independence of Angele Taraškevičienė, the independent member, as well as other members – Stanislava Vaičienė and Daiva Katarškienė, has been carried out, which determined that the members meet all the requirements.

The main criteria for determining whether a member of the Audit Committee can be considered independent are as follows:

1. To the Audit Committee as a member may be appointed a person with higher education or professional experience to ensure personal knowledge about the general systems used for the registration, grouping and summarizing of monetary events of Company's transactions, other capital, assets, liabilities accounting principles and international accounting standards.

2. As an independent Audit Committee member may be appointed a person with higher education, having at least 5 (five) years of experience in accounting or auditing, and meeting the following requirements of independence:

2.1 The person may not be a head of the Company or any associate company, and must not have held such a position in the last five years;

2.2 The person may not be an employee of the Company or any associate company, and must not have held such a position in the last three years;

2.3 The person must neither receive nor have received significant additional remuneration from the Company or any associate company, other than remuneration for being a member of the Audit Committee;

2.4 The person must not be a controlling shareholder nor represent such a shareholder;

2.5 The person must not have or have had any important business relations with the Company or any associate company, neither directly nor as a partner, shareholder, manager or employee of the administration of an entity having those relations. As an entity having business relations shall be considered an important supplier of goods or services (including financial, legal, advisory and consultancy services), an important client or organization that receives significant contributions from the Company or its group;

2.6. The person must not be nor ever have been a partner or employee of a current and former audit company of the Company or the related company in the last three years;

2.7. The person must not have held a position of the Company's Audit Committee member for more than 12 years;

2.8. The person must not be a close family member of the Company's Head or persons referred to in Paragraphs 2.1.-2.6. A close relative is considered a spouse (partner), children and parents.

An associate company of the Company shall be considered a company which:

1. Directly or indirectly controls the Company or is under its control;
2. Can have a significant impact on the Company;
3. Jointly controls the Company under a joint operating agreement;
4. Is controlled by the same legal or physical person (their group) as the Company;
5. Is an associate company;
6. Is a company controlled under a joint operating agreement;
7. Is a company that collects and at the end of the service pays pensions and other benefits.

During the review, it was found that qualifications and experience of all members of the Committee meet the Provisions' requirements (suitably qualified persons are considered to hold higher university education in economics, finance or law; persons with appropriate experience are considered persons with at least 5 years of experience in the field of finance, accounting or law. An independent audit committee member has at least 5 years experience in accounting or auditing).

GIVING RECOMMENDATIONS

RECOMMENDATION TO THE MANAGEMENT OF THE COMPANY REGARDING THE PROVISIONS ON THE AUDIT COMMITTEE FORMATION AND PERFORMANCE

The Audit Committee has recommended to the General Meeting of Shareholders to approve a new edition of the Provisions on the Audit Committee Formation and Performance after receiving information about the establishment of Internal Audit Department on 3 April, 2013.

RECOMMENDATION TO THE MANAGEMENT OF THE COMPANY REGARDING THE AGREEMENT WITH THE AUDIT COMPANY

In carrying out the obligation laid down in Paragraph 11.1 of the Provisions to make recommendations on the award of an audit company, the Committee has received information that on 15 May 2013 the Management of AB Žemaitijos Pienas sent tender invitation letters No. 13-04-245 to audit companies regarding the award of an external auditor. The Committee reviewed the material of the tender and on 19 July, 2013 recommended to the Board of the Company to sign the Agreement

for Audit Services with UAB Grant Thornton Rimess, to carry out the financial statements audit for the financial year 2013. On 23 September, 2013 an Agreement with UAB Grant Thornton Rimess had been signed. Approval of the Audit Company's Independence Nr. R-2013.047 was obtained on 18 July 2013, and on 6 June 2013 was obtained the Lithuanian Chamber of Auditors' statement regarding the absence of the disciplinary actions No. 1.9.2-S0445.

RECOMMENDATION TO THE BOARD OF THE COMPANY REGARDING SUBMITTING ANNUAL INFORMATION OF 2013 FOR SHAREHOLDER'S APPROVAL

On 2 April 2014, the Committee prepared a recommendation to the Board of the Company regarding the annual information for the year 2013. In the recommendation the Committee proposed to the Board to submit the audited annual information of 2013 for shareholders' approval.

Prior to submitting the recommendation to the Board, the Committee members were introduced with the letter of UAB Grant Thornton Rimess to the management of Žemaitijos Pienas Group of 14 March, 2014, the Independent Auditor's Report signed on 14 March 2014, and the Audit Report of AB Žemaitijos Pienas.

THE COMPANY ADMINISTRATION'S RESPONSE TO THE RECOMMENDATIONS AND COMMENTS, WHICH WERE SUBMITTED BY UAB GRANT THORNTON RIMESS IN THE LETTER TO THE MANAGEMENT AND AUDIT REPORT OF 14 MARCH 2014

Upon carrying out an audit of AB Žemaitijos Pienas Group, the external auditors provided the management with a written letter of 14 March 2014. Auditors' opinion on the set of individual and consolidated annual financial statements of the Company and its subsidiaries is unconditional.

EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

Since the Internal Audit Department of the Company works only for 2 months, the Committee was unable to assess the effectiveness of its operation. The Committee received information from the external auditors, who have not determined significant risks and uncertainties that could affect the annual financial statements. They informed that the Company has the approved management and organizational structure, a list of the commercial - the technological secrets, and a list of risk assessment methodologies. The Company has implemented and certified a quality management system, which is in compliance with the requirements of international standards ISO 9001 and ISO 22000.

The Company's internal control is carried out based on the orders of the Head of the Company, but there are no approved written regulations of the internal control systems, including information systems. The Company uses the accounting and management information system Microsoft Business Solutions AXAPTA, and personnel management and payroll accounting information system Vikarina.

Chairwoman of the Committee:

Angelė Taraškevičienė

Committee Members:

Stanislava Vaičienė

Daiva Katarskienė