Grant Thornton | An instinct for growth™

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB ŽEMAITIJOS PIENAS

Qualified Opinion

We have audited the accompanying set of the separate and consolidated financial statements of AB Žemaitijos pienas and its subsidiaries (hereinafter – the Company and the Group), which comprise the separate and consolidated statements of financial position as at December 31, 2016, and the separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity, separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of the Company and the Group as at December 31, 2016, and their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

For the loans in amount of EUR 1,866 thousand granted to the related companies that are shown in the separate and consolidated statement of financial position of the Company and the Group as at December 31, 2016, the Company did not recognise impairment, although there are objective evidence that the value of these loans carried at amortised cost could have been impaired. In our opinion, the management of the Company did not take possible impairment of these financial assets into account. During audit procedures, we were unable to obtain sufficient appropriate data regarding the impairment amount because the management did not provide forecasts of estimated future cash flows, so we were unable to determine adjustments for the value of loans granted to the related companies as at December 31, 2016 and accordingly, to the performance results of the financial year then ended.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

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

Grant Thornton Baltic UAB
Vilnius | A. Goštauto str. 40B | 03163 Vilnius | Lithuania | T +370 52 127 856 | F +370 52 685 831 | E info@lt.gt.com
Kaunas | Savanorių pr. 241-25 | 50185 Kaunas | Lithuania | T+370 37 422 500 | F +370 37 406 665 | E kaunas@lt.gt.com
Klaipėda | Talkos av. 52c / Agluonos str. 1-1403 | 91184 Klaipėda | Lithuania | T +370 46 411 248 | F +370 46 313 698 | E klaipeda@lt.gt.com

Member of Grant Thornton International Ltd

The net realisable value of the inventories and write-down of outdated inventories

On December 31, 2016, the inventories of the Company and the Group in the separate and consolidated statement of financial position comprised EUR 25,788 thousand and EUR 27,938 thousand respectively before value reduction and EUR 25,566 thousand and EUR 27,512 thousand after estimated writing down. The inventories value is significant for the Company and the Group and comprises 29 per cent of the total assets of the Company and the Group; therefore, the management's assessment is necessary for evaluating whether the accounting value of the inventories is lower than the net realisable value at the end of the financial year. The management's assessment is also necessary for determining the amount of write-down for outdated inventories because it depends on the applied inventories obsolescence standards and for assessing whether the amount of write-down is at a sufficient level. We reviewed the estimations of the net realisable value of the products inventories that were performed by the Group and the Company and are based on the review of the selling prices of the products on the markets after the end of the financial year. In addition, we analysed the data of outdated inventories and the assessment applied during the calculation the amount of write-down of hard fermented cheeses inventories cost, which may not be recoverable from these inventories selling or using due to lack of market demand, inventories obsolescence, possible losses and additional inventories storage expenses.

Investments, granted loans and receivables

On December 31, 2016 the investment in the subsidiary ABF Šilutės Rambynas in the statement of financial position of the Company comprises EUR 3,150 thousand and there are no signs of impairment of this assets. Loans granted to related companies and amounts of receivables from related companies in the separate and consolidated statement of financial position of the Company and the Group as at December 31, 2016 comprised EUR 6,649 thousand and EUR 6,656 thousand respectively before value reduction and EUR 5,061 thousand and EUR 5,068 thousand after recognising impairment. Loans granted to related companies and amounts of receivables from related companies after recognising impairment comprise more than 5 per cent of the total value of the assets of the Company and the Group as at December 31, 2016. The management of the Company evaluated the impairment of receivables from related companies on the basis of delay norms of payment deadlines as disclosed in explanatory note 9. We reviewed the assessment of financial assets impairment assumptions applied by the Company and the use of methods. Our assessed matter of the impairment of the granted loans to related companies is described in the Basis for Qualified Opinion section of our report.

Other information

The other information comprises the information included in the Group's annual report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

Grant Thornton Baltic UAB
Vilnius | A. Goštauto str. 40B | 03163 Vilnius | Lithuania | T +370 52 127 856 | F +370 52 685 831 | E info@lt.gt.com
Kaunas | Savanorių pr. 241-25 | 50185 Kaunas | Lithuania | T+370 37 422 500 | F +370 37 406 665 | E kaunas@lt.gt.com
Klaipėda | Taikos av. 52c / Agluonos str. 1-1403 | 91184 Klaipėda | Lithuania | T +370 46 411 248 | F +370 46 313 698 | E klaipeda@lt.gt.com

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is

Laimė Jablonskienė
Certified Auditor, Board Member
Auditor's certificate No. 000091

March 22, 2017

Grant Thornton Baltic UAB
Audit company's certificate No. 001445
Klaipeda, Republic of Lithuania