

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

## 1. GENERAL INFORMATION

### Reporting entity

AB "Žemaitijos Pienas" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984.

AB "Žemaitijos Pienas" is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius.

### As on the 31<sup>th</sup> of December 2015, its shares are held by the following shareholders

Shareholder	31 12 2015		31 12 2014	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas SKANDINAVISKA ENSKILDA BANKEN CLIENTS code 50203290810, SERGELS TORG 2 10640 STOCKHOLM, SWEDEN	21.589.380	44,63%	21.589.380	44,63%
SEB SA OMNIBUS, Liuksemburg	3.413.962	7,06%	3.413.962	7,06%
AB „Klaipėdos pienas“ code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
Pažemeckienė Danutė	3.025.820	6,25%	3.025.820	6,25%
AB „Žemaitijos pienas“	2.070.621	4,28%	2.070.621	4,28%
Regina Jarulaitienė	1.140.620	2,36%	1.140.620	2,36%
Romusas Jarulaitis	1.105.510	2,29%	1.105.510	2,29%
Other shareholders	13.127.243	27,13%	13.127.243	27,13%
<b>Total share capital, shares units</b>	<b>48.375.000</b>	<b>100,00%</b>	<b>48.375.000</b>	<b>100,00%</b>

The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 per value. All the shares are issued, subscribed and fully paid.

Taking into account the legal requirements the Company prepares consolidated financial statements.

As on the 31<sup>th</sup> of December 2015 the Group consisted of AB "Žemaitijos Pienas" and the following subsidiaries (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2015	Cost of investment 2014	Net assets as of 31 December 2015	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87,82%	87,82%	3.150	3.150	8.125	Cheese production and selling
SIA Muižas piens	Skaitekaines g. 1, Rīga, Latvija	32%	-	1	1	-	Retail sale, wholesale
				<b>3.151</b>	<b>3.151</b>		

The Company employed 1.197 staff members as on the 31<sup>th</sup> of December 2015 (1.192 staff members as on the 31<sup>th</sup> of December 2014). The Group employed 1.291 staff members as on the 31<sup>th</sup> of December 2015 (1.371 staff members as on the 31<sup>th</sup> of December 2014).

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

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## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company accounted for in these financial statements all amounts are measured and presented until 31 of December 2015 in the national currency of the Republic of Lithuania Litas. The financial statements are presented in Litas, which until 2014 of 31 December is the Company's function currency. Since 2015 of 1 January Lithuanian national currency is the Euro. The Litas is replaced by the Euro exchange rate of 3,4528 = 1 Euro. Since 2015 of 1 January the Euro has become the Company's functional currency.

The financial statements are prepared on the historical basis.

Financial year of the Company and other entities of the Group coincides with calendar year.

The preparation of the financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that correspond to the present circumstances. On the basis of the assumptions and estimates mentioned, the judgements about carrying values of assets and liabilities that are not readily apparent from other sources are made. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Management on application of IFRS as adopted by the European Union that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in other Note.

The accounting principles of the Company as set forth below have been consistently applied and coincide with those applied last year.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared as of 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities that meet the recognition conditions under IFRS 3 are recognized at their fair values at the acquisition date. The initial accounting for the subsidiaries assets and liabilities are adjusted within twelve months of the acquisition date if additional data is received that allows a more precise determination of fair value of the subsidiaries' assets and liabilities.

Investments in subsidiaries in the Company's stand alone balance sheet are recognized at cost. The dividend income from the investment is recognized only to the extent that the dividends are received from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

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The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets and liabilities recognized.

All intercompany transactions, balances, income, expenses and unrealized profits (losses) between Group companies are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

**The influence of application of new standards, amendments of the standards in force and new explanations on financial statements**

The Company has adopted the following amendments to the standards:

*Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems).

Effective for annual periods beginning on or after 1 January 2014.

This amendment is not relevant to the Company.

*Amendments to IAS 36 Impairment of Assets*

The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.

Effective for annual periods beginning on or after 1 January 2014.

The amendment did not impact the Company's financial statements.

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting.*

The objective of the amendments is to provide relief in situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations

Effective for annual periods beginning on or after 1 January 2014.

This amendment is not relevant to the Company.

*Amendment to IAS 19 Employee Benefits*

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group has not yet evaluated the impact of the implementation of this amendment.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IAS 16 Property, plant and equipment*

Provides guidance on how the carrying amount of that asset is adjusted to the revalued amount when an item of property, plant and equipment is revalued. At the date of the revaluation the asset should be treated in one of the indicated ways.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IAS 24 Related Party Disclosures*

The amendment supplements the terms are used in this standard and the information shall be disclosed.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts in EUR thousands unless otherwise stated)

*Amendment to IAS 38 Intangible Assets*

Provides guidance on how the carrying amount of that asset is adjusted to the revalued amount when an item of intangible assets is revalued. At the date of the revaluation the asset should be treated in one of the indicated ways.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IAS 40 Investment Property*

Amendment determines additional classification of property as investment property and determines whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities*

The amendments apply to entities that qualify as investment entities.

Effective for annual periods beginning on or after 1 January 2014.

This interpretation is not relevant to the Company.

*Amendment to IFRS 2 Share-based Payment*

Provides guidance on how entity shall account a grant of equity instruments upon satisfying specified vesting conditions.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IFRS 3 Business Combinations*

Provides guidance on how the acquirer shall classify an obligation to pay contingent consideration and how shall recognise changes in the fair value of contingent consideration.

Effective for annual periods beginning on or after 1 July 2014.

This amendment is not relevant to the Company.

*Amendment to IFRS 8 Operating Segments*

Requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have aggregated and the economic indicators that determine the aggregation criteria. Clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IFRS 13 Fair Value Measurement.*

Clarifies that the portfolio exception applies to all contracts accounted for within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether those contracts meet the definitions of financial assets or financial liabilities in accordance with IAS 32 *Financial Instruments: Presentation*.

Effective for annual periods beginning on or after 1 July 2014.

The amendment did not impact the Company's financial statements.

*Amendment to IFRIC 21 Levies*

Considers how an entity should account to pay levies imposed by governments, other than income taxes, in its financial statements. As levies and taxes are not based on taxable profits, they fall outside the scope of IAS 12 and are therefore accounted for under IAS 37. Addresses the accounting for a liability to pay a levy when an entity should recognize it and whose timing and amount is certain.

Effective for annual periods beginning on or after 1 July 2014.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

The amendment did not impact the Company's financial statements.

**Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU as well as standards adopted by EU but not yet effective.**

The Company considers the impact of these standards on its financial position and operating results for annual periods beginning on or after 1 January 2016.

*Amendment to IAS 1 Financial Statement Presentation*

The amendments to IAS 1 is made according to the amendments made to IAS 16 and IAS 41 in relation with the biological assets.

Effective for annual periods beginning on or after 1 January 2016.

*Amendment to IAS 19 Employee Benefits*

Requires that the currency and term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of the obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency level rather than the country level. This will be particularly relevant to Eurozone entities with defined benefit plans.

Effective for annual periods beginning on or after 1 January 2016.

*Amendment to IAS 27 Equity Method in Separate Financial Statements*

Introducing a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method. As a result, entities will have an accounting policy choice in their separate financial statements between accounting: at cost, in accordance with IFRS 9 (or IAS 39) or under the equity method. Entities are required to apply the same accounting for each category of investments.

Effective for annual periods beginning on or after 1 January 2016.

*Amendments to IAS 28 Investments in Associates*

Clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. Amendments alter the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3; also the gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full.

Effective for annual periods beginning on or after 1 January 2016.

*Amendments to IAS 34 Interim Financial Reporting*

Clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that information incorporated by cross reference must be available to users of the interim financial statements on the same terms and at the same time as those statements.

Effective for annual periods beginning on or after 1 January 2016.

*The Amendments to IAS 38 Intangible Assets*

Present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome, ie a revenue-based amortisation method might be appropriate, only in two limited circumstances: the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Effective for annual periods beginning on or after 1 January 2016.

*The Amendments to IFRS 5 Non-current Assets held for the sale and Discontinued Operations*

Clarify that a direct reclassification of an asset (or disposal group) from being held for sale to being held for distribution (or vice-versa) is not treated as a cessation of held for sale classification. Accordingly the entity continues to measure the asset (or disposal group) at the lower of carrying amount and fair value less costs to sell. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting.

Effective for annual periods beginning on or after 1 January 2016.

*The Amendments to IFRS 7 Financial Instruments: Disclosures*

Provide additional guidance to help entities identify the circumstances under which a contract to 'service' financial assets is considered to be 'continuing involvement' in those assets for the purposes of applying the disclosure requirements in paragraphs of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.

Effective for annual periods beginning on or after 1 January 2016.

*The Amendments to IFRS 11 Joint Arrangements*

Guidance on the accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. More specifically, the Amendments state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3.

Effective for annual periods beginning on or after 1 January 2016.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### Property, plant and equipment

##### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of Company's assets consists of the expenses directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and other expenses incurred to produce these assets before setting them into use and expenses of disassembling, transportation and production site cleaning.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

##### *Subsequent costs*

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such item or major overhaul when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Company and the cost of an item can be measured reliably. All other costs are recognised in the statement of comprehensive income as incurred.

##### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- Buildings and structures                      20–40      years
- Plant and machinery                            5            years

**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts in EUR thousands unless otherwise stated)

- Vehicles 4–10 years
- Other assets 4–10 years

Depreciation methods, residual values and useful lives are reassessed on each day of presenting financial statements. The Group capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above EUR 145. Until 1 September 2012 the minimum acquisition cost was EUR 869.

Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

**Investment property**

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20 - 40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

**Non-current intangible assets**

Intangible assets that have limited useful life and that include computer software and other licences and trademarks acquired by the Company are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the income statement on a straight-line basis over the entire service life. The amortisation rates of intangible assets can be specified as follows:

- Software and licences 3 years

Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are written off when incurred.

**Leased assets**

Leases, in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other lease is treated as operational lease.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

**Inventories**

Inventories, including work in progress, are valued at the lower of cost or net realisable value. Net realisable value is the selling price, less the estimated cost of completion, marketing and distribution.

The costs of inventories is determines based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

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Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

### **Governmental grants**

Grants are accounted following the principle of accumulation, i.e. received grants or parts thereof are recognised as used in the periods, within which grant-related costs are incurred.

### **Grants are related to assets**

Grants that are related to assets encompass grants received in the form of non-current assets or allotted for acquisition of non-current assets. Grants are accounted at the fair value of the assets received and later recognised as income, reducing asset depreciation costs within the respective useful service life of the assets.

### **Impairment**

The carrying amounts of the Company's assets other than inventories and deferred income tax asset are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Financial asset is impaired if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Individually significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset that is deemed impaired on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that is tested for impairment on a portfolio basis.

An impairment loss is recognised wherever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash generating unit is the smallest cash generating asset group generating cash flows independent from other assets or asset groups. Impairment losses are recognised in the statement of comprehensive income.

### ***Calculation of recoverable amount***

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with short duration are not discounted.

### ***Reversals of impairment***

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



## Dividends

Dividends are recognised as a liability in the period in which they are declared.

## Employee allowances

The Company and the Group have no determined allowances and inducement plans or payment schemes concerning its shares. Liabilities against retired former employees of the Company and the Group are fulfilled by the State.

## Provisions

Provisions are recognised in the statement of financial position when it is probable that an outflow of economic benefits will be required to settle the obligation arising from a past event or fulfilment of irrevocable undertakings.

## Foreign currency

### *Translation of amounts in foreign currencies into the national currency*

Transactions in foreign currencies are translated into Euro at foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

As on the 31<sup>th</sup> of December 2015 the applicable rates used for principal currencies were as follows:

year 2015	year 2014
1 USD = 0,915248 EUR	1 USD = 0,8221 EUR

## Non-derivative financial instruments

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Cash and cash equivalents include cash balances and demand deposits.

Non-derivative financial instruments are initially recognised at fair value plus (except for the instruments recognised in the income statement at fair value) any direct attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognized on the day of transaction. The Company no longer recognises the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognised when it has been covered, revoked or expired.

Receivables are non-derivative financial assets and are not quoted in an active market. They are included into current assets except for maturities greater than 12 months. Loans issued and receivables are initially recognised at fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method, less impairment, if any. Current receivables are not discounted.

Loans, borrowings and other financial liabilities are stated at amortised cost on an effective interest method basis. Current liabilities are not discounted.

## Financial derivatives

The Company and the Group did not use or have derivative financial instruments within the period ended on the 31<sup>th</sup> of December 2015.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)**Contingencies**

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed in the explanatory notes of financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed in the explanatory notes of financial statements when an inflow or economic benefits is probable.

**Revenue****Sales of goods**

Revenue from the sale of goods is recognised in the statement of comprehensive income when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT, excise tax and price discounts directly related to the sales.

**Services rendered, assets disposed**

Revenue from the services rendered is recognised in the statement of comprehensive income as the services are rendered, considering the extent of completion of the services. The revenue recognised is net of discounts provided.

Revenue from lease is recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

Revenue from disposal of assets is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or return of assets disposed is possible or when the significant risks and rewards of ownership cannot be regarded as transferred to the buyer.

**Expenses**

Expenses are recognized on an accrual basis when incurred.

*Operating lease payments*

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

*Financial lease payments*

Minimum lease payments are apportioned between the financial charge and the reduction of the outstanding liability applying the effective interest rate method. The financial costs are distributed over the whole period of financial lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

*Net financing expenses*

Net financing expenses consist of interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses.

Interest income is recognised in the comprehensive income statement as accrued, using the effective interest method. The interest expense component of financial lease payments is recognised in the statement of comprehensive income, using the effective interest rate method.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

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## **Segment reporting**

Segment is a distinguishable component of the Company that is engaged either in providing related products or services, or in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. In the presented financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

## **Corporate income tax**

Corporate income tax consists of current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current corporate income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent it is likely that the future taxable profits will be available against which the assets can be utilised. Deferred tax asset is revised on each date of provision of financial statements and is reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intends to settle its current tax assets and liabilities on a net basis.

## **Basic and diluted earnings (loss) per share**

The Company presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects off all dilutive potential ordinary shares. During reporting periods there were no any dilutive potential ordinary shares issued by the Company.

## **Subsequent events**

The events which occurred after the reporting period and provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. The post balance sheet events which are not adjusting events are disclosed in the explanatory notes when are material.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts in EUR thousands unless otherwise stated)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events. Management of the Company, considering forecasts and budget, borrowing need, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no obscurities in the assessment of continuity of the Company's activities or doubts concerning its further operation.

The Company makes estimates and assumptions concerning future events. Resulting accounting estimates will, by definition, seldom equal the related actual results. In preparing the financial statements of the Group and of the Company, management have to adopt certain decisions, estimates and assumptions, which influence the disclosures of income, costs, assets and liabilities as well as uncertainties as of the date of the financial statements. However, uncertainty of such estimates and assumptions can have an impact upon results, which may require significant corrections of book values of assets or liabilities in the future.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

**Impairment losses on receivables**

The Company reviews its receivables to assess impairment constantly. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with the group of receivables.

Amount receivable impairment losses recognised to be paid after the delay of 120 days or more.

Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Impairment of non-financial assets**

The Company's management assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts of value may not be recoverable. When the calculations of value in use are undertaken, the management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Deferred Tax Assets and Liabilities**

Deferred profit tax assets and liabilities are recognised for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Based on the Company's and the Group's management judgements are recognized the significant deferred tax assets amounts that can be recognised based on the expected future taxable profits in periods and sizes, and with regard to the Company's tax planning strategies.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

**5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS**

Note No 5 – Intangible and tangible non-current assets (In the statement of financial position)

Changes in intangible assets of the Group as of 31 December 2015:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
<b>Acquisition cost</b>				
As of 31 December 2013	38	166	295	499
- acquisition	1	77	117	195
- transfers between accounts	-	-	(12)	(12)
As of 31 December 2014	39	243	400	682
- acquisition	-	16	13	29
- sold or written-off assets	-	(22)	(19)	(41)
As of 31 December 2015	39	237	394	670
<b>Accumulated depreciation</b>				
As of 31 December 2013	24	143	237	404
- amortization	10	35	57	102
- amortization of transferred and written-off assets	-	(14)	(1)	(16)
As of 31 December 2014	34	163	293	490
- amortization	3	42	51	96
- amortization of transferred and written-off assets	-	(22)	(19)	(41)
As of 31 December 2015	37	183	325	545
<b>Net book value:</b>				
As of 31 December 2014	5	79	107	191
As of 31 December 2015	2	53	69	124

Changes in intangible assets of the Company as of 31 December 2015:

The Company	Licenses and patents	Computer software	Other intangible assets	Total
<b>Acquisition cost</b>				
As of 31 December 2013	38	152	295	485
-acquisition	1	76	117	195
-sold or written-off assets	-	-	(12)	(12)
-transfers between accounts	-	-	-	-
As of 31 December 2014	39	229	400	667
-acquisition	-	16	13	29
-sold or written-off assets	-	(20)	(19)	(39)
As of 31 December 2015	39	224	394	657
<b>Accumulated depreciation</b>				
As of 31 December 2013	24	117	237	378
-amortization	10	32	57	100

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**

(All amounts in EUR thousands unless otherwise stated)

-amortization of transferred and written-off assets	-	-	(1)	(1)
<b>As of 31 December 2014</b>	<b>34</b>	<b>149</b>	<b>293</b>	<b>476</b>
-amortization	3	42	51	95
-amortization of transferred and written-off assets	-	(20)	(19)	(38)
<b>As of 31 December 2015</b>	<b>37</b>	<b>171</b>	<b>325</b>	<b>533</b>
<b>Net book value:</b>				
<b>As of 31 December 2014</b>	<b>5</b>	<b>79</b>	<b>107</b>	<b>191</b>
<b>As of 31 December 2015</b>	<b>2</b>	<b>53</b>	<b>69</b>	<b>124</b>

In 2015 amortization of non-current intangible assets of the Group and the Company amounts to EUR 96 thousand and EUR 95 thousand respectively (In 2014 – EUR 102 thousand and EUR 100 thousand).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2015 amount to EUR 29 thousand and EUR 29 thousand respectively (In 2014 - EUR 195 thousand and EUR 195 thousand). As all the assets of the Group and the Company are located in Lithuania, all the investments were made in the Lithuanian geographic segment.

Changes in property, plant and equipment of the Group as of 31 December 2015:

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Acquisition cost</b>						
<b>As of 31 December 2013</b>	<b>12.606</b>	<b>43.637</b>	<b>10.607</b>	<b>3.856</b>	<b>2.755</b>	<b>73.460</b>
-acquisition	1	663	893	344	4.688	6.589
-sold or written-off assets	(129)	(92)	(377)	(72)	-	(670)
-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	90	-	-	-	-	90
-transfers between accounts	-	-	-	-	-	-
-adding value	-	37	-	24	-	61
-reclassification	1.001	3.090	-	10	(4.101)	-
<b>As of 31 December 2014</b>	<b>13.570</b>	<b>47.335</b>	<b>11.123</b>	<b>4.162</b>	<b>3.341</b>	<b>79.530</b>
-acquisition	126	1.955	204	374	8.282	10.941
-recalculation of the accounting policy change	-	-	-	-	-	-

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

-sold or written-off assets	-	(277)	(91)	(117)	(275)	(760)
-adding value	-	490	-	12	-	502
-reclassification	4	838	-	0	(842)	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2015</b>	<b>13.700</b>	<b>50.340</b>	<b>11.236</b>	<b>4.431</b>	<b>10.506</b>	<b>90.213</b>
<b>Accumulated depreciation</b>	<b>6.224</b>	<b>37.371</b>	<b>8.241</b>	<b>3.323</b>	<b>-</b>	<b>55.160</b>
<b>As of 31 December 2013</b>						
-depreciation	614	2.012	661	294	-	3.582
-depreciation of written-off and sold assets	(16)	(85)	(250)	(54)	-	(405)
-recalculation of the accounting policy change	135	1.569	1.148	-	-	2.852
-transfers to investing assets	1	-	-	-	-	1
<b>As of 31 December 2014</b>	<b>6.959</b>	<b>40.866</b>	<b>9.801</b>	<b>3.563</b>	<b>-</b>	<b>61.189</b>
-depreciation	693	2.550	661	321	-	4.225
-depreciation of written-off and sold assets	-	(274)	(60)	(113)	-	(447)
-recalculation of the accounting policy change	4	(376)	-	-	-	(373)
-reclassification	-	-	-	-	-	-
-transfers to investing assets	(27)	-	-	-	-	(27)
-transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2015</b>	<b>7.629</b>	<b>42.765</b>	<b>10.402</b>	<b>3.772</b>	<b>-</b>	<b>64.569</b>
<b>Accumulated impairment losses</b>	<b>48</b>	<b>3</b>	<b>-</b>	<b>11</b>	<b>2</b>	<b>64</b>
<b>As of 31 December 2013</b>						
-impairment losses	(1)	(2)	-	(7)	-	(10)
-reversal of impairment	(4)	-	-	-	-	(4)
<b>As of 31 December 2014</b>	<b>44</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>52</b>
-impairment losses	-	-	-	-	-	-
-reversal of impairment	(4)	-	-	(2)	-	(6)
<b>As of 31 December 2015</b>	<b>40</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>46</b>
<b>Net book value:</b>						
<b>As of 31 December 2014</b>	<b>6.567</b>	<b>6.468</b>	<b>1.323</b>	<b>594</b>	<b>3.339</b>	<b>18.292</b>
<b>As of 31 December 2015</b>	<b>6.031</b>	<b>7.574</b>	<b>834</b>	<b>658</b>	<b>10.504</b>	<b>25.601</b>

Changes in property, plant and equipment of the Company as of 31 December 2015:

The Company	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Acquisition cost</b>						
<b>As of 31 December 2013</b>	<b>8.051</b>	<b>38.174</b>	<b>7.445</b>	<b>3.468</b>	<b>2.751</b>	<b>59.889</b>
-acquisition	1	633	893	317	4.285	6.129
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(23)	(40)	(250)	(54)	-	(367)
-adding value	-	37	-	24	-	61
-reclassification	695	2.993	-	10	(3.698)	-
-transfers to accounts investing assets	-	-	-	-	-	-
<b>As of 31 December 2014</b>	<b>8.724</b>	<b>41.797</b>	<b>8.088</b>	<b>3.765</b>	<b>3.338</b>	<b>65.712</b>
-acquisition	43	1.952	188	343	8.017	10.543
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	-	(245)	(91)	(111)	(275)	(722)
-adding value	-	490	-	12	-	502

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

-reclassification		576	-	-	(576)	-
-transfers to accounts investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
<b>As of 31 December 2015</b>	<b>8.767</b>	<b>44.570</b>	<b>8.185</b>	<b>4.010</b>	<b>10.504</b>	<b>76.036</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2013</b>	<b>3.435</b>	<b>34.198</b>	<b>6.738</b>	<b>2.988</b>	-	<b>47.360</b>
-depreciation	466	1.669	398	275	-	2.808
-depreciation of written-off and sold assets	(6)	(33)	(123)	(36)	-	(198)
-recalculation of the accounting	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
<b>As of 31 December 2014</b>	<b>3.895</b>	<b>35.834</b>	<b>7.013</b>	<b>3.227</b>	-	<b>49.970</b>
-depreciation	504	2.218	419	298	-	3.439
-depreciation of written-off and sold assets	-	(242)	(60)	(107)	-	(409)
-recalculation of the accounting policy change	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
<b>As of 31 December 2015</b>	<b>4.399</b>	<b>37.810</b>	<b>7.372</b>	<b>3.418</b>	-	<b>52.999</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2013</b>	<b>2</b>	<b>3</b>	-	<b>11</b>	-	<b>16</b>
- impairment losses	(1)	(2)	-	(7)	-	(10)
- reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2014</b>	<b>1</b>	<b>1</b>	-	<b>4</b>	-	<b>6</b>
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	(2)	-	(2)
<b>As of 31 December 2015</b>	<b>1</b>	<b>1</b>	-	<b>2</b>	-	<b>4</b>
<b>Net book value</b>						
<b>As of 31 December 2014</b>	<b>4.828</b>	<b>5.962</b>	<b>1.075</b>	<b>534</b>	<b>3.338</b>	<b>15.737</b>
<b>As of 31 December 2015</b>	<b>4.367</b>	<b>6.759</b>	<b>813</b>	<b>590</b>	<b>10.504</b>	<b>23.033</b>

For the year ending at 31 December 2015 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to EUR 4.225 thousand and EUR 3.439 thousand respectively (31 December 2014 – EUR 3.582 thousand and EUR 2.808 thousand).

In order to unify the parent company AB "Žemaitijos pienas" and subsidiary ABF "Šilutės Rambynas" applicable depreciation rates decision was taken to account in the financial statements on 31 December 2014. Condition resulting from depreciation of fixed assets and amortization of support received related differences with different depreciation norms application ABF "Šilutės Rambynas" for income tax and financial accounting. For this reason, the Group's fixed assets accumulated depreciation amount was increased by 2.852 thousand EUR on 31 December 2014.

On 31 December 2015, Company's and subsidiary ABF "Šilutės Rambynas" fixed tangible assets, whose residual value in total equalled EUR 1.185 thousand (on 31 December 2014 it equalled EUR 1.817 thousand.), were pledged to the banks for the Company's received loans.

A part of the Group's and the Company's fixed tangible assets, which acquisition value on 31 December 2015 equalled EUR 47.005 thousand and EUR 39.065 thousand respectively, was completely depreciated (31 December 2014 respectively – EUR 44.475 thousand and EUR 37.927 thousand), however still used in the business.

Investments in the the acquiring of non-current tangible and intangible assets made by the Group and the Company in 2015 amounted to EUR 11.201 thousand and EUR 10.803 thousand (in 2014 - EUR 6.857 thousand and EUR 6.396 thousand). All the acquisitions above relate to the geographic segment of Lithuania.



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

## 6. INVESTMENT PROPERTY

Note No 6 – Investment assets (In the statement of financial position)

Changes in the investment assets as of 31 December 2015:

	<u>The Group</u>	<u>The Company</u>
<b>Acquisition cost</b>		
<b>As of 31 December 2013</b>	<b>304</b>	<b>3.062</b>
- acquisition	-	-
- transfers from long-term assets	(90)	(90)
<b>As of 31 December 2014</b>	<b>214</b>	<b>2.972</b>
- acquisition	-	-
- written -off assets	-	-
- transfers from long-term assets	-	-
<b>As of 31 December 2015</b>	<b>214</b>	<b>2.972</b>
<b>Accumulated depreciation</b>		
<b>As of 31 December 2013</b>	<b>38</b>	<b>1.684</b>
- depreciation	28	84
- transfers from long-term assets	(26)	(25)
<b>As of 31 December 2014</b>	<b>40</b>	<b>1.743</b>
- depreciation	27	69
- written -off assets	-	-
- transfers from long-term assets	-	-
<b>As of 31 December 2015</b>	<b>67</b>	<b>1.812</b>
<b>Net book value, Eur thousand:</b>		
<b>As of 31 December 2014</b>	<b>174</b>	<b>1.229</b>
<b>As of 31 December 2015</b>	<b>147</b>	<b>1.160</b>

The fair value of investment assets approximates its book value.

The Company's depreciation of the investment assets for the year 2015 amounted to EUR 69 thousand (2014 – EUR 84 thousand).

The Company's investment assets in 2015 and 2014 represents rented assets to ABF Šilutės Rambynas and UAB Čia Market.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

## 7. LOANS GRANTED

Note No 7 – Loans granted (In the statement of financial position) ( EUR thousand)

Loans granted as of 31 December 2015:

	<u>The Group</u>		<u>The Company</u>	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Loans granted	1.528	5.405	1.528	5.405
Less: current portion of loans granted	(651)	(699)	(651)	(699)
<b>Non- current loans granted</b>	<b>877</b>	<b>4.706</b>	<b>877</b>	<b>4.706</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

All granted loans are in EUR. Granted loan's payback periods are between 1 – 9 years.

## 8. INVENTORIES

Note No 8 – Inventories (In the statement of financial position) (EUR thousand)

Inventories as of 31 December 2015:

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Raw materials	3.419	3.468	2.661	2.934
Finished goods and work in process	27.107	24.341	25.451	22.539
Goods for resale	241	191	241	191
	<b>30.767</b>	<b>28.000</b>	<b>28.353</b>	<b>25.665</b>
Less: write off to net realizable value	(4.676)	(3.056)	(4.366)	(2.848)
<b>Total:</b>	<b>26.091</b>	<b>24.944</b>	<b>23.987</b>	<b>22.817</b>

## 9. TRADE ACCOUNTS RECEIVABLE

Note No 9 – Trade Accounts Receivable (In the statement of financial position)

Trade accounts receivable as of 31 December 2015 (EUR thousand):

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Trade accounts receivable	11.107	9.186	10.577	8.770
Accounts receivable from related parties	2.094	1.828	2.085	1.819
	<b>13.201</b>	<b>11.014</b>	<b>12.662</b>	<b>10.589</b>
Impairment allowance for bad debts	(386)	(130)	(386)	(130)
Impairment allowance for bad debts of related parties	(187)	(541)	(187)	(541)
<b>Net trade receivables:</b>	<b>12.628</b>	<b>10.343</b>	<b>12.089</b>	<b>9.918</b>

Changes in impairment loss for bad debts for 2015 are included into operating expenses in the statement of comprehensive income.

Changes in the allowance for impairment of trade accounts receivable:

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Balance at beginning of year	671	345	671	345
Impairment allowance for bad debts	(98)	326	(98)	326
<b>Balance at end of year</b>	<b>573</b>	<b>671</b>	<b>573</b>	<b>671</b>

Amount receivable impairment losses recognised after the delay of 60-120 days or more.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Analysis of trade receivables based on the terms of payment on the 31<sup>st</sup> December, 2015

<u>The Group</u>	<u>Trade accounts receivables which period has passed</u>				<u>Total</u>
	<u>Trade accounts receivables, which period has not passed</u>	<u>Less than 60 days</u>	<u>60-120 days</u>	<u>More than 120 days</u>	
EUR thousand					
Trade account receivables	11,494	1,134	465	108	13,201
Reduction of value	-	-	(465)	(108)	(573)

<u>The Company</u>	<u>Trade accounts receivables which period has passed</u>				<u>Total</u>
	<u>Trade accounts receivables, which period has not passed</u>	<u>Less than 60 days</u>	<u>60-120 days</u>	<u>More than 120 days</u>	
EUR thousand					
Trade account receivables	10,966	1,123	465	108	12,662
Reduction of value	-	-	(465)	(108)	(573)

## 10. OTHER ACCOUNTS RECEIVABLE

Note No 10 – Other accounts receivable (In the statement of financial position)

Other accounts receivables as of 31 December 2015 (EUR thousand):

	<u>The Group</u>		<u>The Company</u>	
	<u>31 12 2015</u>	<u>31 12 2014</u>	<u>31 12 2015</u>	<u>31 12 2014</u>
Grants receivable	-	142	-	-
Current portion of long-term loans granted	651	699	651	699
VAT receivable	426	346	376	346
Other receivables	34	28	33	26
<b>Total:</b>	<b>1,111</b>	<b>1,215</b>	<b>1,060</b>	<b>1,071</b>

## 11. CASH AND CASH EQUIVALENTS

Note No 11 – Cash and cash equivalents (In the statement of financial position)

Cash and cash equivalents as of 31 December 2015 (EUR thousand):

	<u>The Group</u>		<u>The Company</u>	
	<u>31 12 2015</u>	<u>31 12 2014</u>	<u>31 12 2015</u>	<u>31 12 2014</u>
Cash at bank	10,181	6,907	4,785	6,113
Cash on hand	42	111	42	111
<b>Total:</b>	<b>10,223</b>	<b>7,018</b>	<b>4,827</b>	<b>6,224</b>

## 12. CAPITAL AND RESERVES

### Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of EUR 0,29 each, and the total share capital is EUR 14.028.750, fully paid.

The holders of the ordinary shares are entitled to one vote per fully paid share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital as well as other interest and non-interest as per the Company Law of the Republic of Lithuania as well as other statutes and legal acts.

On 31 December 2014, 2015 Company acquired its own shares in 2.070.621 units or 4.28% of shares in total. On 31 December 2014, 2015 the Company had its own shares were purchased for EUR 1.323 thousand. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

### Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the retained earnings available for distribution are required until legal reserve and the share premium reach 10% of the authorised capital. This reserve cannot be distributed. It can be used only for covering accumulated losses. Legal reserve of the Company was fully formed.

### Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to use should be restored to retained earnings and redistributed.

The reserve of EUR 4.344 thousand for the purchase of own shares was formed through the allocation of profits of year 2009 and 2010. During the meeting of the shareholders on 26 April 2013 was approved the reserve for the bonuses in the amount of EUR 221 thousand.

## 13. GOVERNMENTAL GRANTS RECEIVED

Note No 13 – Grants received (In the statement of financial position)

Changes in the grants received by the Group and the Company ( EUR thousand):

	<u>The Group</u>	<u>The Company</u>
<b>Grants received</b>		
As of 31 December 2013 (balance)	6.619	4.713
- received	1.181	981
As of 31 December 2014 (balance)	<u>7.800</u>	<u>5.694</u>
- received	27	27
As of 31 December 2015 (balance)	<u>7.827</u>	<u>5.721</u>
<b>Accumulated amortisation</b>		
As of 31 December 2013 (balance)	4.903	3.662

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

- amortization	764	247
<b>As of 31 December 2014 (balance)</b>	<b>5.667</b>	<b>3.909</b>
- amortization	566	416
<b>As of 31 December 2015 (balance)</b>	<b>6.232</b>	<b>4.324</b>
<b>Net book value</b>		
<b>As of 31 December 2014</b>	<b>2.133</b>	<b>1.785</b>
<b>As of 31 December 2015</b>	<b>1.595</b>	<b>1.397</b>

The amounts of the grant received are amortized in equal parts within the respective useful service life of the asset acquired from these funds. Grant amortisation is included in the statement of comprehensive income, the paragraphs on sales cost, and reduces depreciation costs of non-current assets.

In March 2010 the grant of EUR 198 thousand was received for the implementation of a project "Increasing the Competitiveness of AB "Žemaitijos Pienas" by Introducing Innovative Production Processes" under the 2007-2013 Lithuanian Rural Development Programme measure "Processing of Agricultural Products and Increasing of Added Value".

AB "Žemaitijos Pienas" consistently seeks to improve the quality of its products, ensure compliance with environmental regulations, and remain one of the leaders in the dairy production and sales markets. Therefore, the company makes investments from its own funds and uses assistance of EU Structural Funds. In 2011, the Company completed the second stage of the project "Increasing the Competitiveness of AB "Žemaitijos Pienas" by Introducing Innovative Production Processes" under the 2007-2013 Lithuanian Rural Development Programme measure "Processing of Agricultural Products and Increasing the Value Added". The investments totalled about EUR 2,95 million and resulted in the replacement of equipment, improvement of product quality, and increase in energy efficiency. After the completion of this stage of the project, depreciated equipment was replaced by the modern one, the quality of the produced food products has increased, and energy resources have been used efficiently. In 2011, 20% of the compensated amount (EUR 158 thousands) was received for the first completed stage of this project. In 2012, 20% of the compensated amount (EUR 430 thousand) was transferred to the Company for the completed 2<sup>nd</sup> stage of this project.

In the year of 2013 AB „Žemaitijos pienas“ signed a financing agreement with Lithuanian business support agency regarding the EU aid for the construction of 10 MW wood fuel steam boiler in Telsiai. The purpose of the steam boiler for the company is a possibly more effective and modern heating, using relatively cheaper fuel than fossilized, i.e. wood. For the implementation of the project, it is designated about EUR 3,36 million. The level of the support reaches 50 % of the designated funds. In 2013 the Company received EUR 696 thousand of the compensated funds by the aid. In 2014 the Company completed for bio fuel boiler funding – focus even EUR 940 thousand of support . Also in 2014 the Company of Lithuanian Environmental Investment Fund got into the first part of the subsidy – EUR 40 thousand (20.5% subsid. part) for the execution of the project: "Acid whey processing line to line installation, reducing the amount of waste". In 2015 the Company has received EUR 27 thousand of the compensated funds by the aid yet.

On 31 December 2015, the residual value of all of the Company's received grants constituted EUR 1.397 thousand (on 31 December 2014 it constituted EUR 1.786 thousand).

In April 2012, ABF "Šilutės Rambynas" has signed support agreement for the first sphere of the activity "Processing and marketing of agricultural products" of the Rural Development Programme for Lithuania 2007-2013 instrument "Agricultural products processing and increasing the surplus value", according to which EUR 452 thousand support was received for the Company's milk processing efficiency advance and technical condition modernization project. Upon the completion of the 1<sup>st</sup> stage of the project, in September 2012, the Company has received EUR 271 thousand of the support amount. EUR 119 thousand of the support amount is for the 2<sup>nd</sup> stage (the due date of implementation is 31 March 2013), EUR 63 thousand of the support amount is for the 3<sup>rd</sup> stage (the due date of implementation is 31 March 2014).

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

On 28 May 2013 the company signed a maintenance contract with Lithuanian Environmental Investment Fund (LEIF) for EUR 200 thousand award acquisition device concentration of whey RO + ROP. In 2014 it was transferred to the company for 60 percent support – EUR 120 thousand. The rest will be paid before 30 April 2015.

On 31 December 2015, the total residue of ABF “Šilutės Rambynas” grants was EUR 198 thousand (on 31 December 2014 it was EUR 348 thousand).

#### 14. BORROWINGS

Note No 14 – Borrowings (In the statement of financial position)

The Group and the Company had no loans, borrowings as of 31 December 2014, 2015:

#### 15. OBLIGATIONS UNDER FINANCE LEASE

Note No 15 – Obligations under Finance lease (In the statement of financial position)

The Group's and the Company's obligations under finance lease (EUR thousand):

	31 12 2015		31 12 2014	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<b>The Group</b>				
Within one year	32	32	76	75
In the second to fifth years inclusive	-	-	32	32
<b>Minimum lease payments</b>	<b>32</b>	<b>32</b>	<b>108</b>	<b>107</b>
Less: future interest	(0)		(1)	
<b>Present value of minimum lease payments</b>	<b>32</b>		<b>107</b>	
	31 12 2015		31 12 2014	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<b>The Company</b>				
Within one year	32	32	76	75
In the second to fifth years inclusive	-	-	32	32
<b>Present value of minimum lease payments</b>	<b>32</b>	<b>32</b>	<b>108</b>	<b>107</b>
Less: future interest	(0)		(1)	
<b>Present value of minimum lease payments</b>	<b>32</b>		<b>107</b>	

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

As of 31 December 2015 and 2014, the Group's and the Company's finance lease agreements were in EUR.

## 16. OPERATING LEASE

Note No 16 – Operating lease (In the statement of financial position)

Future operating lease payments according to the signed operating lease contracts are as follows (EUR thousand):

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Within one year	994	945	994	945
In the second to fifth years	1.006	957	1.006	957
After five years	-	-	-	-
<b>Total:</b>	<b>2.000</b>	<b>1.902</b>	<b>2.000</b>	<b>1.902</b>

The currency of the payment of operating lease is EUR.

## 17. PAYABLES

Note No 17 – Trade payables (In the statement of financial position) (EUR thousand)

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Payables to suppliers	12.007	10.845	11.443	10.495
Payables to related parties	268	503	2.054	1.736
Prepayments	291	202	262	202
<b>Total:</b>	<b>12.566</b>	<b>11.550</b>	<b>13.759</b>	<b>12.433</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms.

## 18. OTHER LIABILITIES

Note No 18 – Other liabilities (In the statement of financial position)

Other liabilities as of 31 December 2015 (EUR thousand):

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Accrued expenses	3.122	551	1.204	551
Holiday reserve	2.222	2.352	1.944	2.145
Wages and salaries payable	813	-	708	-
Social security payable	850	(2)	773	(2)
Taxes payable, other than income tax	197	14	159	-
Provisions	-	-	-	-
Other current liabilities	485	396	484	396
<b>Total:</b>	<b>7.689</b>	<b>3.311</b>	<b>5.272</b>	<b>3.090</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Provisions are formed for court cases and compensation.  
Other payables are non-interest bearing and have an average term of one month.

## 19. INFORMATION ON SEGMENTS

Note No 19 – Sales (In the statement of comprehensive income)

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading (prime segment):

The Group	Turnover, EUR thousand		Variation in % As comparing 2015 with 2014
	Jan-Dec 2015	Jan-Dec 2014	
Fermented cheese	58.031	67.795	-14,40%
Fresh dairy products	60.904	55.988	8,78%
Butter and spreadable fat mixes	8.514	9.412	-9,54%
Dry dairy products	9.146	10.259	-10,85%
Ice cream	48	655	-92,67%
Other	12.471	17.055	-26,88%
<b>Total:</b>	<b>149.114</b>	<b>161.164</b>	<b>-7,48%</b>

The Company	Turnover, EUR thousand		Variation in % As comparing 2015 with 2014
	Jan-Dec 2015	Jan-Dec 2014	
Fermented cheese	54.799	63.508	-13,71%
Fresh dairy products	52.818	49.080	7,62%
Butter and spreadable fat mixes	8.514	9.412	-9,54%
Dry dairy products	9.146	10.259	-10,85%
Ice cream	48	655	-92,67%
Other	18.948	24.140	-21,51%
<b>Total:</b>	<b>144.273</b>	<b>157.054</b>	<b>-8,14%</b>

In order to better planning, organise and control of sales, employees of the Marketing and Sales Division are assigned different geographic regions according to the location of final market of the products' sale (secondary segmentation).

Information on income received in different geographical markets (secondary segment) is provided below:

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
<b>Sales, EUR thousand:</b>				
Lithuania	75.668	81.528	82.317	87.319
Other Baltic States and CIS members	20.332	32.827	17.812	30.541



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Other Europe countries	42.355	39.844	33.869	32.763
Other	10.759	6.965	10.275	6.431
<b>Total, EUR thousand:</b>	<b>149.114</b>	<b>161.164</b>	<b>144.273</b>	<b>157.054</b>

During the year of 2015 sales income from each customer did not constitute more than 10% of the total income.

## 20. OPERATING EXPENSES

Note No 20 – Operating expenses (In the statement of comprehensive income)

As of 31 December operating expenses consisted of the following:

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
Wages, salaries and social security*	10.755	9.096	10.505	8.880
Services	5.492	4.623	4.779	4.150
Marketing	5.672	2.848	5.340	2.773
Fuel and spare parts	1.319	1.609	1.303	1.576
Depreciation and amortisation	604	3.529	969	962
Change in write off of inventories to net realizable value	1.620	(1.095)	1.518	(1.125)
Materials	371	427	359	416
Taxes, other than income tax	201	211	201	187
Other expenses	4.685	2.242	2.559	2.056
<b>Total sales and distribution expenses:</b>	<b>30.719</b>	<b>23.490</b>	<b>27.533</b>	<b>19.875</b>

\* A share of these expenditure is accounted as the production costs.

## 21. INCOME AND EXPENSES OF OTHER ACTIVITIES

Note No 21 – Other operating income and expenses (In the statement of comprehensive income)

Income and expenses from other activities as of 31 December 2015 (EUR thousand):

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
<i>Other operating income</i>				
Gain on sales of property, plant and equipment and goods for resale sales income	262	310	291	330
Rental income	89	83	405	386
Income of the canteen	242	449	242	449
Other	160	130	162	148
	<b>753</b>	<b>972</b>	<b>1.100</b>	<b>1.313</b>
<i>Other operating expenses</i>				
Cost of goods for resale sold	(182)	(177)	(216)	(162)
Rental income	(76)	(145)	(62)	(99)
Other	(189)	(318)	(188)	(317)

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

	(447)	(640)	(466)	(578)
<b>Net income and expenses of other activities:</b>	<u>306</u>	<u>332</u>	<u>634</u>	<u>735</u>

## 22. FINANCIAL INCOME AND EXPENSES

Note No 22 – Financial income and expenses (In the statement of comprehensive income)  
Income and expenses from financial activities as of 31 December 2015 (EUR thousand):

	<u>The Group</u>		<u>The Company</u>	
	<u>Jan-Dec 2015</u>	<u>Jan-Dec 2014</u>	<u>Jan-Dec 2015</u>	<u>Jan-Dec 2014</u>
<i>Income from financial activity</i>				
Interest income	136	121	136	122
Foreign currency exchange (profit)	277	39	277	38
Other financial incomes	65	150	12	4
	<u>478</u>	<u>310</u>	<u>425</u>	<u>164</u>
<i>Expenses from financial activity</i>				
Foreign currency exchange (loss)	(291)	(82)	(290)	(58)
Interest	(1)	(12)	(1)	(12)
Other financial expenses	(13)	(19)	-	-
	<u>(305)</u>	<u>(113)</u>	<u>(291)</u>	<u>(70)</u>
<b>Net of financial income and expenses:</b>	<u>173</u>	<u>197</u>	<u>134</u>	<u>94</u>

## 23. CORPORATE INCOME TAX EXPENSES (BENEFIT)

Note No 23 – Corporate income tax expenses (In the statement of comprehensive income)

	<u>The Group</u>		<u>The Company</u>	
	<u>Jan-Dec 2015</u>	<u>Jan-Dec 2014</u>	<u>Jan-Dec 2015</u>	<u>Jan-Dec 2014</u>
Profit before tax	6.516	3.390	3.366	3.667
Income tax, applying valid tax rate	2.126	1.538	1.419	1.196
Change in deferred income tax asset	(1.595)	(437)	(1.290)	(432)
Change in deferred income tax liability	-	(348)	-	-
<b>Income tax expenses (benefit) charged to the statement of comprehensive income, EUR thousand</b>	<u>531</u>	<u>753</u>	<u>129</u>	<u>766</u>

	<u>The Group</u>		<u>The Company</u>	
	<u>31 12 2015</u>	<u>31 12 2014</u>	<u>31 12 2015</u>	<u>31 12 2014</u>
<b>Deferred income tax asset</b>				
Accounts receivable	630	102	630	102
Inventories	702	458	655	427
Accrued vacation reserve	303	329	292	322
Other accrued expenses	1.412	562	1.119	555

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Total deferred income tax asset, EUR thousand	3.047	1.451	2.696	1.406
Deferred income tax liability				
Difference in property, plant and equipment depreciation rates	-	-	-	-
Total deferred income tax liability, EUR thousand	-	-	-	-
Deferred income tax asset, net EUR thousand	3.047	1.451	2.696	1.406

## 24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES

In 2014-15 a new company has not been purchased in the Group. Any company of the Group has not been liquidated.

## 25. EARNINGS PER SHARE

Note No 25 - Basic and diluted earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing the net profit attributable to shareholders by weighted average number of ordinary shares in issue during the year.

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
Net profit (loss) attributable to the equity shareholders in EUR thousand	5.650	2.669	3.237	2.901
Weighted average number of shares (in thousand)	48.375	48.375	48.375	48.375
<b>Basic earnings (loss) per share in EUR</b>	<b>0,12</b>	<b>0,06</b>	<b>0,07</b>	<b>0,06</b>

The Company has not issued other securities potentially convertible into shares. Therefore, the diluted earnings (loss) per share are the same as the basic earnings (loss) per share.

## 26. DIVIDENDS PER SHARE

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
Dividends	-	-	-	-
Number of shares (thousand)	48.375	48.375	48.375	48.375
<b>Dividends per share (in EUR)</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>

## 27. COMMITMENTS AND CONTINGENCIES

As of 31 December 2015 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

At of 31 December 2015 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.

## 28. FINANCIAL RISK MANAGEMENT

In the course of using financial instruments, the Company and the Group face the following risks:

- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

The present note provides for information on each of the aforementioned risks the Company faces, the Company's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's capital management. More detailed quantitative disclosures are presented in the present interim statement.

The Company's management is completely responsible for development and supervision of the Company's risk management structure. The Company's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's activities. With the help of trainings, procedures of management standards, the Company aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

### Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

The Company's and the Group's credit risk consisted of the following factors:

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Cash and cash equivalents	10.223	7.018	4.827	6.224
Loans granted	877	4.706	877	4.706
Trade accounts receivable	12.628	10.344	12.089	9.918
Other accounts receivable	1.111	1.215	1.060	1.071
Finance leases	27	16	27	16
<b>Total financial assets</b>	<b>24.866</b>	<b>23.299</b>	<b>18.880</b>	<b>21.935</b>

The Group and the Company has no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. Customers' risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

that its maximum exposure is reflected by the amount of receivables (Note 9), net of impairment losses recognized at the financial statements date.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks with high credit ratings assigned by international credit-rating agencies.

**Liquidity risk**

Liquidity risk is the risk that, upon maturity, the Company will be unable to fulfil its financial liabilities. The Company's liquidity management objective is to maximally secure sufficient liquidity of the Company, which enables the Company to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of losing its good reputation.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities, bank overdrafts and credit lines to meet its commitments at a given date in accordance with its strategic plans.

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments:

<b>The Group</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	21	54	32	-	107
Trade payables and prepayments	-	11.047	-	-	-	11.047
Commitments to related parties	-	503	-	-	-	503
<b>Balance as of 31 December 2014</b>	<b>-</b>	<b>11.571</b>	<b>54</b>	<b>32</b>	<b>-</b>	<b>11.657</b>
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	11	21	-	-	32
Trade payables and prepayments	-	12.298	-	-	-	12.298
Commitments to related parties	-	268	-	-	-	268
<b>Balance as of 31 December 2015</b>	<b>-</b>	<b>12.577</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>12.598</b>
<b>Changes through 2015</b>	<b>-</b>	<b>1.006</b>	<b>(33)</b>	<b>(32)</b>	<b>-</b>	<b>941</b>
<b>The Company</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	21	54	32	-	107
Trade payables and prepayments	-	10.697	-	-	-	10.697
Commitments to related parties	-	1.736	-	-	-	1.736
<b>Balance as of 31 December 2014</b>	<b>-</b>	<b>12.454</b>	<b>54</b>	<b>32</b>	<b>-</b>	<b>12.540</b>

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	11	21	-	-	32
Trade payables and prepayments	-	11.705	-	-	-	11.705
Commitments to related parties	-	2.054	-	-	-	2.054
<b>Balance as of 31 December 2015</b>	<b>-</b>	<b>13.770</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>13.791</b>
<b>Changes throughout 2015</b>		<b>1.316</b>	<b>(33)</b>	<b>(32)</b>	<b>-</b>	<b>1.251</b>

**Market risk**

Market risk is the risk that market price changes, e.g. foreign exchange rates or interest rates, will affect the Company's income or the value of available financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimisation of the return.

**Foreign exchange risk**

Major currency risks of the Group and Company occur due to the fact that the Group and Company borrow foreign currency denominated funds as well as are involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR.

The monetary assets and liabilities stated in various currencies were as follows (EUR thousand):

	The Group		The Company	
	31 12 2015		31 12 2015	
	Assets	Liabilities	Assets	Liabilities
LTL	-	-	-	-
EUR	23.808	20.892	17.807	19.204
USD	855	2	855	2
LVL	-	-	-	-
Other	563	17	563	17
<b>Total:</b>	<b>25.226</b>	<b>20.911</b>	<b>19.225</b>	<b>19.223</b>

  

	The Group		The Company	
	31 12 2014		31 12 2014	
	Assets	Liabilities	Assets	Liabilities
LTL	14.233	13.609	14.013	14.329
EUR	9.127	1.595	7.958	1.537
USD	12	-	12	-
LVL	-	-	-	-
Other	649	13	649	13
<b>Total:</b>	<b>24.021</b>	<b>15.217</b>	<b>22.632</b>	<b>15.879</b>

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in EUR. Therefore, the sensitivity analysis to the foreign currency fluctuations was not disclosed due to immateriality of the balances and transactions in currencies other than EUR.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

**Fair value of financial instruments**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties at market prices but not in forced or liquidation sale. Depending on circumstances, fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Fair value of assets and liabilities provided in the balance sheet as of the 31<sup>st</sup> December 2015 does not significantly differ from their carrying amount.

Financial assets and liabilities as of the 31<sup>st</sup> of December 2015

The Group	Carrying amount		Fair value	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
<b>Financial assets</b>				
Cash	10.223	7.018	10.223	7.018
Finance leases	27	16	27	16
Investments available for sale	-	-	-	-
Loans granted	877	4.706	877	4.706
<b>Total:</b>	<b>11.127</b>	<b>11.740</b>	<b>11.127</b>	<b>11.740</b>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	(32)	(107)	(32)	(108)
Floating interest rate borrowings	-	-	-	-
Fixed interest rate borrowings	-	-	-	-
<b>Total:</b>	<b>(32)</b>	<b>(107)</b>	<b>(32)</b>	<b>(108)</b>
<b>Net total:</b>	<b>11.095</b>	<b>11.633</b>	<b>11.095</b>	<b>11.632</b>

The Company	Carrying amount		Fair value	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
<b>Financial assets</b>				
Cash	4.827	6.224	4.827	6.224
Finance leases	27	16	27	16
Investments available for sale	-	-	-	-
Loans granted	877	4.706	877	4.706
<b>Total:</b>	<b>5.731</b>	<b>10.946</b>	<b>5.731</b>	<b>10.946</b>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	(32)	(107)	(32)	(108)
Floating interest rate borrowings	-	-	-	-
Fixed interest rate borrowings	-	-	-	-
<b>Total:</b>	<b>(32)</b>	<b>(107)</b>	<b>(32)</b>	<b>(108)</b>
<b>Net total:</b>	<b>5.699</b>	<b>10.839</b>	<b>5.699</b>	<b>10.838</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

**Capital management**

The objective of the Group's and the Company's management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The management observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans. The primary objectives of the capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2015.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Group and the Company monitor capital using debt to equity ratio. There is no specific target for debt to equity ratio set out by the Group's and the Company's management, however the management strives for maintaining the balance between higher return, which could be achieved through a higher level of borrowed funds, and safety, which is provided by a higher level of owner's equity.

Current debt to equity ratios presented below:

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Non-current liabilities (including deferred taxes and grants)	1.597	2.170	1.399	1.822
Current liabilities	20.909	15.180	19.221	15.842
<b>Total liabilities</b>	<b>22.506</b>	<b>17.350</b>	<b>20.620</b>	<b>17.664</b>
Equity attributable to equity holders of the parent	56.742	51.071	52.757	49.502
Debt* to equity ratio	40%	34%	39%	36%

\* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities.

No breaches of required ratio occurred during the year ending as of 31 December 2015.

**29. RELATED PARTY TRANSACTIONS**

**Related parties of the Group and the Company are:**

- the parties that control, are controlled by or are under common control with the Company;
- the parties that can have material impact on the activities of the Company;
- the parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- the companies that are under control or material impact of the aforesaid persons.

The main related parties of the Group and the Company are:

Company	Relationship
Žemaitijos Pieno Investicija AB	Common major shareholder
Šilutės Rambynas ABF	Subsidiary, common major shareholder



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Baltijos Mineralinių Vandenuų Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder
Čia Market UAB	Common major shareholder
Muizas Piens SIA	Common major shareholder
Samogitija UAB	Common major shareholder
S.A.R.Dziugas France	Common major shareholder
Dziugas PL.Sp.z.o.o.	Common major shareholder
Dziugas UK Ltd	Common major shareholder
Dziugas USA LLC	Common major shareholder

**Sales to and purchases from related parties (EUR thousand):**

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
<b>1) Sales</b>				
<b>Sales of goods</b>				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	19.891	21.398
	-	-	<b>19.891</b>	<b>21.398</b>
<i>To Related parties</i>				
Baltijos mineralinių vandenuų kompanija UAB	8	13	8	13
Klaipėdos pienas AB	272	444	80	170
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	6.168	5.376	6.168	5.376
Muizas piens SIA	437	1.052	436	1.052
	<b>6.885</b>	<b>6.885</b>	<b>6.692</b>	<b>6.611</b>
<b>Sales of inventory and services</b>				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	400	390
	-	-	<b>400</b>	<b>390</b>
<i>To Related parties</i>				
Baltijos mineralinių vandenuų kompanija UAB	165	188	165	188
Klaipėdos pienas AB	124	353	122	353
Žemaitijos pieno investicija AB	47	173	47	165
Samogitija UAB	1	1	1	1
Čia Market UAB	105	84	101	79
Muizas piens SIA	5	4	5	4
Dziugas PL Sp. Z.o.o.	1	-	1	-
	<b>448</b>	<b>803</b>	<b>442</b>	<b>790</b>
<b>Total Sales:</b>	<b>7.333</b>	<b>7.688</b>	<b>27.425</b>	<b>29.189</b>

	The Group		The Company	
	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2015	Jan-Dec 2014
<b>2) Purchases</b>				
<i>From the Group</i>				
Šilutės Rambynas ABF	-	-	21.701	21.700
	-	-	<b>21.701</b>	<b>21.700</b>
<i>From Related parties</i>				
Baltijos mineralinių vandenuų kompanija UAB	1.539	1.649	1.533	1.648
Samogitija UAB	-	20	-	20
Klaipėdos pienas AB	160	708	159	708
Žemaitijos pieno investicija AB	763	752	763	750
Čia Market UAB	2.152	160	2.147	153
Muizas piens SIA	1.023	1.380	1.022	1.380

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

Džiugas PL Sp. Z.o.o.	94	8	94	8
	<u>5.731</u>	<u>4.677</u>	<u>5.718</u>	<u>4.667</u>
<b>Total Purchases:</b>	<u>5.731</u>	<u>4.677</u>	<u>27.419</u>	<u>26.367</u>

**Balances outstanding with related parties**

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
<b>3) Accounts receivable and financial debts</b>				
<i>From Group</i>				
Šilutės Rambynas ABF	-	-	-	-
	-	-	-	-
<i>From Related parties</i>				
	-	-	-	-
Baltijos mineralinių vandenių kompanija UAB	-	-	-	-
Samogitija UAB	20		20	21
Žemaitijos pieno investicija UAB	12	1.010	12	1.010
Klaipėdos pienas AB	41	2.926	33	2.916
Čia Market AB	1.670	920	1.669	920
Muizas piens SIA	217	64	217	64
Džiugas France S.A.R.	-	-	-	-
Džiugas USA LLC	20	-	20	-
	<u>1.980</u>	<u>4.941</u>	<u>1.971</u>	<u>4.931</u>
<b>Total balances of payables:</b>	<u>1.980</u>	<u>4.941</u>	<u>1.971</u>	<u>4.931</u>

	The Group		The Company	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
<b>4) Balances of payables</b>				
<i>To Group</i>				
Tarpučių pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	-	1.786	1.237
	-	-	<u>1.786</u>	<u>1.237</u>
<i>To Related parties</i>				
<i>Pažemeckas Algirdas</i>	-	-	-	-
Baltijos mineralinių vandenių kompanija UAB	254	232	254	232
Žemaitijos pieno investicija UAB	-	-	-	-
Klaipėdos pienas AB	-	76	-	76
Čia Market AB	-	3	-	-
Muizas piens SIA	10	186	10	186
Džiugas PL.Sp.z.o.o.	4	5	4	5
Džiugas UK Ltd	-	1	-	1
	<u>268</u>	<u>503</u>	<u>268</u>	<u>500</u>
<b>Total balances of payables:</b>	<u>268</u>	<u>503</u>	<u>2.054</u>	<u>1.737</u>

Payables to related parties are normally settled within 30 day terms.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. In 2015, the Company have calculated EUR 3.799 thousand of decrease in distribution value for doubtful accounts, relating to



Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(All amounts in EUR thousands unless otherwise stated)

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the amounts that belong to the related parties (in 2014 – EUR 541 thousand). Evaluation of these doubtful accounts is being reviewed every financial year, by checking the financial state of the related party and the market, in which the related party is operating. The Group has many transactions with the related parties (the companies in “Žemaitijos pieno investicija” AB group), and Group's profit as well as sales are strongly influenced by the transactions with AB “Žemaitijos pieno investicija” group. It includes rent of fixed assets, raw material sales as well as full buy up of cheeses from “Šilutės Rambynas” ABF, sales of distribution services to “Baltijos mineralinių vandenų kompanija” UAB and sales of finished goods to “Čia Market” UAB, sales of raw materials, production and various services to “Klaipėdos pienas” AB.

**EVENTS AFTER THE REPORTING PERIOD**

There were no events occurred after the reporting period that would influence financial results of the Group and the Company.

Group's consolidated financial statements and the Company's Financial Statements signed and approved on 15 March 2016

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Robertas Pažemeckas  
General Director

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Dalia Gecienė  
Senior accountant