

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


**STATEMENTS OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2016**

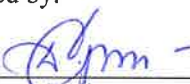
(All amounts in EUR thousands unless otherwise stated)

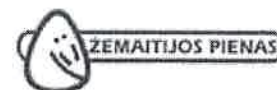
ASSETS	Notes	The Group		The Company	
		31 12 2016	31 12 2015	31 12 2016	31 12 2015
<b>Non-current assets</b>					
Intangible assets	5	120	124	119	124
Property, plant and equipment	5,6	27.726	25.601	25.154	23.033
Investment assets	5,6	121	147	1.091	1.160
Investments into subsidiaries	1	1	1	3.152	3.152
Loans granted	7	2.364	3.848	2.364	3.848
Other financial assets		20	27	20	27
Deferred income tax asset	23	2.150	2.639	2.068	2.289
<b>Total non-current assets</b>		<b>32.502</b>	<b>32.388</b>	<b>33.968</b>	<b>33.633</b>
<b>Current assets</b>					
Inventories	8	25.233	25.194	23.287	23.091
Prepayments		198	360	153	345
Trade accounts receivable	9	15.598	12.628	15.590	12.089
Other accounts receivable	10	2.328	1.752	2.273	1.700
Cash and cash equivalents	11	17.000	10.223	10.921	4.827
<b>Total current assets</b>		<b>60.357</b>	<b>50.158</b>	<b>52.223</b>	<b>42.052</b>
<b>TOTAL ASSETS</b>		<b>92.859</b>	<b>82.546</b>	<b>86.191</b>	<b>75.685</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	12	14.029	14.029	14.029	14.029
Own shares (-)		(1.323)	(1.323)	(1.323)	(1.323)
Legal reserve		1.401	1.401	1.401	1.401
Other reserves		4.565	4.565	4.565	4.565
Retained earnings		49.435	40.378	42.152	36.393
<b>Equity attributable to equity holders of the Company</b>		<b>68.107</b>	<b>59.050</b>	<b>60.824</b>	<b>55.065</b>
Minority interest		1.447	990	-	-
<b>Total Equity</b>		<b>69.554</b>	<b>60.040</b>	<b>60.824</b>	<b>55.065</b>
<b>Non-current liabilities</b>					
Grants received	13	1.126	1.595	992	1.397
Borrowings	14	-	-	-	-
Obligations under finance lease	15	-	-	-	-
Deferred income tax liability		-	-	-	-
Other current liabilities	23	-	2	-	2
<b>Total non-current liabilities</b>		<b>1.126</b>	<b>1.597</b>	<b>992</b>	<b>1.399</b>
<b>Current liabilities</b>					
Borrowings	14	-	-	-	-
Obligations under finance lease	15	-	32	-	32
Trade accounts payable	17	16.035	12.566	18.722	13.759
Income tax payable		-	622	-	159
Other accounts payable	18	6.144	7.689	5.652	5.271
<b>Total current liabilities</b>		<b>22.179</b>	<b>20.909</b>	<b>24.375</b>	<b>19.221</b>
<b>Total liabilities</b>		<b>23.305</b>	<b>22.506</b>	<b>25.367</b>	<b>20.620</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>92.859</b>	<b>82.546</b>	<b>86.191</b>	<b>75.685</b>

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements:

The financial statements were approved on 21 March 2017 and signed by:

  
Robertas Pažemeckas  
General Director

  
Dalia Gecienė  
Senior accountant



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


**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**


(All amounts in EUR thousands unless otherwise stated)

	Notes	The Group		The Company	
		Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Sales	19	149,897	149,114	147,616	144,273
Cost of sales		(112,971)	(112,358)	(114,891)	(114,142)
<b>GROSS PROFIT</b>		<b>36,926</b>	<b>36,756</b>	<b>32,725</b>	<b>30,131</b>
Operating expenses	20	(19,943)	(28,003)	(20,528)	(24,817)
Other operating income and expenses	21	228	306	599	634
<b>(LOSS) PROFIT FROM OPERATIONS</b>		<b>17,211</b>	<b>9,059</b>	<b>12,796</b>	<b>5,948</b>
Finance costs		(0)	(1)	(0)	(1)
Other financial income and expenses	22	335	174	345	135
<b>(LOSS) PROFIT BEFORE TAX</b>		<b>17,546</b>	<b>9,232</b>	<b>13,141</b>	<b>6,082</b>
Income tax (benefit) expense	23	(1,726)	(939)	(1,076)	(537)
<b>NET (LOSS) PROFIT</b>		<b>15,820</b>	<b>8,293</b>	<b>12,065</b>	<b>5,545</b>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Company		15,363	7,958	12,065	5,545
Minority interest		457	335	-	-
		<b>15,820</b>	<b>8,293</b>	<b>12,065</b>	<b>5,545</b>
<b>Basic and diluted earnings per share (EUR)</b>	25	<b>0,33</b>	<b>0,17</b>	<b>0,26</b>	<b>0,12</b>

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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR, in thousands, unless otherwise stated)

The Group	Share capita	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Equity	Minority interest	Total
<b>Balance as of</b>									
<b>31 December 2014</b>	14.010	(1.323)	1.401	4.344	221	32.417	51.071	654	51.725
Dividends	-	-	-	-	-	-	-	-	-
Transfer to other reserves	-	-	-	-	-	-	-	-	-
The use of reserves	-	-	-	-	-	-	-	-	-
Acquisitions of own shares	-	-	-	-	-	-	-	-	-
The share capital increase in conversion to the euro	19	-	-	-	-	-	19	-	19
The daughter share capital conversion to the euro	-	-	-	-	-	3	2	1	3
<b>Net profit</b>						7.958	7.958	335	8.293
<b>Balance as of</b>									
<b>31 December 2015</b>	14.029	(1.323)	1.401	4.344	221	40.378	59.050	990	60.040
Dividends	-	-	-	-	-	(5.557)	(5.557)	-	(5.557)
Tantiemes	-	-	-	-	-	(749)	(749)	-	(749)
Transfer to other reserves	-	-	-	-	-	-	-	-	-
The use of reserves	-	-	-	-	-	-	-	-	-
Acquisitions of own shares	-	-	-	-	-	-	-	-	-
Subsidiary company liquidation result	-	-	-	-	-	-	-	-	-
The share capital increase in conversion to the euro	-	-	-	-	-	-	-	-	-
The daughter share capital conversion to the euro	-	-	-	-	-	-	-	-	-
<b>Net profit</b>						15.363	15.363	457	15.820
<b>Balance as of</b>									
<b>31 December 2016</b>	14.029	(1.323)	1.401	4.344	221	49.435	68.107	1.447	69.554

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Senior accountant

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR, in thousands, unless otherwise stated)

The Company	Share capital	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Total
<b>Balance as of 31 December 2014</b>	<b>14.010</b>	<b>(1.323)</b>	<b>1.401</b>	<b>4.344</b>	<b>221</b>	<b>30.848</b>	<b>49.501</b>
Dividends	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-
The share capital increase	19	-	-	-	-	-	19
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.545</b>	<b>5.545</b>
<b>Balance as of 31 December 2015</b>	<b>14.029</b>	<b>(1.323)</b>	<b>1.401</b>	<b>4.344</b>	<b>221</b>	<b>36.393</b>	<b>55.065</b>
Dividends	-	-	-	-	-	(5.557)	(5.557)
Transfer to reserves	-	-	-	-	-	(749)	(749)
Reserves used	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-
The share capital increase	-	-	-	-	-	-	-
The result of the conversion to the euro	-	-	-	-	-	-	-
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12.065</b>	<b>12.065</b>
<b>Balance as of 31 December 2016</b>	<b>14.029</b>	<b>(1.323)</b>	<b>1.401</b>	<b>4.344</b>	<b>221</b>	<b>42.152</b>	<b>60.824</b>

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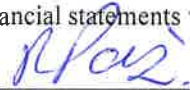
  
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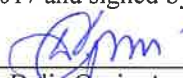
**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<b>Cash flow from operating activities</b>				
Profit (loss) for the period	15.820	8.293	12.065	5.545
<b>Adjustments:</b>				
Depreciation and amortization	4.987	3.949	4.492	3.604
Amortization of grants received	(469)	(565)	(405)	(416)
Gain (loss) on disposal of non-current assets	(24)	(32)	(24)	(26)
Corporate income tax expenses	489	(1.187)	220	(882)
Impairment of accounts receivable	1.582	-	1.061	-
Impairment of property, plant and equipment	-	-	-	-
Impairment of inventories to net realizable value	(2.868)	2.517	(2.762)	2.415
Net financial expenses (income)	(335)	(173)	(346)	(134)
Elimination of non-cash items	(1.867)	2.679	(2)	762
Loss from liquidation of subsidiaries	-	-	-	-
Net cash flows from ordinary activities before changes in working capital	<b>17.315</b>	<b>15.481</b>	<b>14.300</b>	<b>10.868</b>
<b>Changes in working capital:</b>				
(Increase) decrease in inventories	2.829	(2.767)	2.565	(2.689)
(Increase) decrease in trade receivables	(4.560)	(2.285)	(4.570)	(2.171)
(Increase) decrease in prepayments	162	362	192	352
(Increase) decrease in other receivables	917	103	920	10
(Decrease) increase in trade payables	3.469	1.016	4.964	1.326
(Decrease) increase other accounts payable	315	1.697	381	1.418
Corporate income tax paid	(622)	378	(159)	(85)
<b>Net cash flows from operating activities</b>	<b>19.825</b>	<b>13.985</b>	<b>18.593</b>	<b>9.029</b>
<b>Cash flows from (to) investing activities</b>				
Acquisition of intangible assets and property, plant and equipment.	(9.098)	(11.201)	(8.559)	(10.803)
Proceeds on sale of property, plant and equipment	61	76	60	71
Acquisition of subsidiaries	-	-	-	-
Sale of investments available for sale	-	-	-	-
Repayment of loans granted	2.572	912	2.572	912
Loans granted	(888)	(691)	(888)	(691)
Interest received	108	136	108	136
<b>Net cash flows (to) investing activities</b>	<b>(7.245)</b>	<b>(10.768)</b>	<b>(6.708)</b>	<b>(10.376)</b>
<b>Cash flows from (to) financing activities</b>				
Acquisition of own shares	-	-	-	-
Dividends, bonus paid	(5.952)	-	(5.952)	-
Grants received	-	27	-	27
Loans received	-	-	-	-
Repayment of loans	-	-	-	-
Financial lease payments	(32)	(75)	(32)	(75)
Interest paid	(0)	(1)	(0)	(1)
Other financial (income) and expenses	181	37	191	(1)
<b>Net cash flows from financial activities</b>	<b>(5.803)</b>	<b>(12)</b>	<b>(5.792)</b>	<b>(50)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6.777</b>	<b>3.205</b>	<b>6.094</b>	<b>(1.397)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10.223</b>	<b>7.018</b>	<b>4.827</b>	<b>6.224</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>17.000</b>	<b>10.223</b>	<b>10.921</b>	<b>4.827</b>

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements.

The financial statements were approved on 21 March 2017 and signed by:

  
Robertas Pažemeckas  
General Director

  
Dalia Gecienė  
Senior accountant



EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2016

(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 2016, its shares are held by the following shareholders

Shareholder	31 12 2016		31 12 2015	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	25.003.342	51,69%	21.589.380	44,63%
SEB SA OMNIBUS, Liuksemburg	-	-	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%
Romusar 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 2016 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 2016	Cost of investment 2015	Net assets as of 31 December 2016	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87,82%	87,82%	3.150	3.150	11.880	Cheese production and selling

The Company employed 1.214 staff members as on the 31<sup>th</sup> of December 2016 (1.197 staff members as on the 31<sup>th</sup> of December 2015). The Group employed 1.406 staff members as on the 31<sup>th</sup> of December 2016 (1.291 staff members as on the 31<sup>th</sup> of December 2015).



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

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## **2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

Financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS), applicable in the European Union (hereinafter referred to as the EU).

### **The basis for preparation of financial statements**

All amounts in these financial statements are stated in euros and rounded to thousands.

The Company accounted for in these financial statements all amounts are measured and presented in euros. 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.

When preparing financial statements in accordance with the IFRS, applicable in the EU, the management must perform calculations and estimates referring to certain assumptions, influencing the choice of accounting principles as well as the amounts of assets, liabilities, income and costs. The estimates and the related assumptions are based by historical experience and the factors, reflecting the existing conditions. On the basis of the said assumptions and estimates the conclusion is made as regards the residual values of assets and liabilities, which cannot be identified by using other sources. The factual results may differ from the performed estimates. The estimates and assumptions are continuously reviewed. The influence of changes of estimates is recognized for the period, during which the estimate is reviewed, in case it has an influence on only the period in question or for the estimate's reviewing period and the coming periods, in case the estimate influences both the reviewing period and the future periods.

The accounting principles below provided were consistently applied and correspond with those applied during the previous year.

### **Consolidation principles**

Consolidated financial statements cover the financial statements of the Company and its subsidiaries as of 31<sup>st</sup> of December of each year.

The subsidiaries' acquisitions are accounted by applying the acquisition method. The acquisition price includes the actual value of transferred property, issued proprietary measures or undertaken liabilities, as well as the costs, directly related with the acquisition. The assets and liabilities of the procured company, which comply with the recognition criteria, provided in the IFRS 3, are estimated as the factual values as of the date of acquisition. The initial estimation of the subsidiary's assets and liabilities is corrected within twelve months as of the date of acquisition after obtaining additional data, which help to accurately estimate the real value of the subsidiary's assets and liabilities.

Investments into subsidiaries are accounted in the Company's financial condition report by using the acquisition price method. The dividends, received from the subsidiaries are considered income only in the amount they are paid from the subsidiary's profits, earned after the acquisition. The part of dividends, exceeding such profits, is held coverage of the investment and considered the reduction of the investment cost price.

The financial results of the subsidiary, acquired (sold) during the financial year, are included into the consolidated total income statement from the date of acquisition of the subsidiary till the date of sales of the subsidiary.



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

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The minority shareholders' share covers the share of actual values of assets and liabilities of such shareholders.

All significant deals between the Group companies, balance residuals, income, costs and unrealised income (loss) from mutual operations are eliminated from the consolidated financial statements.

**The influence of new international reporting standards, valid standard amendments and new explanations on financial statements**

During the reporting year 2016 the Company applied the following amendments to the IFRS:

**Amendment to IAS 1. "Presentation of Financial Statements"**

The changes explain that companies should use professional decisions when establishing the procedure in which the information shall be provided in financial statements, clarify certain requirements, such as significance, provision of comments, etc., and provide the requirements on how the items should be provided to the profit/loss and other general income and financial condition statements. The full set of financial statements includes the following: a) financial condition statement; b) profit/loss and other general income statement; c) equity changes statement; d) cash flow statement; e) explanatory letter; f) comparative information for the previous period and g) financial condition statement as of the date of commencement of the previous period, when the economic entity applies the accounting policy retrospectively or performs retrospective corrections of its financial statements' articles. The provisions of joining the significance and statements' items foresee that the economic entity must provide each significant group of similar data separately. The economic entity must separately provide not similar or purpose data, with the exception of the cases, when they are not significant.

**Amendments to IAS 16 and IAS 38. "Explanation as Regards the Acceptable Methods of Depreciation and Amortisation"**

The purpose of the amendments is to explain the meaning of "the foreseen way of use of the future economic benefit from the assets". The amendments state that the income based depreciation method may not be used for immovable property, machinery and equipment. When identifying an asset's useful life cycle, technical or commercial obsolescence, resulting from changes in production or overall progress, as well as the changes of market demand of the goods or services, relating to use of such asset, must be taken into consideration. The reduction of the sales price of the goods, produced by using the asset, expected in the future, may evidence potential technical or commercial obsolescence, which, in turn, may evidence the reduction of the future economic benefit of the asset.

The amendments to IAS 38 state that the income based depreciation method may be used only if the intangible asset is expressed in the size of income or if it can be proved that the income and economic benefit, obtained from the use of the intangible asset, are closely related. Computer software and other intangible assets tend to become technologically obsolete due to the rapid change of technologies. Therefore, it can be expected that the useful life cycle or such assets will be short. The reduction of the sales price of the goods, produced by using the intangible asset, expected in the future, may evidence the potential technological or commercial obsolescence of the asset, which in turn, may evidence reduction of the future economic benefit, provided by the asset. The used depreciation method must reflect the way, in which the economic entity plans to use the future economic benefit, provided by the asset. Additionally, the IASB expanded the guidelines for application of the residual reduction method for immovable property, machinery, equipment and intangible assets. The amendments did not affect the Company's results and financial condition.





**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

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**Amendments to IAS 16 and IAS 41. “Agriculture: Bearer Plants”**

The amendments provide for the accounting of bearer plants. The amendments affect only the companies, which have bearer plants therefore they are not relevant for the Company.

**Amendments to IAS 27. “Ownership Method in Individual Financial Statements”**

The amendments allow for using the ownership method for investments into subsidiaries, joint ventures and associates. In case an economic entity prepares separate financial statements, the economic entity must account the investments into its subsidiaries, joint ventures and associates: a) at the cost price; b) in accordance with IFRS 9 or c) by using the ownership method, as described in IAS 28. The economic entity must apply the same accounting procedure for each type of investment. In case the investments, accounted at the cost price or by applying the ownership method, are attributed to those intended for sale or distribution, such investments are accounted in accordance with the IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

The amendments had no influence on the Company’s financial statements.

**Amendments to IAS 28. “Investments in Associates and Joint Ventures”**

The amendments were prepared in accordance with the amendments to IAS 27 in order to ensure the consistency of the international accounting standards. In case the share of an economic entity in an associate or a joint venture is reduced, however the investment is further classified as an investment into an associate or a joint venture, the economic entity must regroup to its profit or loss only the respective share of profit or loss recognized previously in other general income, related with the reduction of the share of ownership, if, when transferring the relating assets or liabilities, such profit or loss is required to be regrouped to profit or loss. The amendments had no influence on the Company’s financial statements.

**Amendment to IAS 34. “Interim Financial Reporting”**

Apart from important events and disclosing the deals, the economic entity must provide additional information in the explanatory letter for its interim financial statements. Such additional information must be provided either in the interim financial statements or, by cross-reference from the interim financial statements, in other statements (for instance, the management’s comments or the risk report), which shall be accessible to the users of financial statements on the same conditions and at the same time as the interim financial statements.

**Amendments to IFRS 11. “Joint Arrangements”**

Amendments to IFRS 11 “Joint Arrangements” provide explanations how to account shares in joint operations, where the business is performed. After an economic entity acquires a share in joint operations, where performance of joint activities is considered business, as stated in the IFRS 3, the economic entity, depending on the held share as per Article 20, shall apply all the principles of IFRS 3 and other principles of joint operations accounting, provided in other IFRS, which are not in conflict with IFRS 11, and shall disclose the information, related with joint operations, required in accordance with other IFRS. An economic entity, involved in joint operations, may increase its share in joint business operations, as stated in IFRS 3, by acquiring an additional share in the joint operations. In such cases the previous shares in the joint operations shall not be repeatedly estimated, if the participant in the joint operations keeps the overall control.

The amendments have no influence on the financial statements since the Company does not participate in joint operations.



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### **Amendments to IFRS 10 and IFRS 12. “Investment Entities: Applying the Consolidation Exception”**

The amendments address the issues that have arisen in the context of applying the consolidation exception for investment entities. They have no influence on the Company's financial statements.

### **IFRS improvements**

The combined IFRS improvements document:

- IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations“
- IFRS 7 “Financial Instruments. Disclosures“
- IAS 19 “Employee Benefits“

Such changes had no influence on the Company's results and financial condition.

### **The standards and their explanations, announced by the International Accounting Standards Board, but not yet adopted by the EU, as well as the standards, adopted by the EU, but not in effect yet**

The Company did not apply the following explanations of the IFRS and the IFRS Interpretations Committee, which have been approved, but are not in effect as of the date of signing of these financial statements:

**IFRS 14 “Regulatory Deferral Accounts”** (in effect as of 1 January 2016 or on the date of commencement of the fiscal year after 1 January 2016, but not earlier than it is adopted by the EU. The EU decided to wait for the final edition of the standard.)

That is an interim standard, providing the companies, which apply the IFRS for the first time, the possibility to leave the regulatory assets and liabilities in their balance sheets till the IASB finalizes the comprehensive project of accounting of such assets and liabilities. Application of this standard will have no influence on the Company.

**IFRS 9 “Financial Instruments“** (in effect as of 1 January 2018 or on the date of commencement of the fiscal year after 1 January 2018)

IFRS 9 will eventually supersede the IAS 39. The IASB issued the first three parts of the standard, establishing the new procedure of classification and estimation of financial assets, as well as the requirements to accounting of financial liabilities and risk reduction accounting. The Company has not estimated the influence of the said amendments yet.

**IFRS 15 “Revenue from Contracts with Customers”** (in effect as of 1 January 2018 or on the date of commencement of the fiscal year after 1 January 2018)

**IFRS 15 will supersede the IAS 18 “Revenues”, IAS 11 “Construction Contracts”** and some interpretations relating with revenues; it changes the basis for deciding whether the revenues are recognized outright or in a certain period; provides new and more comprehensive instructions as regards



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specific situations; expands and improves the requirements for disclosure of information on the revenues. The Company has not estimated the influence of the said amendments yet.

**IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”** (in effect as of 1 January 2017 or on the date of commencement of the fiscal year after 1 January 2017)

The amendments are aimed at identifying how to account deferred tax assets, relating to debt measures, estimated at the actual value, especially when the interest rate changes on the market reduce the actual value of debt measures below the cost price. The Company has not estimated the influence of the said amendments yet.

**IAS 7 “Disclosure initiatives”** (in effect as of 1 January 2017 or on the date of commencement of the fiscal year after 1 January 2017)

The amendments require the economic entity to disclose the information, which would allow the users to estimate the changes in liabilities, emerging from financial activities. They will have no significant influence on the Company’s financial statements, since the Company’s financial activities are insignificant.

**Amendments to IFRS 4, application of IFRS 9 “Financial Instruments” together with IFRS 4 “Insurance Contracts”** (in effect as of 1 January 2018 or on the date of commencement of the fiscal year after 1 January 2018, but not earlier than they are adopted by the EU)

The amendments are aimed at resolving the temporary consequences of accounting, arising as the result of IFRS 9 “Financial Instruments” and the foreseen new Insurance Contracts standard, which shall enter into effect not earlier than in 2020. The amendments will influence only the economic entities, which issue insurance contracts therefore they will not influence the Company’s financial statements.

**Amendments to IFRS 2 “Clarifications of Classification and Measurement of Share-Based Payment”**

(in effect as of 1 January 2018 or on the date of commencement of the fiscal year after 1 January 2018, but not earlier than they are adopted by the EU)

The amendments provide the explanation on how to estimate the conditions of transfer of property and non-property rights for estimation of the actual value of the liability, stemming from deals of payment in shares. The amendments also provide the classification of share based payment operations, in which there is tax deduction liability. The Company has not estimated the influence of the said amendments yet.

**IFRS 16 “Leases”** (in effect as of 1 January 2019 or on the date of commencement of the fiscal year after 1 January 2019, but not earlier than they are adopted by the EU)

The new standard will supersede the IAS 17 “Leases” together with three explanations (IFRS Interpretations Committee 4, NAK15, NAK27). According to IFRS 16 the leaseholders will have to account the lease in the balance when recognizing property, receiving the right to use the property, as well as lease liabilities. There will be certain exceptions as regards short-term lease and low value property lease. The Company has not estimated the influence of the said amendments yet.



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### 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 (amortisation) shall be commenced to be calculated starting from the month following the date of commencement of operation of the respective unit of non-current assets. The date of commencement of operation shall be the date, when the asset is factually ready for operation. The transfer of non-current assets into operation shall be executed by the non-current assets taking-over certificate.

The non-current tangible assets liquidation value, applied by the Company, is EUR 0.29. The intangible assets liquidation value is zero, with the exception of the cases when the Company has reasonable evidence of a different liquidation value. The Company revises the liquidation value each year.

Depreciation (amortisation) is not calculated starting from the following month, in case the non-current asset is classified as intended for sales or written-off, sold or otherwise transferred.

Depreciation (amortisation) of non-current tangible and intangible assets is calculated by applying the straight-line method during the asset's useful operation period. The amount of depreciation (amortisation), calculated during the period, is shown in the depreciation (amortisation) costs' accounts.

In case, after a non-current tangible asset is repaired or, after estimating the reduction of value, the asset's useful operation period is changed, the asset's residual value shall be depreciated through the newly established remaining useful operation period, starting from the commencement of the period, during which the asset's useful operation period was verified.

During 2016 the increase of value was performed with regard to dry dairy products packing line, refrigeration equipment and cheese brining container line, which resulted in prolongation of depreciation periods for the said equipment.

The useful operation period of the Company's non-current tangible and intangible assets is established individually for each asset, estimating the future economic benefit, planned period, heaviness and environment of use, the changes of the asset's useful features throughout the useful operation period, technological and economic progress, which may make the asset old-fashioned, as well as legal and other factors, limiting the useful operation period of non-current tangible assets.

By decision of the Company's management, starting from 1 January 2017, 10-15 years' useful operation periods shall be applied for the newly procured production lines.

The assets, not used for the Company's activities, are not depreciated.



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Depreciation is calculated by using the straight-line method during the foreseen non-current tangible assets' useful operation period and is accounted in the gross receipts statement.

The average useful operation periods for separate groups of the Company's non-current tangible assets are provided below:

- Buildings and structures 20–40 years
- Machinery and equipment 5-15 years
- Means of transportation 4–10 years
- Other assets 4–10 years

The depreciation calculation methods, liquidation values and assets' useful operation periods are/shall be reviewed on the date of submission of financial statements, ensuring that the depreciation period corresponds to the foreseen useful operation period of the non-current tangible asset. An asset shall be considered non-current, in case its operation period is longer than one year and its procurement cost is no lower than EUR 145.

Constructions in progress are accounted at the acquisition price, subtracting the estimated value reduction loss. The acquisition price covers the designing and construction works, equipment and devices, transferred for installation, as well as other direct costs. No depreciation is calculated for constructions in progress. Constructions in progress are transferred to the respective groups of non-current tangible assets after the construction works are completed and the assets are ready for operation.

In case a non-current tangible asset is written off or otherwise transferred, its acquisition price and the related depreciation shall no longer be accounted in financial statements and the relating profit or loss, calculated as a difference between the book value of receipts and transferred non-current tangible assets, shall be included when calculating the activity profit.

### **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**

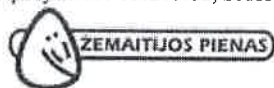
Intangible assets that have limited useful life and that include computer software and other licences and trademarks acquired by the Company are stated at cost less accumulated amortisation and impairment.

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.

Depreciation of non-current intangible assets is estimated when there are signs that the assets may have been affected by obsolescence.



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The useful life cycle, liquidation values and amortisation method are reviewed each year in order to ensure that they correspond to the foreseen character of use of noncurrent intangible assets. The Company has no intangible assets with indefinite operation period.

### **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 production in progress and finished products, are accounted in financial statements to the lower value (cost price or potential net realisation values). The potential net realisation value is estimated by subtracting the estimated costs of finishing and sales of the products from the sales price during usual operation.

Depreciation of inventories down to the potential net realisation value, lower than their cost price, is performed when the cost price will not be covered after the inventories are sold or used.

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.

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 are 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.



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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>st</sup> of December 2016 the applicable rates used for principal currencies were as follows:

year 2016		year 2015	
1 USD	= 0,956663 EUR	1 USD	= 0,915248 EUR



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### **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 2016.

### **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.





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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.

### **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



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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 circulation 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.

## **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.



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### **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 60-120 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.

### **Corrections of accounting estimates and errors**

Change of an accounting estimate is a correction of the balance value of an asset or liability or the amount of an asset's gradual consumption, performed after estimating the asset's current condition and potential future usefulness, as well as the future liabilities. Changes of accounting estimates result from new circumstances or new information therefore they are not considered corrections of errors.

An accounting estimate is revised in case of change of the circumstances, under which the estimate was performed or if there emerge new information or experience. Due to its nature, a revision of an estimate is not related with previous reporting periods and is not considered a correction of an error.

The result of change of an accounting estimate is recognized by including it into profits or losses:

- a) For the period of change, in case the change affects only one reporting period; or
- b) For the period of change and later reporting periods, in case the change also affects the later periods.

To the extent the change of an accounting estimate results in changes of assets and liabilities, or to the extent it is related with a property article, the result of change is aimed at correcting the balance value of the respective asset, liability or property article for the reporting period, during which the change was made.



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The errors of the previous reporting period – non-provision or incorrect provision of data in the financial statements for the previous period as the result of failure to appropriately use reliable information, which:

- a) Was available for the reporting periods, for which the financial statements had to be provided; and
- b) Could have been obtained and appropriately used (which could have been reasonably expected) when drawing and providing the financial statements for the period.

Among such errors are consequences of incorrect mathematical calculation, incorrect use of the accounting policies, human error or incorrect interpretation of facts when recognizing, estimating or providing the elements of financial statements.

Significant errors of the previous reporting period are retrospectively corrected in the comparative information, provided in the financial statements for the current reporting period.

Retrospective recalculation means correction of recognition, estimation and provision of the amounts of elements of financial statements in the way as the error of the previous reporting period did not exist.

**I.Regarding the reduction of the value of the Company's and Group's inventories.**

Referring to the provisions of IAS 2 “Inventories”, the Company's inventories are accounted in the Company's financial statements *at a lower value when comparing the cost price of inventories and net realizable value.*

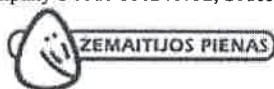
By using one of the ways, provided for in the Company's accounting policy, on 31/12/2015 the Company depreciated some of its inventories (i.e. fermented cheeses) to the net realizable value of the amount of EUR 4.251 million, i.e. the inventories of finished products were evaluated at the prices, offered by the customers.

The Supervision Service of the Bank of Lithuania made its estimation and decided that the Company's estimation was unjustified, stating that the value of the said inventories as of 31/12/2015 could have been higher or lower than that, stated in the financial statements for 2015.

Using the prices of hard fermented cheeses, forecasted for that period and announced on the respective Internet portals / websites, the Company overestimated its fermented cheeses inventories, available as of 31/12/2015. A higher value of inventories' depreciation was achieved. The changes are provided below:

**Inventories as of 31 December 2015 (EUR thousand):**

	The Group		The Company	
	2015 12 31 – after corrections	2015 12 31 – before corrections	2015 12 31- after corrections	2015 12 31- before corrections
Raw materials	3.419	3.419	2.661	2.661
Finished goods and work in process	27.107	27.107	25.451	25.451
Goods for resale	241	241	241	241
	<b>30.767</b>	<b>30.767</b>	<b>28.354</b>	<b>28.353</b>



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Less: write off to net realizable value	(5.573)	(4.676)	(5.263)	(4.366)
<b>Total:</b>	<b>25.194</b>	<b>26.091</b>	<b>23.091</b>	<b>23.987</b>

**II.Regarding the reduction of value of receivables (loans) from Klaipėdos Pienas AB and Žemaitijos Pieno Investicija AB**

Pursuant to the provisions of Article 59 of IAS 39 “Financial Instruments: Recognition and Measurement”, at the end of financial year of 2015, the Company evaluated whether there were any traits of reduction of the value of financial assets, i.e. the provided loans. The Company established that there existed the following traits of impairment of financial assets, i.e. the provided loans, stated in IAS 39: breaches of the loan agreement, including non-payment of the loan amounts under the terms and conditions of the agreement, debtors experiencing financial difficulties, solvency problems, etc.

Referring to the facts above and taking into consideration companies’ potential financial difficulties during the coming reporting periods and the general principle of careful bookkeeping, requiring that assets may not be unreasonably increased in financial statements, the Company made the decision to, in its financial statements for 2015, recognize the impairment of values of loans, received by Klaipėdos Pienas AB and Žemaitijos Pieno Investicija AB, i.e. recognized the loans as doubtful receivables.

The Supervision Service of the Bank of Lithuania established that the impairment of receivables was not correctly justified; therefore, the depreciation of loans was impossible.

With reference to the above-mentioned remarks, the Company performed the following recalculations:

**Loans granted as of 31 December 2015 (EUR thousand):**

	The Group		The Company	
	2015 12 31 – after corrections	2015 12 31 –before corrections	2015 12 31- after corrections	2015 12 31 – before corrections
Loans granted	5.140	1.528	5.140	1.528
Less: current portion of loans granted	(1.292)	(651)	(1.292)	(651)
<b>Non-current loans granted</b>	<b>3.848</b>	<b>877</b>	<b>3.848</b>	<b>877</b>

Due to the reasons above stated the following retrospective corrections were performed in the comparative information for financial statements 2016.

**The retrospectively corrected articles of the financial condition statement:**



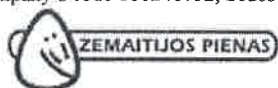
**EXPLANATORY NOTES**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

**Statements of financial position retrospective 31 December 2015:**

	Group		Company	
	2015 12 31- after corrections	2015 12 31- before corrections	2015 12 31- after corrections	2015 12 31- before corrections
<b>ASSETS</b>				
<b>Non- current assets</b>				
Long granted	3.848	877	3.848	877
Deferred income tax asset	2.639	3.047	2.289	2.696
<b>Total non- current assets</b>	<b>32.388</b>	<b>29.824</b>	<b>33.633</b>	<b>31.069</b>
<b>Current assets</b>				
Inventories	25.194	26.091	23.091	23.987
Other account s receivable	1.752	1.111	1.700	1.060
<b>Total current assets</b>	<b>50.158</b>	<b>50.414</b>	<b>42.052</b>	<b>42.308</b>
<b>TOTAL ASSETS</b>	<b>82.546</b>	<b>80.238</b>	<b>75.685</b>	<b>73.377</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Retained earnings	40.378	38.070	36.393	34.085
<b>Equity attributable to equity holders of the Company</b>	<b>59.050</b>	<b>56.742</b>	<b>55.065</b>	<b>52.757</b>
Minority interest	990	990	-	-
<b>Total Equity</b>	<b>60.040</b>	<b>57.732</b>	<b>55.065</b>	<b>52.757</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>82.546</b>	<b>80.238</b>	<b>75.685</b>	<b>73.377</b>

**Statements of comprehensive income retrospective 31 December 2015:**

	Group		Company	
	2015 m.- after corrections	2015 m.- before corrections	2015 m. – after corrections	2015 m.- before corrections
Operating expenses	(28.003)	(30.719)	(24.817)	(27.533)
<b>(LOSS) PROFIT FROM OPERATIONS</b>	<b>9.059</b>	<b>6.343</b>	<b>5.948</b>	<b>3.232</b>
<b>(LOSS) PROFIT BEFORE TAX</b>	<b>9.232</b>	<b>6.516</b>	<b>6.082</b>	<b>3.366</b>
Income tax ( benefit) expense	(939)	(531)	(537)	(129)
<b>NET(LOSS) PROFIT</b>	<b>8.293</b>	<b>5.985</b>	<b>5.545</b>	<b>3.237</b>
<b>ATRIBUTABLE TO:</b>				
Equity holders of the Company	7.958	5.650	5.545	3.237
Minority interest	335	335	-	-
	<b>8.293</b>	<b>5.985</b>	<b>5.545</b>	<b>3.237</b>
<b>Basic and diluted earnings per share ( EUR)</b>	<b>0,17</b>	<b>0,12</b>	<b>0,12</b>	<b>0,07</b>



**EXPLANATORY NOTES**  
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**Cash flow statements retrospective 31 December 2015:**

	Group		Company	
	2015 after corrections	2015 m.-before corrections	2015 m.-after corrections	2015 m.-before corrections
<b>Cash flow from operating activities</b>				
Profit( loss) for the period	8.293	5.985	5.545	3.237
<b>Adjustments:</b>				
Corporate income tax expenses	(1.187)	(1.595)	(882)	(1.290)
Impairment of accounts receivable	-	3.612	-	3.612
Impairment of inventories to net realizable value	2.517	1.620	2.415	1.518
<b>Net cash flows from ordinary activities before changes in working capital</b>	<b>15.481</b>	<b>15.481</b>	<b>10.868</b>	<b>10.868</b>

**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 2016:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
<b>Acquisition cost</b>				
<b>As of 31 December 2014</b>	<b>39</b>	<b>243</b>	<b>400</b>	<b>682</b>
- acquisition	-	16	13	29
- sold or written-off assets	-	(22)	(19)	(41)
<b>As of 31 December 2015</b>	<b>39</b>	<b>237</b>	<b>394</b>	<b>670</b>
- acquisition	43	8	47	98
- sold or written-off assets	-	(5)	(84)	(89)
<b>As of 31 December 2016</b>	<b>81</b>	<b>240</b>	<b>357</b>	<b>679</b>
<b>Accumulated depreciation</b>				
<b>As of 31 December 2014</b>	<b>34</b>	<b>163</b>	<b>293</b>	<b>490</b>
- amortization	3	42	51	96
- amortization of transferred and written-off assets	-	(22)	(19)	(41)
<b>As of 31 December 2015</b>	<b>37</b>	<b>183</b>	<b>325</b>	<b>545</b>
- amortization	13	29	61	103
- amortization of transferred and written-off assets	-	(5)	(84)	(89)
<b>As of 31 December 2016</b>	<b>49</b>	<b>208</b>	<b>302</b>	<b>559</b>
<b>Net book value:</b>				
<b>As of 31 December 2015</b>	<b>2</b>	<b>53</b>	<b>69</b>	<b>124</b>
<b>As of 31 December 2016</b>	<b>32</b>	<b>33</b>	<b>55</b>	<b>120</b>



**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in EUR thousands unless otherwise stated)

Changes in intangible assets of the Company as of 31 December 2016:

The Company	Licenses and patents	Computer software	Other intangible assets	Total
<b>Acquisition cost</b>				
As of 31 December 2014	39	229	400	667
-acquisition	-	16	13	29
-sold or written-off assets	-	(20)	(19)	(39)
-transfers between accounts	-	-	-	-
As of 31 December 2015	39	224	394	657
-acquisition	43	7	47	97
-sold or written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	82	226	357	665
<b>Accumulated depreciation</b>				
As of 31 December 2014	34	149	293	476
-amortization	3	42	51	95
-amortization of transferred and written-off assets	-	(20)	(19)	(38)
As of 31 December 2015	37	171	325	533
-amortization	13	29	61	103
-amortization of transferred and written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	50	195	302	547
<b>Net book value:</b>				
As of 31 December 2015	2	53	69	124
As of 31 December 2016	32	31	55	119

In 2016 amortization of non-current intangible assets of the Group and the Company amounts to EUR 103 thousand and EUR 103 thousand respectively (In 2015 – EUR 96 thousand and EUR 95 thousand).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2016 amount to EUR 98 thousand and EUR 97 thousand respectively (In 2015 - EUR 29 thousand and EUR 29 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 2016:

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>						
As of 31 December 2014	13.570	47.335	11.123	4.162	3.341	79.530
-acquisition	126	1.955	204	374	8.282	10.941
-sold or written-off assets	-	(277)	(91)	(117)	(275)	(760)



**ŽEMAITIJOS PIENAS AB**

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


**EXPLANATORY NOTES  
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-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
-adding value	-	490	-	12	-	502
-reclassification	4	838	-	0	(842)	-
<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>
-acquisition	2.497	5.243	769	310	(2.804)	6.015
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(20)	(101)	(173)	(177)	-	(471)
-adding value	-	973	-	19	-	992
-reclassification	1.609	5.308	-	0	(6.917)	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2016</b>	<b>17.786</b>	<b>61.762</b>	<b>11.832</b>	<b>4.585</b>	<b>785</b>	<b>96.750</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2014</b>	<b>6.959</b>	<b>40.866</b>	<b>9.801</b>	<b>3.564</b>	<b>-</b>	<b>61.190</b>
-depreciation	666	2.550	661	321	-	4.198
-depreciation of written-off and sold assets	-	(274)	(60)	(113)	-	(447)
-recalculation of the accounting policy change	4	(376)	-	-	-	(372)
-transfers to investing assets	-	-	-	-	-	-
<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>
-depreciation	710	3.389	420	335	-	4.855
-depreciation of written-off and sold assets	(19)	(90)	(163)	(168)	-	(440)
-recalculation of the accounting policy change	4	-	-	-	-	4
-reclassification	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2016</b>	<b>8.324</b>	<b>46.064</b>	<b>10.659</b>	<b>3.940</b>	<b>-</b>	<b>68.988</b>
<b>Accumulated impairment losses</b>						
<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>45</b>
-impairment losses	(1)	(1)	-	(2)	-	(4)
-reversal of impairment	(4)	-	-	-	-	(4)
<b>As of 31 December 2016</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>37</b>
<b>Net book value:</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>
<b>As of 31 December 2016</b>	<b>9.427</b>	<b>15.698</b>	<b>1.173</b>	<b>645</b>	<b>783</b>	<b>27.726</b>

**Changes in property, plant and equipment of the Company as of 31 December 2016:**

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 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



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FOR THE YEAR ENDED 31 DECEMBER 2016**  
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-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	-	(245)	(91)	(111)	(275)	(722)
-adding value	-	490	-	12	-	502
-reclassification	-	576	-	-	(576)	-
-transfers to accounts 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>
-acquisition	2.497	5.221	689	272	(3.202)	5.477
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(20)	(92)	(146)	(152)	-	(410)
-adding value	-	974	-	19	-	993
-reclassification	1.590	4.950	-	-	(6.540)	-
-transfers to accounts investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
<b>As of 31 December 2016</b>	<b>12.834</b>	<b>55.623</b>	<b>8.728</b>	<b>4.149</b>	<b>762</b>	<b>82.095</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2014</b>	<b>3.895</b>	<b>35.834</b>	<b>7.013</b>	<b>3.227</b>	<b>-</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	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
<b>As of 31 December 2015</b>	<b>4.399</b>	<b>37.810</b>	<b>7.372</b>	<b>3.418</b>	<b>-</b>	<b>52.999</b>
-depreciation	576	3.036	402	307	-	4.321
-depreciation of written-off and sold assets	(19)	(81)	(135)	(143)	-	(378)
-recalculation of the accounting policy change	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
<b>As of 31 December 2016</b>	<b>4.956</b>	<b>40.765</b>	<b>7.639</b>	<b>3.582</b>	<b>-</b>	<b>56.943</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2014</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>-</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>-</b>	<b>2</b>	<b>-</b>	<b>4</b>
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(1)	(1)	-	(2)	-	(4)
<b>As of 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</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>
<b>As of 31 December 2016</b>	<b>7.878</b>	<b>14.858</b>	<b>1.089</b>	<b>567</b>	<b>762</b>	<b>25.154</b>

For the year ending at 31 December 2016 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to EUR 4.855 thousand and EUR 4.321 thousand respectively (31 December 2015 – EUR 4.198 thousand and EUR 3.439 thousand).

As of 31 December 2016, the non-current assets were not reassessed, since in the opinion of the Company's management, the balance value and the net value of the Company's and Group's non-current assets are not significantly different, because there have been no significant changes of the immovable property, equipment and machinery market prices.

The Company's management revised the depreciation rates, which were applied to non-current assets and established the non-current assets' articles, to which the rates were prolonged. During 2016, value increase was performed in regard to the dry dairy products packing line, refrigeration equipment and cheese salting container line, which resulted in extension of the depreciation periods.



**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in EUR thousands unless otherwise stated)

By decision of the Board of the Company, from 1 January 2017, the 10-15 years' useful life cycle shall be applied to newly procured production lines. Such estimation shall be applied viewing to the future perspective, the exact useful life cycle shall be clarified in 2017.

On 31 December 2015, Company's and subsidiary ABF "Šilutės Rambynas" fixed tangible assets, whose residual value in total equalled EUR 1.185 thousand were pledged to the banks for the Company's received loans. On 31 December 2016 subsidiary ABF "Šilutės Rambynas" fixed tangible assets weren't pledged to the bank.

Investments in the the acquiring of non-current tangible and intangible assets made by the Group and the Company in 2016 amounted to EUR 9.098 thousand and EUR 8.559 thousand (in 2015 - EUR 11.201 thousand and EUR 10.803 thousand). All the acquisitions above relate to the geographic segment of Lithuania.

## 6. INVESTMENT PROPERTY

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

Changes in the investment assets as of 31 December 2016:

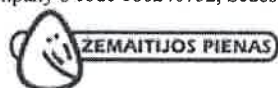
	<u>The Group</u>	<u>The Company</u>
<b>Acquisition cost</b>		
<b>As of 31 December 2014</b>	<b>214</b>	<b>2.972</b>
- acquisition	-	-
- transfers from long-term assets	-	-
<b>As of 31 December 2015</b>	<b>214</b>	<b>2.972</b>
- acquisition	-	-
- written -off assets	-	-
- transfers from long-term assets	-	-
<b>As of 31 December 2016</b>	<b>214</b>	<b>2.972</b>
<b>Accumulated depreciation</b>		
<b>As of 31 December 2014</b>	<b>40</b>	<b>1.743</b>
- depreciation	27	69
- transfers from long-term assets	-	-
<b>As of 31 December 2015</b>	<b>67</b>	<b>1.812</b>
- depreciation	26	69
- written -off assets	-	-
- transfers from long-term assets	-	-
<b>As of 31 December 2016</b>	<b>93</b>	<b>1.881</b>
<b>Net book value, Eur thousand:</b>		
<b>As of 31 December 2015</b>	<b>147</b>	<b>1.160</b>
<b>As of 31 December 2016</b>	<b>121</b>	<b>1.091</b>

The fair value of investment assets approximates its book value.

The Company's depreciation of the investment assets for the year 2016 amounted to EUR 69 thousand (2015 – EUR 69 thousand).

The Company's investment assets in 2016 and 2015 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.



**EXPLANATORY NOTES**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(All amounts in EUR thousands unless otherwise stated)

## 7. LOANS GRANTED

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

Loans granted as of 31 December 2016:

	The Group			The Company		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
<b>Loans granted:</b>	<b>3.464</b>	<b>5.140</b>	<b>1.528</b>	<b>3.464</b>	<b>5.140</b>	<b>1.528</b>
Loans granted to related parties	1.866	3.653	41	1.866	3.653	41
Loans granted to milk producers	1.445	1.355	1.355	1.445	1.355	1.355
Loans granted to the staffs	153	132	132	153	132	132
<i>Less: current portion of loans granted</i>	<i>(1.100)</i>	<i>(1.292)</i>	<i>(651)</i>	<i>(1.100)</i>	<i>(1.292)</i>	<i>(651)</i>
<b>Non- current loans granted</b>	<b>2.364</b>	<b>3.848</b>	<b>877</b>	<b>2.364</b>	<b>3.848</b>	<b>877</b>

All granted loans are in EUR. Granted loan's payback periods are between 1 – 12 years.

## 8. INVENTORIES

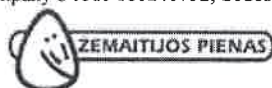
Note No 8 – Inventories (In the statement of financial position) (EUR thousand)

Inventories as of 31 December 2016:

	The Group			The Company		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – – before corrections
Raw materials	3.756	3.419	3.419	3.035	2.661	2.661
Finished goods and work in process	23.923	27.107	27.107	22.494	25.451	25.451
Goods for resale	259	241	241	259	241	241
	<b>27.938</b>	<b>30.767</b>	<b>30.767</b>	<b>25.788</b>	<b>28.354</b>	<b>28.353</b>
Less: write off to net realizable value	(2.705)	(5.573)	(4.676)	(2.501)	(5.263)	(4.366)
<b>Total:</b>	<b>25.233</b>	<b>25.194</b>	<b>26.091</b>	<b>23.287</b>	<b>23.091</b>	<b>23.987</b>

On 31 December 2016, the Company's management assessed if accounting value of stocks of the products is not exceeding the net realisable value at the end of the financial year. The Company compiled an inventory of stocks that are not used for more than 365 and calculated illiquid depreciation amounting to EUR 222 thousand. The Company's management also assessed stocks of the products according to the net realisable value with regard to the selling prices of products on the markets, product demand and estimated future sales, likely depreciation of products due to ageing. On 31 December 2016, the Company calculated depreciation, amounting to EUR 2.279, of the products according to the net realizable value.

On 31 December 2016, Šilutės Rambynas ABF calculated depreciation of the products according to the net realisable value. The total amount of depreciation is EUR 204 thousand.



EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in EUR thousands unless otherwise stated)

## 9. TRADE ACCOUNTS RECEIVABLE

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

Trade accounts receivable as of 31 December 2016 (EUR thousand):

	The Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Trade accounts receivable	12.972	11.107	12.450	10.577
Accounts receivable from related parties	4.790	2.094	4.783	2.085
	<b>17.762</b>	<b>13.201</b>	<b>17.233</b>	<b>12.662</b>
Impairment allowance for bad debts	(576)	(386)	(55)	(386)
Impairment allowance for bad debts of related parties	(1.588)	(187)	(1.588)	(187)
<b>Net trade receivables:</b>	<b>15.598</b>	<b>12.628</b>	<b>15.590</b>	<b>12.089</b>

Changes in impairment loss for bad debts for 2016 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 2016	31 12 2015	31 12 2016	31 12 2015
<b>Balance at beginning of year</b>	573	671	573	671
Impairment allowance for bad debts	1.591	(98)	1.070	(98)
<b>Balance at end of year</b>	<b>2.164</b>	<b>573</b>	<b>1.643</b>	<b>573</b>

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

Analysis of trade receivables based on the terms of payment on the 31<sup>st</sup> December, 2016

Trade accounts receivables which period has passed

<u>The Group</u>	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days	Total
<u>EUR thousand</u>					
Trade account receivables	11.695	701	16	560	12.972
Reduction of value	-	-	(16)	(560)	(576)
Trade related receivables	2.094	1.107	1.373	216	4.790
Reduction of value			(1.373)	(216)	(1.588)

Trade accounts receivables which period has passed

<u>The Company</u>	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days	Total
<u>EUR thousand</u>					
Trade account receivables	11.694	701	16	39	12.450
Reduction of value	-	-	(16)	(39)	(55)



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Trade related receivables	2.095	1.099	1.373	216	<b>4.783</b>
Reduction of value			(1.373)	(216)	<b>(1.588)</b>

## 10. OTHER ACCOUNTS RECEIVABLE

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

	The Group			The Company		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
Tax receivable	458	-	-	407	-	-
Current portion of long-term loans granted	1.100	1.292	651	1.100	1.292	651
VAT receivable	528	426	426	528	376	376
Other receivables	242	34	34	238	32	33
<b>Total:</b>	<b>2.328</b>	<b>1.752</b>	<b>1.111</b>	<b>2.273</b>	<b>1.700</b>	<b>1.060</b>

Other accounts receivables as of 31 December 2016 (EUR thousand):

## 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 2016 (EUR thousand):

	The Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Cash at bank	16.948	10.181	10.870	4.785
Cash on hand	52	42	51	42
<b>Total:</b>	<b>17.000</b>	<b>10.223</b>	<b>10.921</b>	<b>4.827</b>

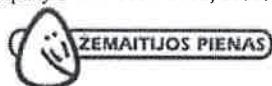
## 12. CAPITAL AND RESERVES

### 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 2015, 2016 Company acquired its own shares in 2.070.621 units or 4.28% of shares in total. On 31 December 2015, 2016 the Company had its own shares were purchased for



**EXPLANATORY NOTES**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
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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 2014 (balance)	7.800	5.694
- received	27	27
As of 31 December 2015 (balance)	7.827	5.721
- received	-	-
As of 31 December 2016 (balance)	7.827	5.721
<b>Accumulated amortisation</b>		
As of 31 December 2014 (balance)	5.667	3.909
- amortization	566	416
As of 31 December 2015 (balance)	6.232	4.324
- amortization	469	405
As of 31 December 2016 (balance)	6.701	4.729
<b>Net book value</b>		
As of 31 December 2015	1.595	1.397
As of 31 December 2016	1.126	992

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in EUR thousands unless otherwise stated)

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.

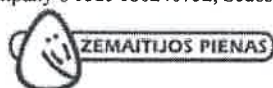
In the year of 2013 AB „Žemaitijos pienas“ signed a financing agreement with Lithuanian business support agency regarding the EU aid for the construction of 10 MW wood fuel steam boiler in Telsiai. The purpose of the steam boiler for the company is a possibly more effective and modern heating, using 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 thousands 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 2016, the residual value of all of the Company's received grants constituted EUR 992 thousand (on 31 December 2015 it constituted EUR 1.397 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).

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.





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On 31 December 2016, the total residue of ABF "Šilutės Rambynas" grants was EUR 134 thousand (on 31 December 2015 it was EUR 198 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 2015, 2016:

## 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 2016		31 12 2015	
	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
In the second to fifth years inclusive	-	-	-	-
<b>Minimum lease payments</b>	-	-	32	32
Less: future interest	(0)		(0)	
<b>Present value of minimum lease payments</b>	-		32	
	31 12 2016		31 12 2015	
<b>The Company</b>				
Within one year	-	-	32	32
In the second to fifth years inclusive	-	-	-	-
<b>Present value of minimum lease payments</b>	-	-	32	32
Less: future interest	(0)		(0)	
<b>Present value of minimum lease payments</b>	-		32	



**EXPLANATORY NOTES**

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As of 31 December 2016 and 2015, 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 2016	31 12 2015	31 12 2016	31 12 2015
Within one year	1.264	994	1.264	994
In the second to fifth years	1.895	1.006	1.895	1.006
After five years	-	-	-	-
<b>Total:</b>	<b>3.159</b>	<b>2.000</b>	<b>3.159</b>	<b>2.000</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)

	Group		Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Payables to suppliers	15,357	12,007	14,927	11,443
Payables to related parties	384	268	3,607	2,054
Prepayments	294	291	188	262
<b>Total:</b>	<b>16.035</b>	<b>12.566</b>	<b>18.722</b>	<b>13.759</b>

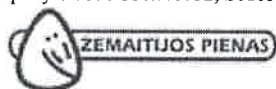
Trade payables are non-interest bearing and are normally settled on 30-day terms.

**18. OTHER LIABILITIES**

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

Other liabilities as of 31 December 2016 (EUR thousand):

	The Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Accrued expenses	1.203	3.122	1.203	1.203
Holiday reserve	1.687	2.222	1.441	1.944
Wages and salaries payable	897	813	782	708
Social security payable	834	850	763	773
Taxes payable, other than income tax	282	197	223	159
Provisions	-	-	-	-



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Other current liabilities	1.241	485	1.240	484
<b>Total:</b>	<b>6.144</b>	<b>7.689</b>	<b>5.652</b>	<b>5.271</b>

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)

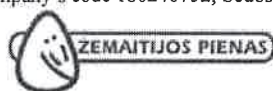
For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading (prime segment):

The Group	Sales, EUR thousand		Variation in % As comparing 2016 with 2015
	Jan-Dec 2016	Jan-Dec 2015	
	Fermented cheese	63.848	
Fresh dairy products	52.820	60.904	-13,27%
Butter and spreadable fat mixes	11.147	8.514	30,93%
Dry dairy products	11.816	9.146	29,19%
Ice cream	21	48	-56,25%
Other	10.245	12.471	-17,85%
<b>Total:</b>	<b>149.897</b>	<b>149.114</b>	<b>0,53%</b>

The Company	Sales, EUR thousand		Variation in % As comparing 2016 with 2015
	Jan-Dec 2016	Jan-Dec 2015	
	Fermented cheese	59.408	
Fresh dairy products	51.544	52.818	-2,41%
Butter and spreadable fat mixes	11.147	8.514	30,93%
Dry dairy products	11.816	9.146	29,19%
Ice cream	21	48	-56,25%
Other	13.680	18.948	-27,80%
<b>Total:</b>	<b>147.616</b>	<b>144.273</b>	<b>2,32%</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:



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	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<b>Sales, EUR thousand:</b>				
Lithuania	80.263	75.668	81.608	82.317
Other Baltic States and CIS members	27.401	20.332	25.423	17.812
Other Europe countries	31.328	42.355	29.988	33.869
Other	10.905	10.759	10.597	10.275
<b>Total, EUR thousand:</b>	<b>149.897</b>	<b>149.114</b>	<b>147.616</b>	<b>144.273</b>

During the year of 2016 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:

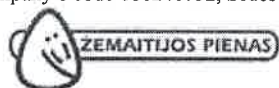
	The Group			The Company		
	Jan-Dec 2016	Jan-Dec – after correctio ns	Jan-Dec 2015 – before correctio ns	Jan-Dec 2016	Jan-Dec – after correctio ns	Jan-Dec 2015 – before correctio ns
Wages, salaries and social security*	11,361	10,755	10,755	11,136	10,505	10,505
Services	6,062	5,492	5,492	5,745	4,779	4,779
Marketing	3,067	4,154	4,154	2,924	3,822	3,822
Fuel and spare parts	1,349	1,319	1,319	1,337	1,303	1,303
Depreciation and amortisation	858	604	604	836	969	969
Change in write off of inventories to net realizable value	(2,868)	2,517	1,620	(2,762)	2,415	1,518
Materials	449	371	371	438	359	359
Taxes, other than income tax	229	201	201	198	201	201
Other expenses	(564)	2,590	6,203	676	464	4,077
<b>Total sales and distribution expenses:</b>	<b>19,943</b>	<b>28,003</b>	<b>30,719</b>	<b>20,528</b>	<b>24,817</b>	<b>27,533</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 2016 (EUR thousand):



EXPLANATORY NOTES

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(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<i>Other operating income</i>				
Gain on sales of property, plant and equipment and goods for resale sales income	431	262	400	291
Rental income	60	89	426	405
Income of the canteen	101	242	101	242
Other	210	160	200	162
	<b>802</b>	<b>753</b>	<b>1.127</b>	<b>1.100</b>
<i>Other operating expenses</i>				
Cost of goods for resale sold	(354)	(182)	(323)	(216)
Rental income	(91)	(76)	(77)	(62)
Other	(129)	(189)	(128)	(188)
	<b>(574)</b>	<b>(447)</b>	<b>(528)</b>	<b>(466)</b>
<b>Net income and expenses of other activities:</b>	<b>228</b>	<b>306</b>	<b>599</b>	<b>634</b>

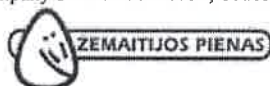
## 22. FINANCIAL INCOME AND EXPENSES

Note No 22 – Financial income and expenses (In the statement of comprehensive income)  
Income and expenses from financial activities as of 31 December 2016 (EUR thousand):

	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<i>Income from financial activity</i>				
Interest income	108	136	108	136
Foreign currency exchange (profit)	324	277	324	277
Other financial incomes	91	65	89	12
	<b>524</b>	<b>478</b>	<b>521</b>	<b>425</b>
<i>Expenses from financial activity</i>				
Foreign currency exchange (loss)	(176)	(290)	(176)	(290)
Interest	(0)	(1)	(0)	(1)
Other financial expenses	(13)	(13)	-	-
	<b>(189)</b>	<b>(304)</b>	<b>(176)</b>	<b>(291)</b>
<b>Net of financial income and expenses:</b>	<b>335</b>	<b>174</b>	<b>345</b>	<b>134</b>

## 23. CORPORATE INCOME TAX EXPENSES (BENEFIT)

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



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2016**  
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	The Group			The Company		
	Jan-Dec 2016	Jan-Dec – after corrections	Jan-Dec 2015- before corrections	Jan-Dec 2016	Jan-Dec – after corrections	Jan-Dec 2015 – before corrections
Profit before tax	17.546	9.232	6.516	13.141	6.082	3.366
Income tax, applying valid tax rate	1.237	2.126	2.126	855	1.419	1.419
Change in deferred income tax asset	489	(1.187)	(1.595)	220	(882)	(1.290)
Change in deferred income tax liability	-	-	-	-	-	-
<b>Income tax expenses (benefit) charged to the statement of comprehensive income, EUR thousand</b>	<b>1.726</b>	<b>939</b>	<b>531</b>	<b>1.076</b>	<b>537</b>	<b>129</b>

	The Group			The Company		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
<b>Deferred income tax asset</b>						
Accounts receivable	247	88	630	247	88	630
Inventories	406	836	702	375	790	655
Accrued vacation reserve	223	303	303	216	292	292
Other accrued expenses	1.274	1.412	1.412	1.230	1.119	1.119
<b>Total deferred income tax asset, EUR thousand</b>	<b>2.150</b>	<b>2.639</b>	<b>3.047</b>	<b>2.068</b>	<b>2.289</b>	<b>2.696</b>
<b>Deferred income tax liability</b>						
Difference in property, plant and equipment depreciation rates	-	-	-	-	-	-
<b>Total deferred income tax liability, EUR thousand</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred income tax asset, net EUR thousand</b>	<b>2.150</b>	<b>2.639</b>	<b>3.047</b>	<b>2.068</b>	<b>2.289</b>	<b>2.696</b>

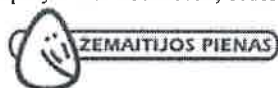
## 24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES

In 2015-16 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 circulation shares in issue during the year.



EXPLANATORY NOTES

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	The Group			The Company		
	Jan-Dec 2016	Jan-Dec 2015 – after corrections	Jan-Dec 2015 – before corrections	Jan-Dec 2016	Jan-Dec 2015 – after corrections	Jan-Dec 2015 – before corrections
Net profit (loss) attributable to the equity shareholders in EUR thousand	15.363	7.958	5.650	12.065	5.545	3.237
Weighted average number of circulation shares (units)	46.304.379	46.304.379	46.304.379	46.304.379	46.304.379	46.304.379
<b>Basic earnings (loss) per share in EUR</b>	<b>0,33</b>	<b>0,17</b>	<b>0,12</b>	<b>0,26</b>	<b>0,12</b>	<b>0,07</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. COMMITMENTS AND CONTINGENCIES

As of 31 December 2016 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

At of 31 December 2016 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.

## 27. FINANCIAL RISK MANAGEMENT

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

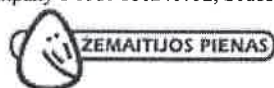
- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

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.



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

	The Group			The Company		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
Cash and cash equivalents	17.000	10.223	10.223	10.921	4.827	4.827
Loans granted	2.364	3.848	877	2.364	3.848	877
Trade accounts receivable	15.598	12.628	12.628	15.590	12.089	12.089
Other accounts receivable	2.328	1.752	1.111	2.273	1.700	1.060
Finance leases	20	27	27	20	27	27
<b>Total financial assets</b>	<b>37.310</b>	<b>28.478</b>	<b>24.866</b>	<b>31.169</b>	<b>22.491</b>	<b>18.880</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 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 loans granted, 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.

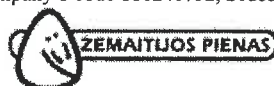
The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities, bank overdrafts and credit lines to meet its commitments at a given date in accordance with its strategic plans.

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

The Group	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	-	-	-	-	-
	-	11	21	-	-	32







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	The Group		The Company	
	31 12 2016		31 12 2016	
	Assets	Liabilities	Assets	Liabilities
EUR	34.343	22.159	28.156	24.355
USD	3.156	1	3.156	1
PLN	7	11	7	11
Other	2	8	2	8
<b>Total:</b>	<b>37.508</b>	<b>22.179</b>	<b>31.321</b>	<b>24.375</b>

	The Group			The Company		
	31 12 2015			31 12 2015		
	Assets - after	Assets- before	Liabilities	Assets - after	Assets - before	Liabilities
EUR	27.420	23.808	20.892	21.419	17.807	19.204
USD	855	855	2	855	855	2
LVL	-	-	-	-	-	-
Other	563	563	17	563	563	17
<b>Total:</b>	<b>28.838</b>	<b>25.226</b>	<b>20.911</b>	<b>22.837</b>	<b>19.225</b>	<b>19.223</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.

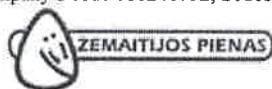
**Fair value of financial instruments**

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 2016 does not significantly differ from their carrying amount.

Financial assets and liabilities as of the 31th of December 2016:

The Group	Carrying amount			Fair value		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
<b>Financial assets</b>						
Cash	17.000	10.223	10.223	17.000	10.223	10.223
Finance leases	20	27	27	20	27	27
Investments available for sale	-	-	-	-	-	-
Loans granted	2.364	3.848	877	2.364	3.848	877
<b>Total:</b>	<b>19.384</b>	<b>14.098</b>	<b>11.127</b>	<b>19.384</b>	<b>14.098</b>	<b>11.127</b>
<b>Financial liabilities</b>						
Interest bearing	-	-	-	-	-	-



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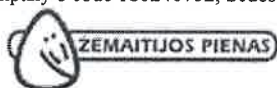
loans and borrowings:						
Obligations under finance lease and hired purchase contracts	-	(32)	(32)	-	(32)	(32)
Floating interest rate borrowings	-	-	-	-	-	-
Fixed interest rate borrowings	-	-	-	-	-	-
<b>Total:</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>
<b>Net total:</b>	<b>19.384</b>	<b>14.066</b>	<b>11.095</b>	<b>19.384</b>	<b>14.066</b>	<b>11.095</b>

	Carrying amount			Fair value		
	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before correction s
<b>The Company</b>						
<b>Financial assets</b>						
Cash	10.921	4.827	4.827	10.921	4.827	4.827
Finance leases	20	27	27	20	27	27
Investments available for sale	-	-	-	-	-	-
Loans granted	2.364	3.848	877	2.364	3.848	877
<b>Total:</b>	<b>13.305</b>	<b>8.702</b>	<b>5.731</b>	<b>13.305</b>	<b>8.702</b>	<b>5.731</b>
<b>Financial liabilities</b>						
Interest bearing loans and borrowings:						
Obligations under finance lease and hired purchase contracts	-	(32)	(32)	-	(32)	(32)
Floating interest rate borrowings	-	-	-	-	-	-
Fixed interest rate borrowings	-	-	-	-	-	-
<b>Total:</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>
<b>Net total:</b>	<b>13.305</b>	<b>8.670</b>	<b>5.699</b>	<b>13.305</b>	<b>8.670</b>	<b>5.699</b>

### 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 2016.



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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 2016	31 12 2015 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 – after corrections	31 12 2015 – before corrections
Non-current liabilities (including deferred taxes and grants)	1.126	1.597	1.597	992	1.399	1.399
Current liabilities	22.179	20.909	20.909	24.375	19.221	19.221
<b>Total liabilities</b>	<b>23.305</b>	<b>22.506</b>	<b>22.506</b>	<b>25.367</b>	<b>20.620</b>	<b>20.620</b>
Equity attributable to equity holders of the parent	68.107	59.050	56.742	60.824	55.065	52.757
Debt* to equity ratio	34%	38%	40%	42%	37%	39%

\* 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 2016.

## 28. 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
Šilutės Rambynas ABF	Subsidiary, common major shareholder
Žemaitijos Pieno Investicija AB	Common major shareholder
Baltijos Mineralinių Vandenių Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder
Čia Market UAB	Common major shareholder
Muižas 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



**EXPLANATORY NOTES  
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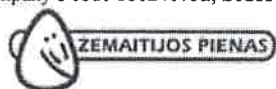
Dziugas UK Ltd  
Dziugas USA LLC

Common major shareholder  
Common major shareholder

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

	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<b>1) Sales</b>				
<b>Sales of goods</b>				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	17.922	19.891
	-	-	<b>17.922</b>	<b>19.891</b>
<i>To Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	-	8	-	8
Klaipėdos pienas AB	358	272	104	80
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	6.328	6.168	6.326	6.168
Dziugas USA LLC	1.245	-	1.245	-
Muizas piens SIA	1.484	437	1.484	436
	<b>9.416</b>	<b>6.885</b>	<b>9.160</b>	<b>6.692</b>
<b>Sales of inventory and services</b>				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	609	400
	-	-	<b>609</b>	<b>400</b>
<i>To Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	212	165	212	165
Klaipėdos pienas AB	156	124	156	122
Žemaitijos pieno investicija AB	41	47	41	47
Samogitija UAB	0	1	0	1
Čia Market UAB	261	105	257	101
Muizas piens SIA	(3)	5	(3)	5
Dziugas USA LLC	62	-	62	-
Dziugas PL Sp. Z.o.o.	-	1	-	1
	<b>730</b>	<b>448</b>	<b>725</b>	<b>442</b>
<b>Total Sales:</b>	<b>10.145</b>	<b>7.333</b>	<b>28.416</b>	<b>27.425</b>

	The Group		The Company	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
<b>2) Purchases</b>				
<i>From the Group</i>				
Šilutės Rambynas ABF	-	-	23.252	21.701
	-	-	<b>23.252</b>	<b>21.701</b>
<i>From Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	1.940	1.539	1.938	1.533
Samogitija UAB	70	-	70	-
Klaipėdos pienas AB	1.599	160	1.599	159
Žemaitijos pieno investicija AB	974	763	972	763
Čia Market UAB	1.122	2.152	1.110	2.147
Muizas piens SIA	110	1.023	110	1.022
Dziugas PL Sp. Z.o.o.	70	94	70	94



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(All amounts in EUR thousands unless otherwise stated)

	<u>5.884</u>	<u>5.731</u>	<u>5.870</u>	<u>5.718</u>
<b>Total Purchases:</b>	<u>5.884</u>	<u>5.731</u>	<u>29.122</u>	<u>27.419</u>

**Balances outstanding with related parties**

	<u>The Group</u>		<u>The Company</u>	
	<u>31 12 2016</u>	<u>31 12 2015</u>	<u>31 12 2016</u>	<u>31 12 2015</u>
<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	0	20	0	20
Žemaitijos pieno investicija UAB	466	728	466	728
Klaipėdos pienas AB	1.407	2.937	1.400	2.929
Čia Market AB	2.490	1.670	2.490	1.669
Muizas piens SIA	237	217	237	217
Dziugas France S.A.R.	-	-	-	-
Dziugas USA LLC	467	20	467	20
	<u>5.067</u>	<u>5.592</u>	<u>5.060</u>	<u>5.583</u>
<b>Total balances of payables:</b>	<u>5.067</u>	<u>5.592</u>	<u>5.060</u>	<u>5.583</u>

	<u>The Group</u>		<u>The Company</u>	
	<u>31 12 2016</u>	<u>31 12 2015</u>	<u>31 12 2016</u>	<u>31 12 2015</u>
<b>4) Balances of payables</b>				
<i>To Group</i>				
Šilutės Rambynas ABF	-	-	3.229	1.786
<i>To Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	279	254	279	254
Žemaitijos pieno investicija UAB	79	-	79	-
Klaipėdos pienas AB	15	-	15	-
Čia Market AB	5	-	-	-
Muizas piens SIA	-	10	-	10
Dziugas PL.Sp.z.o.o.	5	4	5	4
Dziugas UK Ltd	-	-	-	-
	<u>383</u>	<u>268</u>	<u>3.78</u>	<u>268</u>
<b>Total balances of payables:</b>	<u>383</u>	<u>268</u>	<u>3.607</u>	<u>2.054</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 2016, the Company have calculated EUR 1.588 thousands of decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (in 2015 – EUR 3.799 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

**ŽEMAITIJOS PIENAS AB**

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



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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 21 March 2017



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Robertas Pažemeckas  
General Director



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Dalia Gecienė  
Senior accountant