ŽEMAITIJOS PIENAS®

CONFIRMATION BY RESPONSIBLE PERSONS

April 2018

Telšiai

In accordance with article 22 of the Republic of Lithuania Law on Stocks and Lithuanian Bank Information Disclosure Rules we, AB "Žemaitijos pienas" general director Robertas Pažemeckas and senior accountant Dalia Gecienė, hereby confirm that, in so far as we are aware, the attached 2017 AB „Žemaitijos pienas" consolidated audit report and company financial statements prepared in accordance with International Financial Reporting Standards adopted in the European Union are true and correctly reflect the assets, liabilities, financial status, income or losses, and cash flows of the company and the group of enterprises while the consolidated annual statement provides proper overview of business development and activities and status of the company and the group of enterprises as well as description of the main encountered risks and uncertainties.

General director Robertas Pažemeckas

LIETUVOS RESPUBLIKA Akcinė bendrovė ŽEMAITIJOS PIENAS TELŠIAI

Senior accountant Dalia Gecienė

ŽEMAITIJOS PIENAS AB

Independent Auditor's Report,
Consolidated Annual Report,
Financial Statements,
and Consolidated Financial statements
for the year ended with 31 December 2017

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Žemaitijos Pienas

Report on the Audit of the Company's and Consolidated Financial Statements

Qualified opinion

We have audited the accompanying separate financial statements of AB Žemaitijos Pienas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Žemaitijos Pienas and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter discussed in section Basis for qualified opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for qualified opinion

According to the requirements of IAS 16 "Property, plant and equipment", the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". As described in Note 5, during 2017 and 2016 the management of the Company and the Group have not completely met these requirements of IAS 16, as they have not fully reviewed and adjusted the useful lives of the following property, plant and equipment groups: buildings and structures, equipment and machinery, vehicles and other non-current fixed assets. In addition, as described in Note 28, the Supervision Service of the Bank of Lithuania has warned the Company for not complying with the mandatory instructions of the Bank of Lithuania and has also assigned a penalty in the amount of EUR 158 000. Subsequently, on 28 March 2018, the Company appealed to Vilnius Regional Administrative Court against this decision. Accordingly, we have not been able to obtain sufficient audit evidence to evaluate the possible effects of the above matter on the Company's and the Group's financial statements for the years ended 31 December 2017 and 2016.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key audit matter	How the matter was addressed in the audit
Inventory net realizable value and allowance for obsolescence	
Inventories of the Company and the Group amount to EUR 31 451 thousand and EUR 34 039 thousand, respectively, before impairment allowance and to EUR 27 457 thousand and EUR 29 501 thousand, respectively, after impairment allowance as of 31 December 2017 (Note 8). This is significant to our audit since it is a material figure for the Company and the Group comprising 30% of the Company's and 29% the Group's total assets, and requires management judgment in assessing whether the carrying value of some inventories is not higher than their net realizable value at year-end. There is also management judgment required in determining the inventory obsolescence allowance, as it is based on management's assessment of historical and forecast of particular inventory sales, physical obsolescence rates and other relevant factors.	We have, among other audit procedures, gained an understanding of how management evaluates inventory net realizable value and calculates allowance for obsolescence. We have reviewed the calculations of inventory net realizable value, which was performed by the management of the Company and the Group based on review of subsequent sales after the year-end. We have also tested the ageing of the inventories and the computation of the obsolescence level. Further, we have also analyzed various obsolescence related information and management's forecast of future sales, applied in the calculations of impairment allowance. Finally, we have evaluated the adequacy of the Company's and the Group's disclosures included in Note 8.
Assessment of the recoverability of a related party receivable	
As of 31 December 2017 the Company / Group had a receivable from related party Cia Market of EUR 2 113 thousand (2016 - EUR 4 077 thousand) before impairment, and the impairment allowance recorded for it of EUR 189 thousand (2016 - EUR 407 thousand) as of 31 December 2017 (Note 9). Even though the Company / Group has been and continues trading with this company for a number of years, there is an ongoing uncertainty over the collectability of the receivable balance from this specific customer, because the financial position of Cia Market has not been strong for several years, it has been periodically late with payments due to the Company / Group. We believe that this is a key audit mater due to the high materiality level of the amounts involved and also because the determination as to whether this receivable is recoverable and the assessment of the appropriate level of allowance for it involves significant management judgment.	Among other audit procedures, we have reviewed historical payment patterns by Cia Market, the amount of payments that have been received subsequent to year-end, the information available to the Company / Group about the historical and latest financial position and results of operations of this company, as well as management's assessment of the anticipated time over which the outstanding amount is expected to be repaid, and the related present value estimates that are the basis for the allowance assessment. We have also assessed the adequacy of the Company's / Group's disclosures included in Note 27 in relation to its key judgments and estimates related to assessing the recoverability of and related allowance for this receivable as of the year-end.

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Key audit matter	How the matter was addressed in the audit
First year audit	
This is the first year audit for EY. Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include, among others: - Gaining an initial understanding of the Company / Group and their business including their control environment and information systems sufficient to make audit risk assessments and develop the audit strategy and plan; - Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and - Communicating with the previous auditors.	After being appointed as the Company's / Group's auditors in 2017, we developed an appropriate audit strategy and audit plan for this initial audit engagement. These included, but were not limited, to: - Obtaining an initial understanding of the Company / Group and their business including background information, strategy, business risks, IT systems used and their financial reporting and internal controls framework, to assist in performing risk assessment procedures; - Obtaining sufficient appropriate audit evidence regarding opening balances and the appropriateness of selection and application of key accounting policies; - Close interaction with the previous auditors regarding key accounting and audit matters, as well as the audit procedures performed by them in key financial statements areas; - Discussions with the management and relevant other employees of the Company / Group and the Audit Committee, to understand their perspectives on the business, identified key risks and other areas of audit importance. Furthermore, since in its 2017 financial statements the Company / Group have made certain material restatements of the previous periods' financial information (Note 4), we have substantively audited each individual restatement, as well as assessed the adequacy of the disclosures made in this regard in relation to requirements of IAS 8 "Accounting policies, changes in accounting estimates and errors".

Other matter

The financial statements of the Company and the Group for the year ended 31 December 2016 were audited by another auditor who expressed a qualified opinion on the Company's financial statements and the Group's consolidated financial statements on 22 March 2017.

Other information

Other information consists of the information included in the Group's consolidated annual report, including Company's Corporate Governance Code Compliance Report and Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

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

We also have to evaluate, if the financial information included in the Group's consolidated annual report, including Corporate Governance Code Compliance Report, corresponds to the financial statements for the same financial year and if the Company's and Group's Annual Report, including Corporate Governance Code Compliance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

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- The financial information included in the Group's consolidated annual report, including Corporate Governance Code Compliance Report, corresponds to the financial information included in the financial statements for the same year; and
- The Group's Annual Report, including Corporate Governance Code Compliance Report, was prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by extraordinary shareholders meeting on 8 September 2017 we have been chosen to carry out the audit of Company's financial statements and Group's consolidated financial statements for the first time and the period of our total uninterrupted engagement is one year.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in section 'Qualified opinion' is consistent with the additional Audit report which we have submitted to the Company's and the Group's Audit Committee.

Non audit services

We confirm that to the best of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in the Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

We have provided the services that are disclosed in the Group's Annual Report.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

11 April 2018

I. GENERAL INFORMATION ABOUT THE COMPANY

Target period covered by the statement

Annual consolidated statement of the group of companies and financial statements of the Company are prepared for 2017 according to conditions, requirements, and procedures established by legal acts. Hereunder AB "Žemaitijos pienas" (hereinafter referred to as the Company or Issuer), ABF "Šilutės Rambynas" (hereinafter referred to as the Group's Company or Subsidiary.

Main data about the Company

Name	AB "Žemaitijos pienas"
Legal organization form Registered	Joint-stock company The joint-stock company is registered on 23 June 1993
Company code	180240752
VAT payer's code	LT802407515
Authorized capital	14 028 750 EUR divided into 48 375 000 regular registered shares with nominal value of 0.29 EUR each
Domicile	Sedos g. 35, LT-87101 Telšiai
Telephone	+ 370-444-22201
Fax	+ 370-444-74897
E-mail	info@zpienas.lt
Internet website	www.zpienas.lt
Share trading code	ZMP1L
ISIN code	LT0000121865

Information about AB "Žemaitijos pienas" are accumulated and kept by the State Enterprise "Center of Registers".

Brief history of the Company

The history of AB "Žemaitijos pienas" goes back all the way to 1924 when Telšiai dairy plant was founded with output capacity that was then regarded as particularly high. At the end of 1984 Telšiai dairy plant moved to new premises where it continued until opening of one of the biggest cheese factories in the Baltics in Telšiai and its privatization. AB "Žemaitijos pienas" was registered in the register of legal entities on 23 June 1993 under Telšiai Regional Administration and re-registered on 16 October 1998 with the Republic of Lithuania Ministry of Economy.

Information about the Company's Subsidiaries and branches

The Company manages and supervises the following entity:

ABF "Šilutės Rambynas", company code 277141670, domiciled at Klaipėdos g.3, Šilutė.
Date and place of registration: 9 December 1992, Šilutės Municipality. Šilutė, Klaipėdos g. 3.
Authorized capital – 2 493 028.50 EUR,
AB „Žemaitijos pienas" owns 87.82% of the authorized capital (shares) and votes as at 31 December 2017 and 2016,
Telephone +370 441 77442, fax +370 441 77443,
E-mail: info@rambynas.lt.
ABF „Šilutės Rambynas" has no branches or representative offices. ABF „Šilutės Rambynas" main activity - cheese and cheese product development, production and sales of pasteurized cream, pasteurized whey and concentrated whey production and sales.

Associated company SIA "Muižas piens", code 40003786632
The company owns 32 percent.
Business address - Skaistkalnes 1, Riga, Latvia.
Nature of business - retail and wholesale.
SIA "Muižas milk" main activity - retail trade in dairy products, other activities in the territory of the Republic of Latvia for the implementation of AB "Žemaitijos pienas", dairy products sales policy.

AB "Žemaitijos pienas" branches:

- Vilnius branch at: Algirdo g. 40/13, Vilnius
- Kaunas branch at: Europos pr. 36, Kaunas
- Klaipėda branch at: Šilutės pl. 33, Klaipėda
- Panevėžys branch at: J. Janonio g. 9, Panevėžys

The Company's branches sell goods (milk products) on the territories outlined for activities of a given branch as well as carry out other activities or Company instructions.
The Company has not established any representative offices.

Nature of the main activities of the Company and its subsidiary

The main activity of AB "Žemaitijos pienas" (parent company) is creation, production (CEAT, group 10.5 "Production of milk products", class 10.51 "Dairy plant operations and production of cheese"), and sale of milk products (fermented cheese and cheese products, packaged cheese and cheese products, processed cheese, custards, cottage cheese custards, butter-based dairy spreads, mixed spreads, milk fats, pasteurized cream, whey, powdered milk products, fresh milk products (milk, cream, curd, curd products, yogurts, desserts, curd snacks, glazed curd snacks, sour milk products) on the Lithuanian and foreign markets.

The main activity of ABF "Šilutės Rambynas" (subsidiary) is production and sale of fermented cheese and cheese products, production and sale of pasteurized cream, pasteurized whey, and concentrated whey (CEAT, group 10.5 "Production of milk products", class 10.51 "Dairy plant operations and production of cheese"). Furthermore, the company provides lease, transport, warehousing, milk buy-up facility maintenance, and other services.

II. INFORMATION ABOUT THE AUTHORIZED CAPITAL AND STOCK OF THE GROUP'S COMPANIES

Information about contracts with public stock turnover mediators

On 16 July 2004 AB "Žemaitijos pienas" entered into a contract under which AB "Šiaulių bankas" became the manager of the accounts of the stock issued by the Company on 23 July 2004.

Based on the contract entered into on 16 July 2004 AB "Šiaulių bankas" also manages the stock register (accounting) of ABF "Šilutės Rambynas".

Information about stock

AB ŽEMAITIJOS PIENAS	
ISIN code	LT0000121865
Short designation	ZMP1L
List/segment	BALTIC SECONDARY LIST
Nominal value	0.29 EUR
Name of stock	Regular registered shares
Amount issued (pcs)	48 375 000
Listed issue amount (pcs)	48 375 000
Listing started on	13 October 1997
Shares are listed on the supplementary trading list	13 October 1997
Total votes granted by the shares	48 375 000
Number of shares owned by the Company	2 070 621

NASDAQ OMX Vilnius stock exchange (hereinafter, Vilnius Stock Exchange) only quotes shares issued by the company (ZMP1L) on the supplementary stock exchange list. AB "Žemaitijos pienas" stock are listed since 13 October 1997. Stock ISIN code is LT0000121865. Below is the information about transactions carried out on Vilnius Stock Exchange with AB "Žemaitijos pienas" shares over the course of 2017 and price change dynamics[1].

[1] http://www.nasdaqbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt&currency=0&date=&start=2017.01.01&end=2017.01.31

The price of the Company stock has increased slightly on the public market over the course of the trading (target) period and the shares have appreciated 62,62 % in 2017 (compared to 2016, see the graph above). Results (prices of Company stock purchase and sale transactions) of trading in Company stock show that the capitalization of the Company shares totaled 84 million EUR in 2017, i.e. total value of Company shares (assets) had increased by 32,4 million EUR compared to 2016. Only 521 664 AB "Žemaitijos pienas" shares were involved in transactions on Vilnius Stock Exchange in 2017, which is substantially less than the number of transactions in 2016 (i.e. turnover of 6 213 064). One of the reasons for this may be that there were different events in the Company's activities in 2016, including inter alia decisions on dividends, profit sharing, which may have had a positive effect upon investor expectations and transactions with the Issuer's stock. Below is the information about trading in Company stock in 2014-2017.

Index	2014	2015	2016	2017
Opening price	0.816	0.703	0.64	1.07
Maximum price	0.888	0.73	1.15	1.99
Minimum price	0.69	0.61	0.617	1.07
Final price	0.703	0.644	1.07	1.74
Turnover, pcs	1 799 959	639 686	6 213 064	521 664
Turnover, millions	1.43 EUR	0.42 EUR	6.4 EUR	0.82 EUR
Capitalization, millions	34.01 EUR	31.15 EUR	51.76 EUR	84.17 EUR

It bears noting that the Issuer's stock was not traded on the markets controlled by other exchanges or other organizations.

ABF ŠILUTĖS RAMBYNAS

ISIN code	LT LT0000109217 LT 0000118945 LT 0000125668
Nominal value	2.90 EUR
Name of stock	Regular registered shares
Amount issued (pcs)	859 665
Listed issue amount (pcs)	not listed
Total votes granted by the shares	859 665
Number of shares owned by the Company	0

ABF "Šilutės Rambynas" shares are not traded on Vilnius Stock Exchange or markets controlled by other organizations. Under no circumstances does ABF "Šilutės Rambynas" own any AB "Žemaitijos pienas" stock.

Authorized capital

As of 31 December 2017 the authorized capital of AB "Žemaitijos pienas" consisted of:

Share class, type	Number of shares (pcs)	Nominal value (EUR)	Total nominal value (EUR)	Authorized capital share (%)
Regular registered shares[2]	48 375 000	0.29	14 028 750	100

All Company shares are fully paid up and were subject to no restrictions on stock reassignment (in so far as the Issuer knows) over the course of the target period except for the 20 February 2018 court decision to restrict the right to dispose of part of the Company shares (for more detailed information please see annual statement section "Information about important events after conclusion of the financial year). The Issuer is unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and/or voting rights. According to the data available to the Company there are no shareholders who would have special control rights.

As of 31 December 2017 the authorized capital of ABF "Šilutės Rambynas" consisted of:

Share class, type	Number of shares (pcs)	Nominal value (EUR)	Total nominal value (EUR)	Authorized capital share (%)
Regular registered shares	859 665	2.90	2 493 028.50	100

All ABF "Šilutės Rambynas" shares are fully paid up and are subject to no restrictions on stock reassignment (in so far as the Issuer knows). The Issuer is also unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and/or voting rights. According to the Company's knowledge there are no shareholders who would have special control rights.

Acquisition and reassignment of own shares

In 2011 financial year AB "Žemaitijos pienas" purchased 10 AB "Žemaitijos pienas" regular registered shares with nominal value of 1 (one) LTL (0.29 EUR) for 18,00 LTL (5.21 EUR) through the official offer market of NASDAQ OMX Vilnius Stock Exchange. In December of 2012 the Company purchased 1 360 010 shares for 2 992 000 LTL (866 543.10 EUR) under contract of agency. In 2013 the Company purchased 710 611 of its own shares.

On 28 June 2016 the Company announced[3] it intends to purchase some of its shares but no such transactions took place. In 2017 the Company neither intended to nor purchased any of its shares. Currently the Company owns 2 070 621 of its shares (nominal value of 0.29 EUR each), which makes up 4.28% of all AB "Žemaitijos pienas" shares. One of the reasons to encourage purchase of own shares is opportunity to reassign these shares to Company's employees thus encouraging them to produce higher added value for the Company and its shareholders.

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[2] Regular shares are regular company shares that grant no special privileges nor impose any restrictions on rights. These are company share capital shares whose owners (shareholders) become members of the Company who have the right to vote in annual meetings, receive dividends from Company profits as well as have other rights and obligations provided for in the laws.

[3] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=717766&messageId=899591

The company has not reassigned any of its shares over the course of the target period and has not entered into any other transactions, e.g. no shares were pledged and no rights granted by the shares were any way restricted.

ABF "Šilutės Rambynas" has not purchased any of its shares and owns none thereof under any other circumstances.

III. OVERVIEW AND PROSPECTS OF ACTIVITIES OF THE GROUP'S COMPANIES

Overview of activities, state, and development

Years of work experience and unique recipes created by AB "Žemaitijos pienas" allow the Company to offer the consumers a wide range of high-quality products with great taste. Today the Group's Companies produce more than 200 milk products, both new and well familiar to the consumer. These are not only intended for the local market but also for export to the EU and other countries.

AB "Žemaitijos pienas" accumulates most of its revenues from buyers in Lithuania. This shares makes up more than half of all Company revenues (53% in 2017). Revenues generated in the Baltics (Latvia and Estonia) and CIS countries make of 18%. Income from sales in other European countries has improved by about 38,6 % over the target period and reached about 25% of all sale profits. Sales in other countries make up about 5% (7% in 2016) of all profits generated by the Company on foreign markets. Poland, Latvia, Estonia, Germany, Kazakhstan, and USA are the export countries with the highest turnover in 2017.

Geographic breakdown of AB "Žemaitijos pienas" sales, thousands of EUR

Sales according to geographic segments, EUR thousand	2017	Percentage of total incomes 2017 m.	2016	Percentage of total incomes 2016 m.
Lithuania	89,967	52,66 %	81,608	55.28 %
Other Baltic States and the CIS	30,070	17,60 %	25,423	17.22 %
Other European countries	42,607	24,94 %	30,736	20.82 %
Other	8,205	4,80 %	9,849	6.67 %
Total:	**170,849**	**100 %**	**147,616**	**100 %**

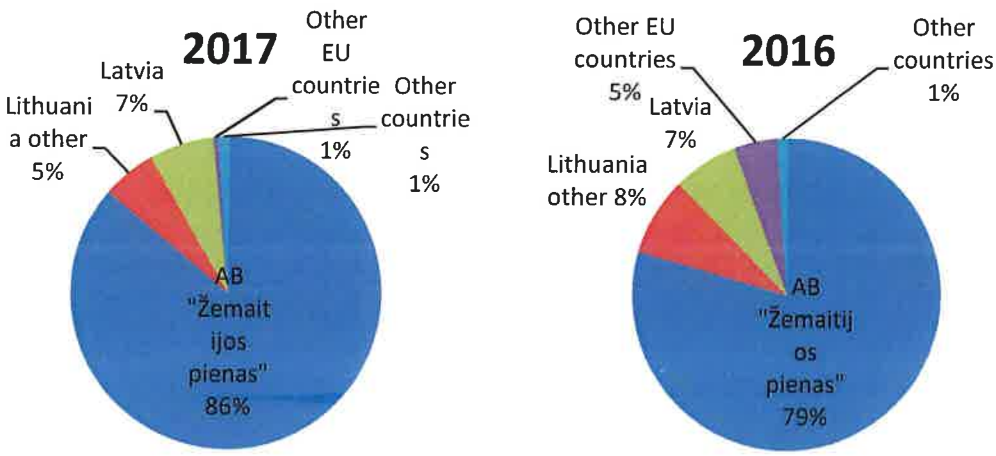
In 2017 AB "Žemaitijos pienas" generated 171 million EUR in revenue (170 849 thousand EUR), i.e. 15.74% more than in 2016 (whereas in 2016 sales reached 147 616 thousand EUR).

For ABF "Šilutės Rambynas" 2017 was one of the best years over the course of the company's history in terms of sales - 36 726 thousand EUR worth of products was sold, which is 26.5% more than in 2016 where sales reached 29 032 thousand EUR. Due to favorable market conditions sales of raw cream increased from 6 710 thousand EUR to 12 407 thousand EUR (growth of 85%) while income from sales of cheese rose from 21 300 thousand EUR in 2016 to 22 759 thousand EUR (6.85%) in 2017. Increased volume of production and rising prices allowed condensed whey sales to reach 1 490 thousand EUR totaling 53.6% more than in 2016.

In 2017 ABF "Šilutės Rambynas" produced 7180 tons of cheese or 638 tons (9.8%) more than 2016. The sharp increase in prices for raw cream over the summer of 2017 has made it more profitable for the company to produce fermented cheese based on vegetable fats with production thereof climbing from 1010 tons (in 2016) to 2335 tons in 2017 (231% growth).

It bears noting that most of the products produced by the company are sold through the parent company – AB "Žemaitijos pienas".

Below is the graphic breakdown of ABF "Šilutės Rambynas" sales across markets:



A large share of ABF "Šilutės Rambynas" sales occurs through AB "Žemaitijos pienas", which releases the company from the need to invest into market development and marketing. In 2017 insignificant sums were designated to development of sales in the Middle East.

New products were created and supplied to the market in 2017: hard cheese "Džiugas Exclusive" (matured for 60 months) - this is the first Lithuanian hard cheese matured for five years (60 months) and fresh string cheese sticks "Pik-Nik Kids Twiller" and "Pik-Nik Nigella" which is a healthy natural snack with plenty of minerals, proteins, and vitamins. Innovative kefir drinks "Žemaitijos Kefir Cocktail Mimosa" and "Žemaitijos Kefir Cocktail Pina Colada" as well as "Rambyno" natural processed sliced cheese with herbs, semi-hard cheese "Germanto Gouda" in 500g packaging, and new tastes (banana with pear, pineapple, peach, and mango) for the ecological yogurt "Dobilas" (300g) were crated. Furthermore new ecological milk products were created over the course of the target period for the "Milk for Children" ("Pienas vaikams") program - ecological hard cheese "Džiugas" (40g), ecological milk "Dobilas" (in a soft 1l bag), ecological yogurt "Dobilas" with banana and peach. One of the main priorities for the Group's companies is production of safe quality products. While implementing this priority AB "Žemaitijos pienas" was evaluated for compliance with requirements of international standards towards food product safety and quality management[4]:

* on 18-21 April 2017 UAB "Bureau Veritas" auditors carried out a compliance audit of all AB "Žemaitijos pienas" processes against ISO 22000 "Food safety management systems. Requirements for any organization in the food chain" + ISO/TS 22002-1 "Prerequisite programs on food safety -- Part 1: Food manufacturing" and additional requirements under FSSC 22000. Audit conclusion: the company complies with the requirements raised by the certified standard.

* on 7-8 December 2017 UAB "Bureau Veritas" auditors carried out an audit of cheese production and packaged cheese production departments against the requirements of BRC Global Standard for Food Safety, rev. 7 (BRC - British Retail Consortium).

* in 2017 ABF "Šilutės Rambynas" worked according to the following integrated food safety and quality management systems: quality management system compliant with requirements of ISO 9001 standard, food safety management system compliant with requirements of ISO 22000 standard, BRC Global

[4] Audits have shown that company products are of high-quality and comply with international quality and safety standards and may be sold in all of the world's markets;

Standard for Food Safety, IFS Food (International Featured Standards), certified according to HALAL standard requirements, EkoAgros - ecological product production, "Pik-Nik" string cheese stick production according to VLOG "Ohne Gentechnik Standard" (Products without GMO).

Investments is one of the most important segments of successful activity, which is why both of the companies seeking to retain their competitive edge continuously invest into modernization of production facilities implementing the most advanced technologies.

A 2016 agreement regarding assignment of support within the scope of the "Investments in processing of agricultural products, in marketing and (or) development" field of activities under Lithuania's 2014-2020 Rural Development Program measure "Investment in tangible assets" signed between AB "Žemaitijos pienas" and National Paying Agency has enabled in 2017 the use of EU and own funds to address environmental issues, improve product quality, and employee work conditions and safety.

The main areas of company investments are the cheese and butter production division, raw material and product logistics, and augmentation of storage areas. The intended investments will also be used to improve product quality and environmental friendliness of packaging, to reduce pollution released into waste water, and to improve energy efficiency. A further priority is to ensure compliance of equipment and production processes with clients' expectations and to produce safe high-quality products for the buyer. This project is worth ~ 18 million EUR and the amount of support totals ~ 3 million EUR. The Company has already received ~ 200 thousand EUR, these funds are already being used to advance the Company's projects. The following was obtained with these funds in 2017:

- Milk product analyzer, which will help to evaluate process changes in response to different parameters and conditions resulting in better quality of products;
- Centralized washing facility in the powdered milk product division, which will improve the quality, control, and tracking of washed objects. Waste water pollution will also be reduced by redirection of waste water from the dirtiest washing phases into collector tanks for further treatment. Elimination of the human factor;
- Cheese packaging line. Here cheese cuts are packaged into thermoformed containers which enable supplying the end buyer with safe, easy-to-open packaging that improves product safety and also helps improve production efficiency for this product.
- Procurement of milk tank trailers and semi-trailers improves the quality of delivered raw materials and helps optimize logistics.

509 thousand EUR worth of new long-term assets came into operation in 2017 for ABF "Šilutės Rambynas", which is 2% less than in 2016. Here the biggest purchase was the string cheese stick salting filtration equipment worth 249 thousand EUR, 75 thousand EUR was spent on a process water pasteurizer, 81 thousand EUR was designated for procurement of equipment and inventory necessary for maintenance of cheese production as well as to purchase computers, communication devices, and software.

Market development and marketing is an integral part of successful business, which is why AB "Žemaitijos pienas" team has given it a particular emphasis in 2017. The results were positively received at national and international exhibitions while products (trademarks) received positive reviews at the following exhibitions:

- International food and drink exhibition "GULFOOD 2017" in Dubai, United Arab Emirates (26 February - 2 March 2017);
- Largest international food product and drink exhibition "SIAL China 2017" in Shanghai, China (17-19 May 2017). Awards and SIAL Innovation certificates were received for: "Džiugas Flakes", "Džiugas Piquant" matured for 18 months and "Džiugas Mild" matured for 12 months; "Pik-Nik" fresh string cheese sticks; processed smoked cheese snack "Rambyno natūralus" with baked onions;

- Taste of London food exhibition in London, United Kingdom (14-18 June 2017). The following awards were received at the exhibition: gold medal in the Cheese Snacks category for 24 months "Džiugas" cheese and gold medal for 48 months "Džiugas" cheese;
- ANUGA 2017 food industry exhibition taking place every two years in Cologne, Germany (7-11 October 2017).

Results of activities of the Group's companies

The Company selects the main standard financial parameters used by many companies when analyzing financial data. As per Company's market experience and professional judgement, the bellow presented parameters mainly on company's profitability levels, turnover growth, liquidity and debt state give an objective view of Company's general performance. Main financial outcomes reflecting activities of the Group's companies in 2016-2017 are as follows:

Financial parameters	Group's		Company's	
	2017 m.	2016 m.	2017 m.	2016 m.
Turnover, thousands of EUR	172.280	149.897	170.849	147.616
Gross profitability, %	20,92	25,80	19,36	23,36
Net profitability, %	3,04	12,05	2,36	9,69
EBITDA, thousand of EUR	10.687	24.294	8.987	19.394
EBITDA profitability, %	6,20	16,21	5,26	13,14
ROE profitability, %	6,76	23,47	5,94	20,95
ROA profitability, %	5,24	18,98	4,44	16,17
General liquidity ratio	3,42	3,82	2,73	2,94
Quick ratio	1,78	2,24	1,28	1,64
Debt-to-equity ratio	0,29	0,24	0,34	0,30
Debt ratio	0,23	0,19	0,25	0,23
Total investment into long-term assets, thousands of EUR	10.258	7.949	9.489	7.410

The above parameters were calculated using the following formulas:
Gross profitability = gross profit / sales income. *Gross profitability (or gross profit margin) shows the company's ability to earn profit from primary company activities, control the level of sales income and sales costs. The higher the gross profit sum earned on each euro of sales income, the more efficient the company.*
Net profitability = net profit / sales income. *Net profitability ratio is the company's financial result, one of the most important (if not the most important) characteristics for company owners. Net profitability as a sales income and net profit ratio serves as good definition of profitability of the company's activities. The monetary equivalent shows the amount of profit earner on one euro of sales. The higher the value of this parameter, the higher the company's profitability.*
EBITDA = net profit + income tax + interest expenses + depreciation and amortization costs. *Earnings before interest, taxes, depreciation, and amortization (EBITDA) is easy to calculate by adding*

income tax and interest expenses as well as depreciation and amortization costs to net profit. This value is important when seeking evaluation free of company activity funding costs and effects of amortization and depreciation. EBITDA profit is often used with or even instead of cash flow value.
EBITDA profitability = EBITDA / sales income.
ROE profitability = net profit / equity capital. *The return on equity (ROE) parameter, also known as equity profitability index, is a measure of efficiency of use of funds invested by the owner. This helps decide whether owner funds are used efficiently. This is highly dependent on the structure of the company's capital. ROE shows the amount earned by the company's management using company equity that belongs to shareholders.*
ROA profitability = net profit / assets. *The return on assets (ROA) parameter is a measure of asset use efficiency. Return on assets determines the ability to profitably use all of the assets. It shows how much of the assets returns in the form of profits. ROA shows the amount earned by the company's management from all of the used assets.*
General liquidity ratio = short-term assets / short-term obligations. *General liquidity ratio, also known as current liquidity ratio, shows the company's ability to meet short-term obligations with its short-term assets. It determines how much short-term assets exceed obligations. It defines the company's ability to meet short-term obligations using short-term assets. The value shows how much short-term assets cover a single euro of short-term obligations.*
Quick ratio = (short-term assets - inventories) / short-term obligations. *Critical liquidity ratio, also known as quick ratio, shows the company's ability to use promptly (quickly) selling short-term assets to meet short-term obligations, which is why reserves as subtracted from the short-term assets as low-liquidity assets. It determines how much the most liquid assets exceed short-term obligations. Critical liquidity determines the company's ability to meet short-term obligations using its most agile (quickly monetizable) assets.*
Debt-to-equity ratio = sums payable and obligations / equity. *Debt-to-equity ratio, also known as leverage ratio, shows how much debt there is for each euro of equity. This parameter is also used as an indicator of the capital structure and financial leverage group. Here, unlike in the case of general creditworthiness, the higher the value of this parameter, the worse is the company's ability to pay up.*
Debt (indebtedness) ratio = sums payable and obligations / assets. *Indebtedness ratio, also known as debt ratio, shows how much debt there is for each euro of assets. The lower the value of this parameter, the more the assets cover the debts, which is why banks and other creditors value low debt ratio. This parameter is also used as an indicator of the capital structure and financial leverage group.*

Comparison amounts and prices of raw milk purchased by AB "Žemaitijos pienas" in 2017 and 2016:

Raw milk purchases (basic fat-content equivalent)	2017	2016	Difference between 2017 and 2016, %
Amount of milk purchased, thousands of tons	377	364	+3.57
Milk purchase price, EUR/t	260	188	+38.30

Raw milk purchase growth is associated with augmentation of dairy husbandry. In 2017 purchased milk prices grew because of rising prices of certain milk products on the world's market. Subsidiary ABF "Šilutės Rambynas" does not purchase raw milk directly from dairy husbandries as it buys raw milk from AB "Žemaitijos pienas".

Products sold by AB "Žemaitijos pienas" in 2016-2017 break down into product types as follows:

Product group name	Turnover, thousands of EUR		Difference between 2017 and 2016, %
	2017	2016	
Fermented and processed cheese	72,271	63,677	13.50%
Fresh milk products	52,106	47,275	10.22%
Butter and mixed fat spreads	16,158	11,147	44.95%
Powdered milk products	13,329	11,816	12.80%
Other products	16,985	13,701	23.97%
Total	**170,849**	**147,616**	**15.74%**

Products sold by AB "Žemaitijos pienas" Group in 2016-2017 break down into product types as follows:

Product group name	Turnover, thousands of EUR		Difference between 2017 and 2016, %
	2017	2016	
Fermented and processed cheese	76,686	68,117	12.58%
Fresh milk products	52,288	48,551	7.70%
Butter and mixed fat spreads	16,158	11,147	44.95%
Powdered milk products	13,329	11,816	12.80%
Other products	13,819	10,266	34.61%
Total	**172,280**	**149,897**	**14.93%**

Other products include sales of raw materials, raw cream, kastinys (translator's note: traditional cream-based product), water products, and ice cream. Turnover of these product grew because raw cream sales, i.e. 34,61% more than in 2016. Turnover of butter and mixed fat spreads increased in relation to a sharp increase in prices for butter on the world's (as well as Lithuania's) market in 2017. The rise in prices is due to shortages in raw materials (declining amount of produced milk and low stored reserves of fat products) and increased demand for butter, which resulted in growth of the price of butter produced by AB "Žemaitijos pienas".

Geographic breakdown of sales by the Group's companies in 2016-2017:

Geographic breakdown of sales	Turnover, thousands of EUR	
	2017	2016
Lithuania	88,331	80,263
Other Baltic states and CIS countries	32,507	27,401
Other European countries	42,801	32,076
Other	8,641	10,157
Total	**172,280**	**149,897**

Current and possible types of risks, their factors and uncertainties, their management in activities of the Group's companies

Variations in prices of raw milk are one of the main factors behind business risks and uncertainties. This field of activities is marked by particular difficulty of long-term planning of economic activity not only because the price of raw milk varies from winter to summer season but also because the purchase price of milk varies unpredictably and widely on the international market.

Group activity results are due to product sales whose volume directly bespeaks the production potential, which is not currently engaged to full extent. High competition on the milk product sales market (both domestic and export markets), continuing embargo from Russia against importing Lithuanian milk products, Polish products whose low cost is due to larger production capacity, and other reasons pose restrictions on sales of product produced by the Company and are the cause of some uncertainties. Both Companies specialize on production of fresh milk products and cheese, a large part of their income is due to income from sales of these products on the domestic market but Lithuania's declining population negatively affects the Company's income, profits, and general financial status.

It bears noting that one of the most important external risk factors is variation in currency rates, which is hard to control or influence. Variations in currency rate have an indirect but very significant impact, which is a financial risk that affects the Company's partners and may result in negative changes in conditions of competition. For example, between the beginning of 2017 and the end of 2017 euro became 14.6% stronger relative to US dollar. This circumstance has compromised competitiveness on the markets associated with the US dollar. This makes future sales opportunities less certain.

Another substantial risk is liquidity of debtor obligations through trade credit or other forms of insurance for almost the entire export turnover. Also clients facing higher financial risk are subject to a system of advance payment for goods. Furthermore, AB "Žemaitijos pienas" has formed and operates an Audit Committee, which evaluates the main risks and their factors, provides management with suggestions, and monitors their implementation.

It bears mentioning that both Companies seek to minimize economic risks be seeking out new sales markets. Deficit of raw materials is compensated by purchasing of milk from adjacent neighboring countries. Furthermore, the Group's companies continuously seek out opportunities for modernization of production and optimization of costs and strive for avoidance or maximum possible minimization of risks. Financial and other risks and control thereof are outline in section 26, "Financial risk management", of the explanatory note to audited financial statements.

Plans and expectations for activities of the Group's companies

Long-term goals of AB "Žemaitijos pienas" Group companies are to become a strong, competitive, technically modern, and reliable companies attractive to investors. Find and retain the most profitable markets for their products in the European Union and Baltic states as well as other countries, giving priority to proximal markets as well as to market of Germany, France, and England. Fully engage available production capacities. Seek improvement and creation of new milk products by continuously researching the market and its demands for new products, conducting tasting sessions, recruiting scientists and new scientific methods. Moreover, the Companies to become closer to consumers directly supplying and selling products to the consumer.

The Company's main current goals and plans:

- purchase raw milk on market conditions but for no more than the price for which raw milk is purchased in Lithuania by other companies on the market;
- purchase only quality milk;

- expand sales at prices favourable to the Company. Concentrate on the primary, strongest product baskets and maintain at least a 40-50% share of the domestic market.
- orient towards sales of higher added value products on the export markets;
- strengthen marketing functions and the Company's brand;
- lower production costs and cost of products;
- lower product distribution costs;
- fully engage designed production capacities;
- reward employees only for excellent final results and for fulfilment of adopted plans.

Shortage of qualified work force makes the Company focus on human resources, which is why particular emphasis is on reinforcement of the team of employees, promotion of competence and qualification, formation of specific skills, and revision and improvement of motivation systems.

Due to variability of product prices increasingly more effort will be directed at finding new export markets as well as reinforcement of the Company's position on the already available markets. The Company will give priority to further modernization and reduction of the need for power, material, and work resources as well as to optimization of activities and production of profitable products.

Using EU structural fund support it is planned to invest primarily into projects that would reduce production costs, result in improvement of product quality, reduce the effects of human factor upon production, and, among other things, enable lowering of constantly growing operating costs. Investments will also be made into improvement of work and conditions for employees, improvement and modernization of available equipment, renovation of premises, and replacement of old, worn out equipment with new machinery.

Constantly changing and dynamic milk product sales and raw milk procurement market marked by high competition causes AB "Žemaitijos pienas" Group to abstain from making any forecasts regarding turnover and profits for future periods of activity.

Information about research and development activities of the Group's companies

The Company and its subsidiary (jointly or separately) continuously make investments and seek ways to ensure continuous growth of income and improvement of activity effectiveness. The Company also emphasizes creation of new products and 2017 saw different innovative products being introduced to consumers.

The goal of the companies is to ensure production and supply of products complying with the highest possible quality standards and creating maximum possible added value, which is why the Group continuously cooperates with scientists from Lithuanian University of Health Sciences, Vilnius University, Center for Physical Sciences and Technology under Kaunas University of Technology as well as experts from Lithuania and abroad. Laboratory studies of products are carried out in National Food and Veterinary Risk Assessment Institute, Eurofins, Hamilton, Institute of Metrology under Kaunas University of Technology, Lithuanian University of Health Sciences, Veterinary Academy and other laboratories and formulations are improved to strengthen the image of available products and to create new ones. These studies are continuous in nature and are mostly aimed at improvement of the existing basket of products.

In order to achieve higher standards, application of more advanced management methods, and development of innovative vision of both the production technology and business management as well as individual Company management and work processes Company specialist continuously train, attend practical trainings and exhibitions abroad, and cooperate with the largest suppliers while horizontally integrating best production practices in the Company's own production processes and logistics as well as implementing improvement initiatives with suppliers' production processes and products.

Environmental activities of the Group's companies[5]

[5] For a more detailed account of environmental matters please the AB "Žemaitijos pienas" social liability report published on AB "Žemaitijos pienas" website - www.zpienas.lt

Waste is managed in accordance with established environmental requirements with annual "Waste generation reports" filed through an electronic data accumulation system. On the Company's territory hazardous and non-hazardous waste is handled so that it doesn't have a negative impact on the environment. It is sorted and its storage sites are properly designated. Waste is taken to waste disposal facilities in a timely manner. AB "Žemaitijos pienas" sorts of packages at the waste generation sites. These packages are compacted and prepared for reprocessing. Waste from packages that are no longer suitable for reprocessing are also separated and systematically transferred to facilities where such waste is collected and processed for energy production purposes.
The Company employs an ecology engineer who is responsible for compliance of the Company's activities with environmental requirements.
In order to reduce emission of gases contributing to the green house effect AB "Žemaitijos pienas" has assumed the initiative and either completely eliminated equipment relying on freon gas for its processes or obtained equipment that uses a more environmentally friendly type of this gas. The Company actively implements and encourages the use of renewable resources. AB "Žemaitijos pienas" has built a 10MW biofuel boiler house, which uses renewable energy resources (wood chip (SM2)) in place of natural gas. In 2017 AB "Žemaitijos pienas" used up 1 140 550 m^3 of gas; this is 53% more than in the previous year but almost 80% less than in 2013, when the Company still didn't have its biofuel boiler house. In 2017 the Company used up 21 935 660 tons of biofuel, which means that compared with 2016 biofuel consumption dropped by 5.7%.

For a number of years now ABF "Šilutės Rambynas" has been emphasizing environmental safety with the primary aim of reducing the amount of production waste and save natural resources. These efforts did not go unnoticed and in 2017 Lithuanian Environmental Safety Investment Fund (LESIF) recognized ABF "Šilutės Rambynas" project "Whey concentration facility installation RO+ROP" by awarding the company a Crystal Stack for "Largest reduction of environmental pollution". By implementing the aforementioned project the company managed a threefold reduction of the amount of transported whey. This had also reduced the negative effect of transport upon the environment - air pollution was reduced by 40 tons of pollutant/year (CO, NO2, SO2, solid particles). The company also successfully manages its production waste water handling efforts.

Aspect of personnel management and human resources in the Group's companies

Both companies face the lack of high qualification employees. These issues are being addressed by creating long-term relations with employees by adapting and training them, encouraging them to grow professionally. Opportunities are provided for employees to deepen their knowledge and skills, improve their qualification by participating in various seminars. Programs are prepared for training and certification of specialists, production workers, hardware technicians, operators, fitters, foremen, and skilled workers. Particular attention is also paid to knowledge of foreign languages. Employees are trained in foreign languages in courses organized by the Company. The aforementioned trainings are also conducted in other training and advancement forms, including improvement of foreign language skills abroad.

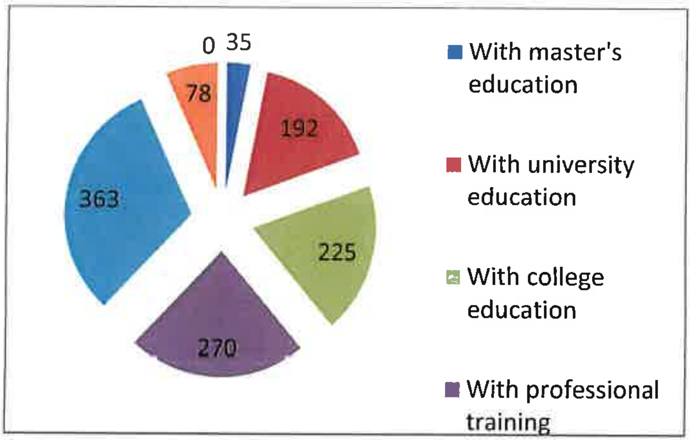
Over the target period particular attention was paid to several field of training: improvement of employee qualification in order to ensure compliance with work quality requirements and to address the recently evident need for employees to be able to substitute for one another and to have diverse skill sets to which end employees are trained to fulfill the functions of another occupation or to undertake additional functions. To make this possible training programs are prepared and training specialists are appointed and fostered.

As of 31 December 2017 AB "Žemaitijos pienas" had 1163 employees.
As of 31 December 2016 AB "Žemaitijos pienas" had 1214 employees.
The number of employees has decreased slightly compared to 2016.

AB "Žemaitijos pienas" employee groups by education (2016-2017):

Number of employees	31 December 2016	31 December 2017
With master's degree	43	35
With university degree	187	192
With college degree	241	225
With professional training	291	270
With secondary education	366	363
With unfinished secondary education	86	78
Total:	1214	1163

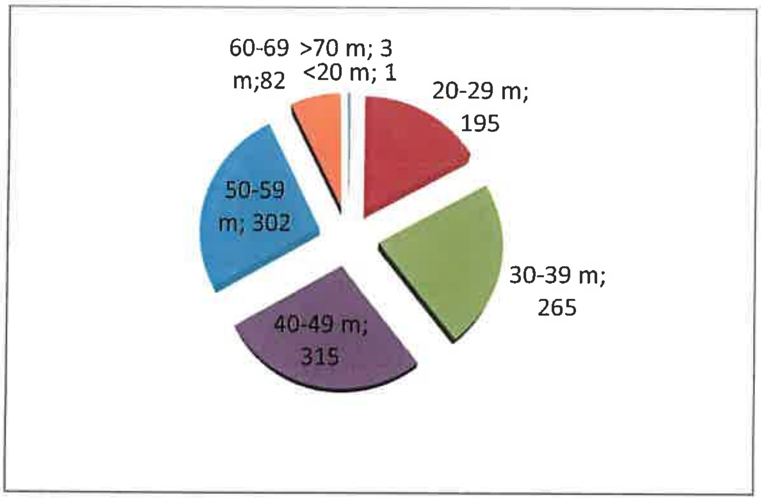
AB "Žemaitijos pienas" employee groups by education (2017):



AB "Žemaitijos pienas" employees by their corresponding groups and their average wages in EUR for corresponding employee work groups make up:

Number of employees by group	31 December 2016		31 December 2017	
	Number of employees	Average work wages, EUR	Number of employees	Average work wage, EUR
Managers	7	4230	9	6154
Specialists	272	1310	261	1423
Workers	935	743	893	842
Total:	1214		1163	

Number of employees by age groups in 2017:



At AB "Žemaitijos pienas" employee rights and obligations are provided for in their occupational provisions. Work contracts outline no special employee rights or obligations and the Company does not have a collective agreement but there is an active work board.

According to data available on 31 December 2017 the number of ABF "Šilutės Rambynas" employees remained unchanged over the course of the previous year.

Employee grouping by education:

Number of employees	31 December 2017	31 December 2016
With master's degree	9	9
With university degree	20	21
With college degree	28	27
With professional training	74	76
With secondary education	35	37
With unfinished secondary education	26	22
Total:	192	192

Number of ABF "Šilutės Rambynas" employees by professional groups and average wages per professional group in EUR:

Number of employees by employee group	31 December 2017		31 December 2016	
	Number of employees	Average work wages, EUR	Number of employees	Average work wages, EUR
Managers	7	2186.13	7	2048.81
Specialists	31	1206.53	34	988.32
Workers	154	916.96	151	793.38
Total:	192		192	

Employee rights and obligations are provided for in their occupational provisions; for production workers - also in work place description and instructions. Work contracts outline no special employee rights or obligations. ABF "Šilutės Rambynas" does not have a collective agreement.

IV. COMPANY MANAGEMENT ASPECTS (REPORT)

Compliance with the Corporate Governance Code

AB "Žemaitijos pienas" seeks in so far as possible and with regard for objective circumstances (reasons outside of the Company's control) to fully comply with provisions of the Corporate Governance Code for companies listed on Nasdaq Vilnius. It furthermore bears noting that particularly close observation of these provisions (by members of associated bodies) is limited by the lack of qualified, professional, and knowledgeable specialists on the market. For instance, clauses 3.7, 4.6, 4.12, and 4.13 of the report on compliance with the Corporate Governance Code are not fully adhered to because of the above reasons. The report on compliance with the Corporate Governance Code is published on the Company's website - www.zpienas.lt[6]. This report may also be accessed at www.nasdaqbaltic.com.

Scale of risk for the companies and risk management

Essential financial risks and their scope are outlined in the "Current and possible risks and uncertainties and management thereof inside the Group of companies" part of the financial statements section "Overview and prospects of the Group's companies" and so are not discussed in any more detail in this section.

Information about significant directly or indirectly managed stock portfolios, agreements between shareholders, their special control rights

Companies of the Group are not aware of any substantial information about directly or indirectly managed shareholder stock portfolios, except for the data (source[7]) provided in the table below concerning proxy entities (see sidenote "7" and the table "Persons owning more than 5% of AB "Žemaitijos pienas" votes and capital"). Furthermore, there were group shareholder agreements regarding intangible assets, including obtainment of voting rights, made already after the target period.
AB "Žemaitijos pienas" is unaware of any other facts about agreements between shareholders or special rights or obligations, including control rights, and so none are provided in this annual statement.

ABF "Šilutės Rambynas" has no information about shareholder agreements or special rights or obligations, including control rights.

Essential information about shareholders available to the Group's companies

According to information available on 31 December 2017 AB "Žemaitijos pienas" shares are owned by 2910 shareholders (natural persons and legal entities). The following persons own more than 5% of AB "Žemaitijos pienas" authorized capital and votes:

[6] The report on compliance with the Corporate Governance Code provides a more comprehensive elaboration regarding reasons for incompliance (partial compliance) with certain articles of the Code.
[7] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=790278&messageId=994306

Item	Shareholder	Number of shares owned, pcs	Authorized capital owned, %	Share of votes[8] owned, %	Share of votes[9] owned, %	Share of votes held together with [10]associated persons/entities, %
1	Pažemeckas Algirdas personal number ***************	14 014 581	28.97	28.97	30.27	65.31
2	Pažemeckienė Danutė personal number **************	14 014 581	28.97	28.97	30.27	65.31
3	AB "Klaipėdos pienas", company code 240026930, Šilutės pl. 33, 91107 Klaipėda	2 901 844	6.00	6.00	6.27	65.31
4.	UAB "Baltic Holding", company code 302688114, domiciled at Vilhelmo Berbomo g. 9-4, Klaipėda	665 106	1.37	1.37	1.44	65.31
5.	AB "Žemaitijos pieno investicija", company code 300041701, domiciled at Sedos g. 35, Telšiai	0.0	0.0	0.0	0.0	65.31
6.	Other shareholders	16 778 888	34.69	34.69	31.75	34.69
	Total	**48 375 000**	**100**	**100**	**100**	**100**

The largest shareholder of ABF "Šilutės Rambynas" is AB "Žemaitijos pienas". This company directly owns 87.82% of shares with the rest belonging to minor shareholders most of whom are producers of raw milk. The total number of shares is 658. ABF "Šilutės Rambynas" is subject to no share ownership or use restrictions. ABF "Šilutės Rambynas" is not in control of significant stock portfolios of any other entities, be it directly or indirectly.

[8] The number of votes is given based on the clarification provided by the Bank of Lithuania explaining the application of article 26.3 of the Republic of Lithuania Stock Law. The shares of votes owned by shareholders as specified in sidenote "9" should be recalculated accordingly.

[9] The Company has 2 070 621 of its own shares which, according to article 27.4(1) and article 54.7 of the Republic of Lithuania Corporate Law, do not grant the Company any right to use material and immaterial rights they normally entail (including the right of voting), which is why the shares issued by the Company grant 46 304 379 votes in total.

[10] Danutė Pažemeckienė personally owns 14 014 581 shares, 28.97% of shares and 30.27% of votes, she also has 14 014 581 shares, 28.97% of shares and 30.27% of votes, through joint spousal ownership with Algirdas Pažemeckas; Algirdas Pažemeckas has 14 014 581 shares, 28.97% of shares and 30.27% of votes, through joint spousal ownership with Danutė Pažemeckienė. Also the following are among the proxy entities: AB "Klaipėdos pienas" (it has 2 901 844 shares, 6% of shares and 6.27% of votes), UAB "Baltic Holding" (it has 665 106 shares, 1.37% of shares and 1.44 of votes), and AB "Žemaitijos pieno investicija" (0 shares, 0.00%), which owns 86.47% of AB "Klaipėdos pienas" shares and votes, while A. and D. Pažemeckas have 73.43% of AB "Žemaitijos pieno investicija" shares and votes;

Information about meaningful transactions, including those with associated parties

There are no agreements to which AB "Žemaitijos pienas" would be a party or which would become effective, change, or terminate through change in the Issuer's control nor are there any agreements that would have such an effect, except for cases where disclosure of such an agreement would cause substantial harm to the Issuer due to the nature of such the agreement in question. The same applies to ABF "Šilutės Rambynas".

AB "Žemaitijos pienas", same as ABF "Šilutės Rambynas", has not entered into any unusual agreements with members of (its) bodies or (its) employees that would provide for compensation should they resign or be dismissed without a justified reason, or should their work conclude through changes in the Issuer's control.

Over the course of the target period there were no harmful transactions that would be incompliant with the Company's or Group's goals and regular market conditions or violate the interests of shareholders or other groups of persons/entities or that had or may have negative effect upon the Company's activities or results thereof. There were also no transactions entered into because of a conflict of interests between obligation of the Company's CEO, controlling shareholders, or other parties to the Company and private interests and/or obligations of the aforementioned persons and entities.

Transactions with associated parties are disclosed in clause 17, "Transactions with associated persons", of the Company's consolidated financial statements. No transactions with associated persons as defined in article 37.2 of the Corporate Law were entered into over the target period.

The Group's information about shareholder rights and implementation thereof, restrictions of the right to vote or certain voting right use systems

Neither AB "Žemaitijos pienas" nor ABF "Šilutės Rambynas" have any restrictions on reassignment (disposal) of stock, except for the facts specified in this financial statements, which have occurred already after conclusion of the target period. Shareholders of both Companies enjoy material and immaterial rights and have obligations provided for in the Republic of Lithuania Corporate Law and Articles of Association of the Companies. All issued shares grant their holders equivalent rights as provided for in the Republic of Lithuania Corporate Law, other legal acts, and Articles of Association of the Companies.

Restrictions on voting or other rights[11] All Company shares granting the right to vote have the same nominal value. Each share grants one vote in the general meeting of shareholders. Neither of the Companies has data about restrictions, injunctions, or any other special conditions that applied to their stocks or portfolios thereof during the target period, they inter alia are unaware (have no data) about systems that serve to separate the property rights bestowed by the stock from the holders of said stock, except for the circumstances specified in this statement. The Companies have no information about special control rights available to shareholders (a shareholder) and so believe that there are no shareholders enjoying such rights. There is also no information about special agreements among shareholders or groups thereof that could essentially change, establish, or terminate their rights and obligations in controlling of the Company, including affecting the interests of the Companies or their shareholders.

[11] AB "Žemaitijos pienas" has 2 070 621 of its own shares which, according to article 54.7 of the Republic of Lithuania Corporate Law grant the Company no right to use the material and immaterial rights granted by such shares (including the right to vote).
On 20 February 2018 Supreme Court of Lithuania ruled to restrict the Company's right to dispose of the 2 070 621 (own purchased stock) shares. The restriction is indefinite.

The Company shareholders have the following property rights:
receive part of the Company's profits (dividend); receive part of the Company's property in case of liquidation; receive shares free of charge if the authorized capital is increased from the Company's funds, except for cases provided for by the law; if the shareholder is a natural person – to bequeath all of their shares or part thereof to one or several persons; to sell or otherwise reassign all of their shares or part thereof to other persons in accordance with current legal provisions and conditions; other right granted by legal acts;

The Company shareholders have the following non-property rights:
participate in meetings; vote in the meetings according to the rights bestowed by shares; receive non-confidential information about the Company's economic activities on conditions and grounds provided for in legal acts; vote for appointment and be appointed to serve as a member of the Company's management and supervision bodies, hold any position within the Company unless otherwise provided for in the Republic of Lithuania Corporate Law or Articles of Association of the Company; provide specific suggestions regarding financial, economic, organization, and other activities of the Company; appeal decisions or actions of the meeting of shareholders, supervisory board, management, or Company CEO in courts of law if such decisions or actions are in breach of the Republic of Lithuania Laws, Company's Articles of Association, or shareholder property and non-property rights. One or several shareholders have the right to demand compensation of damages inflicted upon shareholders without requiring any additional empowerment to do so; other non-property rights established under the law. A persons obtains all the rights and obligations entailed by his or her share of the Company's authorized capital and/or voting rights: in case of augmentation of the authorized capital - from the day of registration of amendment of the Company's Articles of Association associated with an increase in the authorized capital and/or voting rights; otherwise - from occurrence of ownership rights to a share in the Company's authorized capital and/or voting rights.

Articles of Association amendment procedure

In their activities AB "Žemaitijos pienas" and its subsidiary observe the laws of the Republic of Lithuania, Government Decrees, and regulatory acts regulating corporate activities, and Articles of Association of the Company. Articles of Association are amended in accordance with the procedure established by legal acts of the Republic of Lithuania.

AB "Žemaitijos pienas" bodies and other aspect of Company management

The Company's bodies are the general meeting of shareholders, supervisory board, management, and a one-person body - chief executive officer (general director) as well as company administration reporting to the chief executive officer and consisting of structural departments. Currently the following departments operate within the Company - (i) financial, (ii) personnel and legal, (iii) logistics, (iv) production and raw materials, and (v) sales and marketing. The Company also has an active audit committee.

The general meeting of shareholders – is the most important decision making body of the Company. The competence, convening procedure, rights, and functions of the general meeting of shareholders are essentially the same of the competence, convening procedure, rights, and functions of the general meeting of shareholders provided for in the Republic of Lithuania Corporate Law and other legal acts, including the Company's Articles of Association.

The Company's supervisory board is a collegial supervisory body responsible for supervision of the Company's activities and presided by its chairman. TheCompany's supervisory board consists of 3 members appointed by the general meeting of shareholders for a period of four years. The Company's Articles of Association provide for unlimited number of board member terms. At present the supervisory board is fully independent - (i) is not associated with the Company by work relations; (ii) is not associated with the largest shareholders of the Company; (iii) is not associated by way of other relations that can or could affect the independence and impartiality of the supervisory board members. Certain aspects associated with the supervisory board and its activities are considered in the report on compliance with the corporate governance code[12]. It bears noting that no special rules regulating appointment or replacement of the Company's supervisory board members apply and the Company follows the Corporate Law and its Articles of Association in these matters. Certain authorizations of supervisory board members are assigned based on specific areas of Company activities for which such members are responsible.

Information about members of the Company's supervisory board

Name,[13] Surname	Functions within the Issuer[14]	Number of shares and % of the authorized capital owned	Term start	Term end	Activities, assumed functions	Education
Kęstutis[15] Trečiokas	Supervisory board chairman	none	29 December 2016	29 December 2020	Member of Telšiai Municipality Council	(i) Kaunas University of Technology, (Electromechanics engineer), (ii) Vilnius university, (economist)
Hugo Ader[16]	Member of the supervisory board	none	29 December 2016	29 December 2020	Consultant to UAB „Lemininkainen Lietuva“ general director	Leningrad Music and Cinematography Institute, (drama director)
Aristydas[17] Kulvinskas	Member of the supervisory board	none	29 December 2016	29 December 2020	Entrepreneur	Lithuanian Academy of Agriculture (Water supply engineer)

Company management is a collegial management body representing the Company's shareholders between their meetings and adopting decisions on the most important matters of the Company's economic activities; it does not, however, engage in company supervision. Management members have the authority provided for in the law as well as in the Company's Articles of Association; their work process and authorizations are also provided in the management work procedure that the management has adopted; furthermore, all management members are responsible for specific areas of the Company's activities assigned to them. Currently the management consists of five *"de facto"* members, *"de jure"* seven management members are intended. The supervisory board appoints members of the management for a period of no more than four years. The number of their terms is unlimited. A chairman appointed from the ranks of the management presides over the management's activities. Certain aspects associated with the Company's management and its activities are considered in the report on compliance with the corporate governance code[18]. It bears noting that no special rules regulating appointment or replacement of the Company's management members apply and the Company follows the Corporate Law and its Articles of Association in these matters.

[12] The report on compliance with the corporate governance code can be accessed on the Company's website as well as at http://www.nasdaqbaltic.com.

[13] Before being appointed supervisory board members (candidates) declare that the positions they hold within the Company will not cause a conflict of interests, candidates undertake to act in the interests and to the benefit of the Company;

[14] Before being appointed management members (candidates) declare that the positions they hold within the Company will not cause a conflict of interests, candidates undertake to act in the interests and to the benefit of the Company;

[15] Responsible for personnel and financial matters within the Company;

[16] Responsible for matters of milk product sales, marketing, and logistics;

[17] Responsible for matters of milk product production, raw materials, and procurement

[18] The report on compliance with the corporate governance code can be accessed on the Company's website as well as at http://www.nasdaqbaltic.com.

Information about members of the Company's management

Name, Surname	Functions within the Issuer	Number of shares and % of the authorized capital owned	Term start	Term end	Activities, assumed functions	Education
Robertas[19] Pažemeckas	Member of the management, General director	none	5 April 2017	7 February 2018	AB „Žemaitijos pienas" general director	Vilnius University, Master of Law
Marius Dromantas[20]	Member of the management	none	7 February 2014	7 February 2018	AB „Žemaitijos pienas" director for logistics	**(i)** Kaunas University of Technology (bachelor of transport engineering); **(ii)** Vilnius Gediminas Technical University (master of transport engineering);
Dalia[21] Gecienė	Member of the management	475 160, or 1.03%	7 February 2014	7 February 2018	AB "Žemaitijos pienas" senior accountant,[22]	Kaunas Polytechnic Institute (KUT), planning engineer
Ramūnas[23] Dargis	Member of the management	none	2 April 2016	7 February 2018	AB „Žemaitijos pienas" director for production	**(i)** Klaipėda Agricultural College, **(ii)** Lithuanian Agricultural University, mechanics engineering
Žydrūnas[24] Valkeris	Member of the management	none	1 June 2017	7 February 2018	Director of MB "Venandi"[25]	Vilnius Pedagogical University, (bachelor of social work and social counseling)

The Company's CEO is its general director who acts in accordance with the Company's Articles of Association, decisions of the general meeting of Shareholders, management decisions, and other local Company acts. The CEO organizes the day-to-day activities of the Company and undertakes actions necessary to ensure its functioning, implement the decision of the Company's bodies and to ensure activities of the Company. The Company's general director responsible before and report to the management. It bears noting that no special rules regulating appointment or replacement of the Company's CEO apply and the Company follows the Corporate Law and its Articles of Association in these matters.

[19] Responsible for procurement, personnel and legal matters as well as for sales of powdered milk products and cream;
[20] Responsible for logistics;
[21] Responsible for financial activities;
[22] AB "Žemaitijos pieno investicija" accountant, 0.2 pro rata employment;
[23] Responsible for production, technology, and procurement of raw materials;
[24] Responsible for sales and marketing of milk products;
[25] Member of MB "Venandi";

Information about the Company's administration

Name, Surname	Functions	Commencement of work within the Company	Education	Number of shares owned, pcs	Share of the authorized capital and votes, %
Robertas Pažemeckas	General director	26 August 2002	Higher education	-	-
Marius Dromantas	Director for logistics	1 December 2003	Higher education	-	-
Samanta Jasiūnaitė[26]	Director for personnel and legal matters	24 April 2017	Higher education	-	-
Nijolė Penkovskienė	Head of the procurement department	3 July 2017	Higher education	-	-
Ramūnas Dargis	Director for production	25 May 2003	Higher education	-	-
Robertas Pavelskis	Technical director	2 August 1993	Higher education	-	-
Jurgita Petrauskienė	Head of sales	29 August 2005	Higher education	-	-
Jolita Gedgaudienė	Acting head of marketing	19 September 2005	Higher education	-	-
Dalia Gecienė	Senior accountant	29 July 1986	Higher education	475 160	1.03

Company administration consists of the general director, director for production, director for logistics, technical director, head of sales, head of marketing, head of procurement, director for personnel and legal matters, and senior accountant. The general director is in charge of the Company's administration. Directors/heads implement the goals and tasks posed by the Company's management bodies, carry out functions according to their assigned competence, and manage accountable employees.

Company departments are the Company's structural formations that carry out and implement decisions, orders, and other (written and oral) instructions of the Company's management and general director.
In their activities the Company's bodies observe the requirements stipulated in the Republic of Lithuania laws and other legal acts as well as in the Company's Articles of Association. The Company's bodies are elected, appointed, and dismissed according to provisions of the aforementioned documents.

The Company's CEO and members of the management and supervisory bodies are appointed in accordance with requirements of legal acts with regard for abilities, qualification, and professional experience of the persons in question. Furthermore, each candidate fills out a declaration of no conflict of interests before elections to a corresponding body. The Company has not established any special rules for election into Company bodies or specific election policy associated with matters such as age, sex, etc. The Company believes that such candidate election system fully complies with the interests of the Company and most of its shareholders.

[26] Work relations expired on 2 February 2018;

Company audit committee

AB „Žemaitijos pienas" has an active audit committee consisting of three members - Angelė Taraškevičienė (chairwoman), Zina Sakalauskienė and Sigita Leonavičienė. For Angelė Taraškevičienė this is the second term on the audit committee while Zina Sakalauskienė and Sigita Leonavičienė were appointed in place of former members of the audit committee Stanislava Vaičienė ir Daiva Katarskienė. Main function of the audit committee are to perform random financial inspections and inventory of material assets, provide suggestions on optimization of processes, and carry out other functions provided for by legal acts.

Name, Surname	Work places Functions Authority	Number of the Issuer's shares owned, pcs	Committee term start	Committee term end
Angelė Taraškevičienė	UAB „Vertybių auditas", CEO	0.0	24 October 2017	Until dismissed by the Company's body that appointed the member or her term expires on other grounds provided for in legal acts
Ziną Sakalauskienė	UAB „Telšių statyba", senior financial officer, auditor	0.0	24 October 2017	Until dismissed by the Company's body that appointed the member or her term expires on other grounds provided for in legal acts
Sigita Leonavičienė	UAB „Baltijos mineralinių vandenų kompanija", accountant	0.0	24 October 2017	Until dismissed by the Company's body that appointed the member or her term expires on other grounds provided for in legal acts

The audit committee also advises the Company's supervisory board with the main task of improving the efficiency of the supervisory board's work in controlling the Company's finances, helping to ensure that decisions are made impartially and after proper deliberation. It bears noting that the Company has no other committees or bodies.

Other aspects associated with AB "Žemaitijos pienas" bodies

Over the course of the target period (2017) the Company has paid its supervisory board members 42 933 EUR in total under cooperation agreements which makes for 14 311 EUR to each supervisory board member, management members received 443 720 EUR worth of work wages in total which make for 88 744 EUR to each management member. Administration directors/heads received 664 601 EUR worth of work wages in total from the Company which makes for 73 845 EUR to each director/head.

No profit sharing was distributed among the management and supervisory board members in 2017. No guarantees or securities were given nor any assets or other property rights were ceded to supervisory board and management members, CEO, senior financial officer/senior accountant, or audit committee members over the course of the target period.

Supervisory board and management members, CEO, chief financial officer/senior accountant, or audit committee members have no substantial material obligations before the Company (Issuer) nor does the Company (Issuer) have any obligations before said persons, except for unpaid profit sharing amounts.

No guarantees, securities and/or other obligation assurance measures regarding assurance of obligations of management and supervisory board members and other entities (CEO, chief financial officer/senior accountant, or audit committee members) were issued in the name of the Issuer in 2017. Neither does the Issuer grant these entities any loans.

ABF "Šilutės Rambynas" bodies and other Company management aspects

ABF "Šilutės Rambynas" bodies comprise the *general meeting of shareholders*, *management*, and *one-person management body* - the CEO (general director) as well as the Company's administration employees reporting to the CEO.

Activities of the *general meeting of shareholders* as well as its competence, shareholder rights, and other obligations are provided for in legal acts, including the Company's Articles of Association.

The Company's Articles of Association are amended or new articles of association are adopted in accordance with the regular procedure provided for in legal acts.

The Company has a management board whose members are appointed and replaced in accordance with the same rules as adopted by AB "Žemaitijos pienas". Furthermore, appointment and replacement of members is governed by requirements of the Corporate Law and the Company's Articles of Association. Management board members have no other or special authority other than provided for by the laws and Company Articles of Association. In this Company management board members hold no special functions or authority, e.g. they are not assigned any specific area of Company activities, except for those who perform functions provided for by their contract, if they are employees of the Company.

The Company's management *"de facto"* and *"de jure"* consists of five members, essential data are provided in the following table:

Name, Surname	Functions within the Issuer	Number of shares owned, pcs/ %	Term start	Term end	Activities, assumed functions	Education
Algirdas Bladžinauskas	Management chairman General director	none	29 April 2014	29 April 2018	ABF "Šilutės Rambynas" general director	Lithuanian Academy of Agriculture (master of agricultural agronomy)
Irena Baltrušaitienė	Member of the management	none	29 April 2014	29 April 2018	-	Kaunas Polytechnic Institute (master of milk and milk product processes)
Linas Puskunigis	Member of the management	2076 or 0.24%	29 April 2014	29 April 2018	ABF "Šilutės Rambynas" senior accountant	Lithuanian Academy of Agriculture (master of agriculture economy and organization)
Remigijus Bieliauskas	Member of the management	none	29 April 2014	29 April 2018	AB "Žemaitijos pienas" process engineer	Kaunas University of Technology (master of milk product processes)
Renata Rupšienė	Member of the management	50 or 0.01%	29 April 2014	29 April 2018	ABF "Šilutės Rambynas" director for production	Kaunas University of Technology (master of chemical engineering)

CEO and administration

CEO (general director) - Algirdas Bladžinauskas, senior accountant Linas Puskunigis (for information about these persons see the table above). It bears noting that no special rules regulating appointment or replacement of the Company's CEO apply and the Company follows the Corporate Law and its Articles of Association, and other legal acts in these matters. Over the target period the general director (member of the management board) was paid 54 748 EUR. (payment associated with work relations, "gross"), member of the management board - Linas Puskunigis 30 217 EUR. (payment associated with work relations, "gross"), Renata Rupšienė 34 026 EUR. (payment associated with work relations, "gross"), the rest of the management board member received no payments.

When selecting candidates to join its bodies ABF "Šilutės Rambynas" is guided by the candidate's professional experience and skills, personality traits, and different other candidate characteristics. Furthermore, the candidate fills out a declaration of no conflict of interests. The Company doesn't discriminate on the grounds of age, sex, etc. The Company believes that this system make it possible to appoint the best members to Company bodies.

V. OTHER INFORMATION

Essential publicly available information about the Company

The Company has published more than 30 events of essential importance using Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) information system (Internet website) over the course of the target period. All essential events are stored in the Central Regulated Information Database. This information may also be accessed on the Company's website www.zpienas.lt.

Information about important events after conclusion of the financial year

The following important events took place after the target period:
(i) 24 October 2016 and 8 February 2017 joint venture agreements regarding reassignment of AB "Žemaitijos pienas" voting rights entered into with the Investors Association and a group of minor shareholders (natural persons and legal entities) have expired; comprehensive information about this is publicly accessible (available)[27].

(ii) on 15 January 2018 Šiauliai County Court passed a decision (civil case No. 2A-51-883/2018) regarding the appeal petition of plaintiff Investors Association, Vytautas Plunksnis regarding 2 October 2017 Telšiai District Court decision. Šiauliai County Court has overturned the 2 October 2017 Telšiai District Court decision and passed a new decision recognizing as invalid part of the 16 September 2016 decision of AB "Žemaitijos pienas" general meeting of shareholders designating 749 400 EUR for payment (profit sharing) to members of the management and supervisory board.

(iii) On 19 February 2018 UAB "Orion Asset Management" informed AB "Žemaitijos pienas" (by submitting a notice about ceding control of voting rights) that the Investors Association and minor investors have on 27 December 2017 entered into a Joint Venture Agreement and that the open type investment fund for informed investors MULTI ASSET SELECTION FUND managed by "Orion Asset Management" had on 19 February 2018 signed an agreement with the Investors Association ceding previously owned 5.03% of the Company votes (for more information follow the link[28]).

(iv) On 19 February 2018 the Investors Association informed AB "Žemaitijos pienas" (by submitting a notice about acquisition of a voting portfolio) that the Investors Association had signed a vote reassignment agreement obtaining voting rights of 19 AB "Žemaitijos pienas" shareholders of whom the largest are the open type investment fund for informed investors MULTI ASSET SELECTION FUND managed by "Orion Asset Management" (2 239 573 pcs), UAB "INVL Asset Management" (915 606 pcs), and AB "Invalda INVL" (896 132 pcs). The Investors Association has indicated that as of 19 February 2018 it owns 5 034 474 shares accounting for 10.87% of all Company shares granting the right to vote and 10.41% of AB "Žemaitijos pienas" authorized capital (for more information follow the ling[29]). The essence of the agreements - non-property rights, including the right to vote, have been ceded to the Investors Association which now can use or refrain from using said rights as it sees fit and make all associated decisions without prior consent from the party ceding the rights. The agreement are valid for no more than 10 years as of becoming valid.

(v) On 20 February 2018, having studied the 12 February 2018 cassation petition of plaintiffs Vytautas Plunksnis and the Investors Association regarding revision of the 18 December 2017 Šiauliai County Court decision and request for application of temporary protections, the Supreme Court of Lithuania decided to accept the cassation petition and apply temporary protections - prevent AB "Žemaitijos pienas" management bodies from disposing of 2 070 621 AB "Žemaitijos pienas" own regular registered shares

[27] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=817698&messageId=1027551
[28] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=824272&messageId=1036186
[29] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=824272&messageId=1036186

(ISIN code LT0000121865, regular value 600 480.09 Eur.). The essence of the dispute - plaintiffs Vytautas Plunksnis and the Investors Association sue to have part of the decisions made on 29 October 2016 and 29 December 2016 by the Company's general meeting of shareholders regarding the procedure of sale of available AB "Žemaitijos pienas" own shares and establishment of the minimum price thereof recognized as invalid. The plaintiffs also demand that the 2 070 621 regular registered shares of the Company be recognized as invalid and that the authorized capital of AB "Žemaitijos pienas" be reduced by a corresponding amount. These shares were acquired as at 2010-04-19 and 2012-04-27 based on shareholders meeting decision.

(vi) On 13 February 2018, having studied the cassation petition of AB "Žemaitijos pienas" regarding revision of the 15 January 2017 Šiauliai County Court decision recognizing part of the profit sharing decision (to the sum of 749 400 EUR) as unlawful, the Supreme Court of Lithuania accepted the cassation petition for consideration. The essence of the dispute - Vytautas Plunksnis, the Investors Association, and AB "Žemaitijos pienas".

The Company cannot anticipate the outcome of both cases as these cases are complicated in terms of legal interpretation and application of the law. Furthermore, there are no precedents for the matters in question. The Court of Cassation, when hearing both cases (the case of granting board bonuses (vi) and the purchase of own shares (v)) by cassation procedure, shall be entitled (Article 359(1) of the Code of Civil Procedure):
1) to allow the judgement or ruling to stand;
2) to amend the judgement or ruling;
3) to reverse the judgement or ruling and leave in force one of the judgements or rulings passed earlier in the case;
4) to reverse the judgment (in full or in part) and pass a new judgment;
5) to reverse the judgment in full or in part and terminate the case or dismiss the application on the merits.

(vii) On 28 February 2018 the director of the Bank of Lithuania Supervisory Service adopted the decision "Regarding enforcement measures against AB "Žemaitijos pienas" giving the Company a warning for not complying with instructions of the Bank of Lithuania, assigning it a penalty of 158 000 EUR, and establishing obligations for AB "Žemaitijos pienas". The Company intends to appeal the decision in accordance with procedures established under legal acts. More comprehensive information is provided and made publicly available as an essential event.[30]

(viii) On 13 March 2018 the Company was informed that Romusas Jarulaitis and Regina Jarulaitienė now control 6.86% company votes, i.e. this transaction took them over the 5% vote limit. On 16 March 2018 management member Žydrūnas Valkeris informed the Company that he is stepping down from his position in the management of AB „Žemaitijos pienas", effective as of 28 March 2018.

(ix) On 28 March 2018, AB "Žemaitijos pienas" appealed to Vilnius Regional Administrative Court against the decision of the Director of the Supervision Service of the Bank of Lithuania adopted on 28 February 2018 "On the application of sanctions against AB "Žemaitijos pienas". The Company cannot anticipate the outcome of this case as this case is complicated in terms of legal interpretation and application of the law; furthermore, there are no precedents for the matters in question.

[30] https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=826318&messageId=1038849

Information about the audit

AB "Žemaitijos pienas" 2017 consolidated and Company's financial statements were audited by UAB "ERNST & YOUNG BALTIC", registered at Subačiaus g. 7, Vilnius, under a service agreement. This audit firm has previously audited the Company during years 2000-2001 (Arthur Anderseen, UAB) and during years 2002-2007.

Audit and non-audit services have been provided by the audit Company until the date of this report. Additional audit works regards to opening balances (31 December 2016 and 2015), revenue recognition, IT controls testing, etc. Non-audit training services to Company's employees on principles of preparation of non-audit reporting information (Social corporate responsibility report). Non-audit services value was EUR 5 thousand before taxes.

Parts of this annual statement:

1. Company's and Group's consolidated financial statements;
2. Corporate governance code compliance report;
3. Corporate social responsibility report.

2017 annual consolidated and Company's financial statements are signed on 11 April 2018.

Robertas Pažemeckas

General Director

Dalia Gecienė

Senior Accountant

(All amounts in EUR thousands unless otherwise stated)

ASSETS	Notes	The Group			The Company		
		As at 31 December 2017	As at 31 December 2016 (restated*)	As at 1 January 2016 (restated*)	As at 31 December 2017	As at 31 December 2016 (restated*)	As at 1 January 2016 (restated*)
Non-current assets							
Intangible assets	5	156	120	124	155	119	124
Property, plant and equipment	5	32.176	28.834	25.829	28.805	25.997	23.033
Investment property	6	3.021	121	147	3.948	1.091	1.160
Investments in subsidiaries and associates	1	1	1	1	3.152	3.152	3.152
Loans granted	7	1.839	2.364	3.848	1.839	2.364	3.848
Other financial assets		13	20	27	13	20	27
Deferred income tax asset	24	1.316	1.856	1.862	1.197	1.758	1.495
Total non-current assets		**38.522**	**33.316**	**31.838**	**39.109**	**34.501**	**32.839**
Current assets							
Inventories	8	29.501	25.555	24.966	27.457	23.874	23.091
Prepayments		213	198	362	200	152	348
Trade accounts receivable	9	17.127	16.779	12.628	17.072	16.771	12.089
Other accounts receivable	10	2.450	2.328	1.752	2.201	2.273	1.700
Cash and cash equivalents	11	12.277	17.000	10.223	4.688	10.921	4.827
Total current assets		61.568	61.860	49.931	51.618	53.991	42.055
TOTAL ASSETS		**100.090**	**95.176**	**81.769**	**90.727**	**88.492**	**74.894**
EQUITY AND LIABILITIES							
Capital and reserves							
Share capital	12	14.029	14.029	14.029	14.029	14.029	14.029
Own shares (-)	12	(1.323)	(1.323)	(1.323)	(1.323)	(1.323)	(1.323)
Legal reserve	12	1.401	1.401	1.401	1.401	1.401	1.401
Other reserves	12	5.000	4.565	4.565	5.000	4.566	4.566
Retained earnings		56.872	56.846	44.795	48.598	49.639	40.887
Equity attributable to equity holders of the Company		**75 979**	**75 518**	**63 467**	**67 705**	**68 312**	**59 560**
Non-controlling interest	15	1 585	1 437	980	-	-	-
Total Equity		**77 564**	**76 955**	**64 447**	**67 705**	**68 312**	**59 560**
Non-current liabilities							
Grants received	13	968	1.126	1.595	847	992	1.397
Long term provision for defined employee benefits	14	3.572	892	894	3.288	818	820
Total non-current liabilities		**4.540**	**2.018**	**2.489**	**4.135**	**1.810**	**2.217**
Current liabilities							
Obligations under finance lease		-	-	32	-	-	32
Trade accounts payable	18	9.995	9.035	6.308	11.433	11.722	7.500
Income tax payable		-	-	622	-	-	159
Accrued expenses and other current liabilities	14, 19	7.991	7.168	7.871	7.454	6.648	5.426
Total current liabilities		**17.986**	**16.203**	**14.833**	**18.887**	**18.370**	**13.117**
Total liabilities		**22.526**	**18.221**	**17.322**	**23.022**	**20.180**	**15.334**
TOTAL EQUITY AND LIABILITIES		**100.090**	**95.176**	**81.769**	**90.727**	**88.492**	**74.894**

* Certain amounts presented above do not correspond to the 2015 and 2016 Financial Statements but reflect corrections, disclosed in Note 4.

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

The financial statements were approved on 11 April 2018 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

(All amounts in EUR thousands unless otherwise stated)

		The Group		The Company	
	Notes	2017	2016 (restated*)	2017	2016 (restated*)
SALES	**20**	**172.280**	**149.897**	**170.849**	**147.616**
Cost of sales		(136.246)	(111.222)	(137.773)	(113.134)
GROSS PROFIT		**36.034**	**38.675**	**33.076**	**34.482**
Operating expenses	21	(29.500)	(19.931)	(28.362)	(20.524)
Other operating income and expenses	22	341	228	704	598
PROFIT (LOSS) FROM OPERATIONS		**6.874**	**18.972**	**5.419**	**14.556**
Other financial income and expenses	23	(82)	335	(49)	346
PROFIT (LOSS) BEFORE TAX		**6.792**	**19.307**	**5.368**	**14.902**
Income tax (benefit) expense	24	(1.394)	(1.243)	(1.187)	(593)
NET PROFIT (LOSS)		**5.398**	**18.064**	**4.182**	**14.309**
ATTRIBUTABLE TO:					
Equity holders of the Company		5.250	17.607	4.182	14.309
Non-controlling interest		148	457	-	-
		5.398	**18.064**	**4.182**	**14.309**
Basic and diluted earnings per share (EUR)	**16**	**0,11**	**0,38**	**0,09**	**0,31**
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods					
Actuarial gains (losses) from long term provision for defined employee benefits, less deferred income tax		(158)	-	(158)	-
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**(158)**	**-**	**(158)**	**-**
Total comprehensive income (loss) for the year, net of tax		**5.240**	**18.064**	**4.024**	**14.309**
ATTRIBUTABLE TO:					
Equity holders of the Company		5.092	17.607	4.024	14.309
Non-controlling interest		148	457	-	-
		5.240	**18.064**	**4.024**	**14.309**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections disclosed in Note 4.

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

The financial statements were approved on 11 April 2018 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

(All amounts in EUR, in thousands, unless otherwise stated)

The Group	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings (restated*)	Equity attributable to equity holders of the Company (restated*)	Non-controlling interest (restated*)	Total equity (restated*)
Balance as of 1 January 2016 (as previously reported)	14.029	(1.323)	1.401	4.565	40.378	59.050	990	60.040
Correction of error* (Note 4)	-	-	-	-	4.417	4.417	(10)	4.407
Balance as of 1 January 2016 (restated*)	14.029	(1.323)	1.401	4.565	44.795	63.467	980	64.447
Net profit (restated*)	-	-	-	-	17.607	17.607	457	18.064
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income (restated*)	-	-	-	-	17.607	17.607	457	18.064
Dividends	-	-	-	-	(5.557)	(5.557)	-	(5.557)
Balance as of 31 December 2016 (restated*)	14.029	(1.323)	1.401	4.565	56.845	75.517	1.437	76.954
Net profit	-	-	-	-	5.250	5.250	148	5.398
Other comprehensive income	-	-	-	-	(158)	(158)	-	(158)
Total comprehensive income	-	-	-	-	5.092	5.092	148	5.240
Dividends	-	-	-	-	(4.630)	(4.630)		(4.630)
Transfer to/from reserves	-	-	-	435	(435)	-	-	-
Balance as of 31 December 2017	14.029	(1.323)	1.401	5.000	56.872	75.979	1.585	77.564

(All amounts in EUR thousands unless otherwise stated)

The Company	**Share capital**	**Own shares (-)**	**Legal reserve**	**Other reserves**	**Retained earnings (restated*)**	**Total equity (restated*)**
Balance as of 1 January 2016	**14.029**	**(1.323)**	**1.401**	**4.565**	**36.393**	**55.065**
Correction of error* (Note 4)	-	-	-	-	**4.494**	**4.494**
Balance as of 1 January 2016 (restated*)	**14.029**	**(1.323)**	**1.401**	**4.565**	**40.887**	**59.559**
Net profit (restated*)	-	-	-	-	14.309	14.309
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income (restated*)					14.309	14.309
Dividends	-	-	-	-	(5.557)	(5.557)
Balance as of 31 December 2016 (restated*)	**14.029**	**(1.323)**	**1.401**	**4.565**	**49.639**	**68.311**
Net profit	-	-	-	-	4.182	4.182
Other comprehensive income	-	-	-	-	(158)	(158)
Total comprehensive income	-	-	-	-	4.024	4.024
Dividends	-	-	-	-	(4.630)	(4.630)
Transfer to reserves	-	-	-	435	(435)	-
Balance as of 31 December 2017	**14.029**	**(1.323)**	**1.401**	**5.000**	**48.598**	**67.705**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections disclosed in Note 4.

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

The financial statements were approved on 11 April 2018 and signed by:

Robertas Pažėmeckas
General Director

Dalia Gecienė
Senior accountant

(All amounts in EUR thousands unless otherwise stated)

		The Group		The Company	
	Notes	**2017**	**2016 (restated*)**	**2017**	**2016 (restated*)**
Cash flow from operating activities					
Profit (loss) for the period		5.398	18.064	4.182	14.309
Adjustments:					
Depreciation and amortization	5,6	4.053	4.987	3.776	4.492
Amortization of grants received	13	(360)	(469)	(347)	(405)
Gain (loss) on disposal and write offs of non-current assets		(34)	(24)	(24)	(24)
Corporate income tax expenses	24	539	(61)	561	(262)
Impairment (reversal) of accounts receivable	9	(212)	401	(212)	(120)
Net financial expenses (income)		93	(202)	93	(256)
Impairment (reversal) of inventories to net realizable value	8	1.698	(2.733)	1.358	(2.627)
Elimination of non-cash items		(159)	-	(159)	-
Net cash flows from ordinary activities before changes in working capital		**11.017**	**19.963**	**9.229**	**15.108**
Changes in working capital:					
(Increase) decrease in inventories	8	(5.725)	2.107	(4.941)	1.843
(Increase) decrease in trade receivables	9	(139)	(4.561)	(92)	(4.571)
(Increase) decrease in prepayments		(12)	162	(46)	192
(Increase) decrease in other receivables		(463)	(757)	(269)	(764)
(Decrease) increase in trade payables	18	960	2.727	(289)	4.222
(Decrease) increase other accounts payable	19	3.503	(310)	3.276	1.615
Bonus to board members paid		-	(395	-	(395)
Corporate income tax paid		-	(622)	-	(159)
Net cash flows from operating activities		**9.140**	**18.314**	**6.869**	**17.092**
Cash flows from (to) investing activities					
(Acquisition) of intangible assets and property, plant and equipment.	5	(10.258)	(7.949)	(9.489)	(7.410)
Proceeds on sale of property, plant and equipment		41	53	35	53
Repayment of loans granted		1.786	2.572	1.786	2.572
Loans granted	7	(918)	(888)	(918)	(888)
Interest received	23	83	108	83	108
Net cash flows (to) investing activities		**(9.266)**	**(6.104)**	**(8.504)**	**(5.566)**
Cash flows from (to) financing activities					
Dividends		(4.630)	(5.557)	(4.630)	(5.557)
Grants received	13	202	-	202	-
Financial lease payments		7	(25)	7	(25)
Other financial (income) and expenses	23	(176)	148	(175)	149
Net cash flows (to) financial activities		**(4.597)**	**(5.433)**	**(4.596)**	**(5.432)**
Net increase (decrease) in cash and cash equivalents		**(4.723)**	**6.777**	**(6.232)**	**6.093**
Cash and cash equivalents at the beginning of the year		**17.000**	**10.223**	**10.921**	**4.827**
Cash and cash equivalents at the end of the year		**12.277**	**17.000**	**4.688**	**10.921**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections disclosed in Note 4.

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

The financial statements were approved on 11 April 2018 and signed by:

Robertas Pažemeckas General Director	Dalia Gecienė Senior accountant

(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. The nominal value of one share is 0,29 EUR.

As at 31 December 2017 and 2016, its shares are held by the following shareholders:

Shareholder	31 12 2017 Number of shares	31 12 2017 Ownership %	31 12 2016 Number of shares	31 12 2016 Ownership %
Pažemeckas Algirdas	14.014 581	28,97%	25.003.342	51,69%
Pažemeckienė Danutė	14.014.581	28,97%	3.025.820	6,25%
AB Klaipėdos pienas, code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
UAB Baltic Holding, code 302688114. Vilhelmo Berbomo g. 9-4, Klaipėda	665.106	1,37%	665.106	1,37%
Other shareholders	16.778.888	34,69%	16.778.888	34,69%
Total share capital, shares units	**48.375.000**	**100,00%**	**48.375.000**	**100,00%**

Consolidated annual statement provides detailed information about the main shareholders, see p.26, footnotes 9,10.

As at 31 December 2017 the share capital of the Company was EUR 14.028.750. The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 par value each.

As at 31 December 2017 and 2016 the Group consisted of AB "Žemaitijos Pienas" and the subsidiary of the Company ABF Šilutės Rambynas as well as an associate Muizas Milk SIA (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2017	Cost of investment 2016	Net assets as of 31 December 2017	Main activities
Šilutės Rambynas ABF	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	3.150	3.150	13.131	Cheese production and selling
An associate	**Registration address**	**Ownership of the Group**	**Percentage in consolidation**	**Cost of investment 2017**	**Cost of investment 2016**	**Net assets as of 31 December 2017/2016**	**Main activities**
Muižas Milk SIA	Skaistkalnes 1, Riga, Latvia	31,67%	N/A	1	1	(145)/(146)	Dairy products wholesale

The net profit of Muižas Milk SIA for year 2017 and 2016 amounted to EUR 1 thousand and EUR 12 thousand respectively.

The subsidiary ABF Šilutės Rambynas and the associate Muizas Milk SIA do not hold any shares of AB "Žemaitijos Pienas" as at 31 December 2016 and 2017.

The Company employed 1.163 employees as at 31 December 2017 (1.214 employees as at 31 December 2016). The Group employed 1.355 employees as at 31 December 2017 (1.406 employees as at 31 December 2016).

The Company's management authorised these financial statements on 11 April 2018. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

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), as adopted in the European Union (hereinafter referred to as the EU).

The basis for preparation of financial statements

All financial information presented in Euro is rounded up to the nearest thousand (unless otherwise stated). Since the amounts in these financial statements are presented rounded up to the nearest thousand, amounts in tables may differ due to rounding.

The financial statements are prepared on the historical cost basis.

The 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. (also see Note 4). 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 in the period, during the 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, unless otherwise disclosed.

Consolidation principles and accounting for investments in subsidiaries and associates

The consolidated financial statements of the Group include AB Zemaitijos Pienas and its subsidiary as well as the associate. The financial statements of the subsidiaries and associate are prepared for the same reporting period, using consistent accounting policies.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests, if any, are shown separately in the statement of financial position and the statement of comprehensive income.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control.

Total comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

Interest in an associate

An associate is an entity in which the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting rights of another company.
The Group recognises its interest in the associate using the equity method. Under the equity method the investment in the associate is carried in the Statement of Financial position at cost plus post acquisition changes in the Company's share of the associate's net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The share of profit (loss) of an associate is shown on the face of the statement of comprehensive income (loss).

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment is assessed annually. Once recognized, impairment losses are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments (in the Company's separate accounts)

Interest in an associate

The Company accounts for its interest in the associate at cost less impairment. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

Interests in subsidiaries

Investment in subsidiary is measured at cost less impairment in the statement of financial position of the Company. Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or changes in circumstances indicate that the carrying value may exceed the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the investment. If such indications exist, the Company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its estimated recoverable amount, the investment is written down to its recoverable amount. Impairment loss is recognised in the statement of comprehensive income as general and administrative expense for the period.

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

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company and the Group as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combine versus separate assessment. The Amendments were not applicable for the Group and the Company.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments were not applicable for the Group and the Company.

Standards issued but not yet effective

The Company and the Group have not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Based on preliminary assessment made by the Management, implementation of the standard is expected to have limited or no impact because the Company/Group has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables. Since the sales are made at market price, and considering that historically there have been very rare cases of impairments of receivables, transferring from the incurred credit loss model to the expected credit loss model is considered to have limited or no impact to the Company's separate and Group's consolidated financial statements.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed the application of the standard. Based on the preliminary analyses performed, the Group and the Company do not expect significant impacts on its Financial Statements as the Group and the Company do not have long-term contracts with multi-element arrangements, no material contract costs are generally incurred or upfront payments made, contract modifications are rare, etc.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed the application of the standard and concluded that the implementation of this standard would not have significant impact for the financial statements of the Company and the Group.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Based on the preliminary assessment of the management, the impact of this standard might possibly be material (by increasing the value of lease assets and liabilities in the statement of financial position), however, as the assessment was not yet finalized the Management of the Company/Group do not yet disclose the impact amounts. The Company will adopt IFRS 16 for the financial year beginning as of 1 January 2019 and will disclose the impact of this adoption as soon as the assessment results are available.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRS 9: Prepayment features with negative compensation (Amendments)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. These Amendments would not have an effect on the Financial Statements of the Company and the Group since the Company and the Group do not have such financial assets.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment to the financial statements of the Company and the Group.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment to the financial statements of the Company and the Group.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset

or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities (adopting in 2018) and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These amendments will not have any impact on the financial statements of the Company and the Group.

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

  The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

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  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Company and the Group plans to adopt the above mentioned annual improvements not earlier than their effective date provided they are endorsed by the EU.

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/Group'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/Group 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/Group and the cost of an item can be measured reliably. All other costs are recognised in the statement of comprehensive income as incurred.

Depreciation

Depreciation is 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 intangible assets residual value is zero, with the exception of the cases when the Company/Group has reasonable evidence of a different liquidation value. The Company/Group revises the residual value each year.

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

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

The useful life of the Company's/Group's non-current tangible asset 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 life of non-current tangible assets.

By decision of the Company's/Group's management, starting from 1 January 2017, 10-15 years' useful operation periods are applied for the newly acquired production lines (accounted for under machinery and equipment group).

The average useful operation periods for separate groups of the Company's/Group'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.

Constructions in progress

Constructions in progress is accounted at the acquisition cost, less impairment. The acquisition cost 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 is 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 or capital appreciation, 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.
Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.
Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

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/Group 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.
Impairment of non-current intangible assets is estimated when there are signs that the assets may have been affected by obsolescence.
The useful life, residual 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/Group has no intangible assets with indefinite operation period.

Leased assets

Leases, in terms of which the Company/Group 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.
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset.

Inventories

Inventories, including production in progress and finished products, are accounted in financial statements at the lower of (cost price or potential net realisation values after impairment evaluation for obsolete and slow moving items). 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.
Writing 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. Unrealisable inventory is fully written-off.
The cost of inventories is determined 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 related to cost composition

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

Grants that 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, recorded as deferred income 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/Group's assets, except for inventories and deferred tax assets, 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.

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 form other assets or asset groups. Impairment losses are recognised in the statement of comprehensive income.

Financial assets

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.

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 the 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.

Financial assets

The recoverable amount of the Company's/Group'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

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.

Financial assets

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.

Dividends

Dividends are recognised as a liability in the period in which they are declared (i.e. approved by the shareholders).

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 at 31 December 2017 and 2016, the applicable rates used for principal currencies were as follows:

	year 2017	
1 USD	=	0,83381973 EUR

	year 2016	
1 USD	=	0,956663 EUR

Non-derivative financial instruments

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

Cash and cash equivalents include cash balances and demand deposits.

Non-derivative financial instruments are initially recognised at fair value plus (except for the instruments recognised in the statement of comprehensive income 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/Group 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. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

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 years ended as at 31 December 2017 and 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.

Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company/Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the methods described Note 26. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Long term defined employee benefits

Social security contributions

The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in staff costs.

Defined benefit obligations

(1) Long-term employee benefits (i.e. bonus plans as per employee additional rewards policy)

The Company/Group is paying benefits to its employees based on employee additional rewards policy, which depends on the employees' years of service and are payable on certain anniversaries such as 10, 15, 20, 25 and so, on years spent at the Company/Group. The base rewards amounts as per this policy have been significantly increased in 2017 which is why the obligation as at 31 December 2017 has significantly increased compared to 2016.

These employee additional rewards benefit obligations are calculated based on actuarial assumptions, using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasuments are not reclassified to profit or loss in subsequent periods.

Obligation is recognised in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits.

(2) Post retirement employee benefits

According to the requirements of the Lithuanian Labour Code, each employee leaving the Company/Group at the age of retirement is entitled to a one-off payment amounting to two-month salary.

Current year cost of employee benefits is recognised as incurred in the statement of comprehensive income. The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred.

Post retirement employee benefit obligations are calculated based on actuarial assumptions, using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasuments are not reclassified to profit or loss in subsequent periods.

Obligation is recognised in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits.

Revenue

Sales of goods

Revenue from the sale of goods is recognised in the statement of comprehensive income when significant risk and rewards associated with the goods are transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company/Group 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.

The Company sells raw-materials (i.e. milk) that is purchased from milk-suppliers to its subsidiary. Since these raw materials are main ingredient used for production of cheese that is being produced by the subsidiary, the revenues and cost of such raw-materials are accounted at net values in the Company's separate financial statements.

When, the Company sells goods purchased from its subsidiary to third parties (retail Companies), the Company bears all of the risks with regards to these transactions and therefore, accounts for this revenues on gross basis.

Services rendered, assets disposed, interest income

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

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

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

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

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.

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.

Segment reporting

Segment is a distinguishable component of the Company/Group 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

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, including also adjustments in respect of prior years. The tax rates used to compute the amount are those that are (substantially) enacted by the date of the statement of financial position.

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The effective income tax rate applicable for companies of the Republic of Lithuania in 2017 was 15 % (15 % – in 2016).

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred taxes are calculated using the liability method.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised in the statement of financial position to the extent the Management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Starting from 1 January 2014 deductible tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company/Group stops its activities due to which these losses were incurred except when the Company/Group does not continue its activities due to reasons which do not depend on the Company/Group itself.
The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

According to legislation on taxation in effect, the Tax Authorities may at any time during 5 succesive years after the end of the reporting tax year carry out a tax inspection of the Company and the Group entities and impose additional taxes or fines by reassesing taxes calculations. The Group's management believe that all the taxes are properly calculated and paid according to the prevailing tax laws and it is not aware of any circumstances that may give rise to a potential material liability in respect of taxes not paid.

Basic and diluted earnings (loss) per share

The Company/Group 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/Group by the weighted average number of ordinary shares outstanding in 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 the reporting periods there were no any dilutive potential ordinary shares issued by the Company/Group.

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 needs, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no material doubts in the assessment of continuity of the Company's/Group's activities or doubts concerning its further operation.

The Company/Group 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.

At the date of the preparation of these financial statements, the underlying assumptions and estimates were not subject to a significant risk that the carrying amounts of assets and liabilities will have to be adjusted significantly as a result of changes in estimates in the subsequent financial year.

Impairment losses on receivables

The Company/Group reviews its receivables to assess impairment regularly. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Company/Group 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 as well as if 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.

Accounts receivable impairment losses are usually recognised after the delay of payment in according to payment terms for 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.

For the assessment of allowance on related party trade receivables, please refer to Note 27.

Inventory net realizable value and provision for obsolescence

Inventories include a significant part of the Group's and the Company's total assets in the statement of financial position. As at 31 December 2017 and 2016 the Group's and the Company's management assessed whether carrying value of the outstanding stock was not higher than its net realizable value (as further described in Note 8). The management has also assessed the allowance for obsolete inventories, by determining obsolescence rates (based both on historical data and also future expected sales) and assessing whether allowance for obsolete inventories is adequate. As at 31 December 2017 / 2016 the Group's and the Company's allowance for the inventories amounted to EUR 4.538 thousand and EUR 3.994 thousand (EUR 2.840 thousand and EUR 2.636 thousand, respectively, as at 31 December 2016). The Company has formed this allowance by assessing various obsolescence related information (such as: production date, taste specifics, etc) and also the Management's forecast of future sales. Based on Company's policy, 100% allowance for matured hard cheese over 5 years has been formed, while for matured hard cheese betwenn 3-5 years maturity partial allowance is being recorded. More information about the management's assessment of net realizable value and allowance for obsolete inventories is provided in Note 8.

Related-party transactions

In the normal course of business the Company and the Group enter into transactions with their related parties. These transactions are aimed to be priced predominantly at market rates. Judgment is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties, when such information is known to the Company/ Group.

Long-term defined benefit obligations

As disclosed in Note 3 of these financial statements, the Company/ Group have accounted for long-term defined benefit obligations for its employees based on the requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's/Group's employee additional rewards policy.

As further disclosed in Note 14, the determination of the present value amount of these future obligations involves significant judgement in areas such as: inflation rate, employee turnover rate, interest discount rate, etc.

Profit-sharing bonuses to suppliers

The Company/Group pays various types of bonuses to the milk suppliers, most of which are based on the quantity and quality of the milk and are paid out on a regular basis. Besides this, the Company/Group at its own discretion depending on various other factors (such as: the market conditions, quality of milk, Company's/Group's results, etc.) may also pay additional annual profit sharing bonuses to its suppliers.

The Management of the Company exercises significant judgment when deciding both on the actual amount of bonuses to be paid and also on whether these bonuses are actually going to be paid out.

As at 31 December 2017 and 2016 the Company/Group have not recorded any liability with regards to these additional annual bonuses as there was no contractual obligation existing as at 31 December 2017 and 2016 with the suppliers and the payment of these bonuses is solely at the discretion of the Company/Group. Moreover, historically the Company/the Group has not been regularly paying these additional annual profit sharing bonuses to its suppliers. Therefore this does not create a constructive obligation.

The Company has an intention to pay for such bonuses during 2018, however as at the date of these financial statements, the Company has not yet signed separate agreements with the suppliers with regards to these bonuses, and accordingly no such payments have been made yet. The Company has not recorded any provision as at 31 December 2017 with this respect.

Contingencies

As disclosed in Note 25 of these financial statements, the Company/Group had several open legal cases for which the final outcome and the potential outflow of resources embodying economic benefits was not yet known and therefore difficult to anticipate. Based on the current Management's judgement it is more likely than not, that the Company/Group will not suffer material consequences as the outcome of these cases.

The Management of the Company exercises significant judgment in determining whether the potential impact of an open legal case may have a material impact on the financial statements and accordingly whether a provision at the balance sheet date shall be made, as well as whether and what disclosures are required related to such cases.

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/Group's tax planning strategies.

Corrections of accounting estimates and errors

Change of an accounting estimate is a correction of the carrying 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 emerges new information or experience. Due to its nature, a revision of an estimate is recorded prospectively.

During 2017 the Company and the Group partly reconsidered estimates in respect of useful lives on certain items of property plant and equipment as further disclosed in Note 5.

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

The corrections of the previous reporting period may result from misstatements in the financial statements for one or more prior periods arising from a failure to use comprehensive and/or reliable information that was available when financial statements for those periods were authorised for issue, and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements

Among such corrections 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.
They are corrected retrospectively in the comparative information, provided in the financial statements for the current reporting period.

In the financial statements of the Company and the Group the following retrospective corrections have been made:

1) In 2016, the Company/the Group have recorded a transfer of construction in progress to tangible assets by recording the payable amount to the supplier as reduction in the 'Property, plant and equipment' caption. Consequently, 'Property, plant and equipment' and 'Accrued expenses and other current liabilities' have been corrected and increased by EUR 843 thousand as at 31 December 2016.
2) As of 31 December 2016 and 1 January 2016 the Company/the Group have accounted for accrued additional bonuses to suppliers. Consequently, corrections made for the 31 December 2016 balances include a reduction of 'Trade accounts payable' caption by EUR 7.000 thousand and 'Cost of sales' for 2016 by EUR 742 thousand. Similarly, in the opening 1 January 2016 balances of 'Trade accounts payable' and retained earnings have been reduced by EUR 6.258 thousand.
3) In 2016, the Company/the Group have not allocated indirect manufacturing expenses (overheads) to the value of year-end inventories . Consequently, corrections have been made by increasing the "Inventories" account by EUR 723 thousand as of 31 December 2016 and reducing the 'Cost of sales' for 2016 account by this amount.
4) In 2016, the Company/the Group have not properly accounted for the net realisable value inventory allowance. Correction includes a reduction of 'Inventories' by EUR 135 thousand as of 31 December 2016 and increase in 'Operating expenses' for 2016 by the same amount.
5) In 2016, the Company/the Group have evaluated allowance of 'Trade accounts receivable' from related parties not fully taking into account all the available information. Correction of the evaluation includes an increase of 'Trade accounts receivable" account by EUR 1.181 thousand as of 31 December 2016 and the reduction of 'Operating expenses' for 2016 by the corresponding amount.

6) Historically, the Company and the Group have not recorded an accrual for defined benefit obligation relating to retiring employees, which is required according to a provision included in the Lithuania's Labour Code as well as in the Company's and Group's employee additional rewards policy regarding entitlement to additional bonuses to employees. Corrections made in the Company's 2016 opening balances include an increase in 'Long-term provision for defined employee benefits' and 'Accrued expenses and other current liabilities' by EUR 818 thousand and EUR 154 thousand, respectively. Consequently, the opening 2016 'Retained earnings' of the Company have been reduced by EUR 971 thousand. Corrections made in the Group's opening 2016 'Retained Earnings' include an increase in 'Long-term provision for defined employee benefits' and 'Accrued expenses and other current liabilities' by EUR 892 thousand and EUR 182 thousand, respectively. Consequently, the opening 2016 'Retained earnings' of the Group have been reduced by EUR 1.074 thousand. Corrections of a similar kind have also been made in the Company's and the Group's 2016 statement of comprehensive income and the statement of financial position as of 31 December 2016, as presented below in the following pages.
7) In 2016, the Company/the Group have accounted for a bonus allocation to its Board Members through retained earnings instead of accounting them through the statement of comprehensive income. Consequently, corrections made include an increase in 'Retained earnings' by EUR 749 thousand as of 31 December 2016 and a increase in 'Operating expenses' for 2016 by the same amount.
8) In 2016 and the opening 2016 balances the Company and the Group have accounted for deferred tax asset amendments related to the above mentioned corrections No. 2-7.
    a. Corrections included as of 31 December 2015 and 2016 as well through the year 2016 in respect of deferred tax asset also include adjustments to recognition of deferred tax asset from unused investment incentive (EUR 750 thousand) and certain other accounting misstatements.
    b. The subsidiary, as it is stated above in correction No. 6, historically did not record the accrual either. Therefore, the additional recognition of deferred tax asset was made in amount of EUR 15 thousand. The opening balance of 2016 of 'Retained earnings' and 'Deferred income tax asset' was increased by EUR 15 thousand additionally.
9) In 2016, the Company has not split the vacation reserve change between the appropriate classes through profit and loss. Consequently, corrections made include a decrease in 'Cost of sales' by EUR 292 thousand and an increase in 'Operating expenses' account by the amount.
10) In 2016 and 2015 the Company/the Group has not classified the inventories related to tangible non-current assets to construction in progress. Consequently, corrections made in 2016 and 2015 include the increase in the Group's account 'Tangible assets' by EUR 265 thousand and EUR 228 thousand, respectively. Accordingly, the Group's account 'Inventories' has been decreased by the corresponding amounts.

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position:

Corrections for the year 2016

		The Company									
ASSETS	Notes	31st Dec 2016 before corrections	Correction of construction in progress balance 1)	Correction of bonus accrual for suppliers 2)*	Allocation of indirect overhead expenses 3)	Net realizable value of inventories 4)	Reversal of allowance of trade receivables from related parties 5)	Accounting for defined benefit obligation 6)*	Accounting for Board's bonuses 7)	Correction of deferred income tax 8)*	31st Dec 2016 after corrections
Non-current assets											
Intangible assets	5	119									119
Property, plant and equipment	5	25.154	843								25.997
Investment assets	6	1.091									1.091
Investments into subsidiaries	1	3.152									3.152
Loans granted	7	2.365									2.365
Other financial assets		20									20
Deferred income tax asset	24	2.068								(793*) + 482	1.758
Total non-current assets		**33.968**									**34.501**
Current assets											
Inventories	8	23.287			723	(135)					23.874
Prepayments		153									153
Trade accounts receivable	9	15.590					1.181				16.771
Other accounts receivable	10	2.273									2.273
Cash and cash equivalents	11	10.921									10.921
Total current assets		**52.223**									**53.991**
TOTAL ASSETS		**86.191**									**88.492**

**Correction for FY 2015 balance*

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position (continued)

Corrections for the year 2016

EQUITY AND LIABILITIES	Notes	31st Dec 2016 before corrections	Correction of construction in progress balance 1)	Correction of bonus accrual for suppliers 2)*	Allocation of indirect overhead expenses 3)	Net realizable value of inventories 4)	Reversal of allowance of trade receivables from related parties 5)	Accounting for defined benefit obligation 6)*	Accounting for Board's bonuses 7)	Correction of deferred income tax 8)*	31st Dec 2016 after corrections
Capital and reserves											
Share capital	12	14.029									14.029
Own shares (-)		(1.323)									(1.323)
Legal reserve		1.401									1.401
Other reserves		4.565									4.565
Retained earnings		30.087		6.258				(972)	749	(793)	35.330
FY 2016 result		12.065		742	723	(135)	1.181		(749)	482	14.309
Equity attributable to equity holders of the Company		**60.824**									**68.312**
Non-controlling interest		-									-
Total Equity		**60.824**									**68.312**
Non-current liabilities											
Grants received	13	992									992
Long-term provision for defined employee benefits	14	-						818			818
Total non-current liabilities		**992**									**1.810**
Current liabilities											
Trade accounts payable	18	18.722		(7.000)							11.722
Accrued expense and other current liabilities	14, 19	5.652	843					154			6.648
Total current liabilities		**24.375**									**18.371**
Total liabilities		**25.367**									**20.180**
TOTAL EQUITY AND LIABILITIES		**86.191**									**88.492**

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position (continued)

Corrections for the year 2015	The Company					
ASSETS	**Notes**	**1st Jan 2016 before corrections**	**Accounting for defined benefit obligation 6)**	**Correction of bonus accrual for suppliers 2)**	**Correction of deferred income tax 8)**	**1st Jan 2016 after corrections**
Non-current assets						
Intangible assets	5	124				124
Property, plant and equipment	5	23.033				23.033
Investment assets	6	1.160				1.160
Investments into subsidiaries	1	3.152				3.152
Loans granted	7	3.848				3.848
Other financial assets		27				27
Deferred income tax asset	24	2.289			(793)	1.495
Total non-current assets		**33.633**				**32.840**
Current assets						
Inventories	8	23.091				23.091
Prepayments		345				345
Trade accounts receivable	9	12.089				12.089
Other accounts receivable	10	1.700				1.700
Cash and cash equivalents	11	4.827				4.827
Total current assets		**42.052**				**42.052**
TOTAL ASSETS		**75.685**				**74.892**
Capital and reserves						
Share capital	12	14.029				14.029
Own shares (-)		(1.323)				(1.323)
Legal reserve		1.401				1.401
Other reserves		4.565				4.565
Retained earnings		36.393	(972)	6.258	(793)	40.887
Equity attributable to equity holders of the Company		**55.065**				**59.559**

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position (continued)

Corrections of the year 2015		The Company				
EQUITY AND LIABILITIES	**Notes**	**1st Jan 2016 – before corrections**	**Accounting for defined benefit obligation 6)***	**Correction of bonus accrual for suppliers 2)***	**Correction of deferred income tax 8)***	**1st Jan 2016 after corrections**
Non-current liabilities						
Grants received	**13**	1.397				1.397
Long-term provision for defined employee benefits	**14**	2	818			820
Total non-current liabilities		**1.399**				**2.217**
Current liabilities						
Obligations under finance lease		32				32
Trade accounts payable	**18**	13.759		(6.258)		7.500
Income tax payable		159				159
Accrued expense and other current liabilities	**14, 19**	5.271	154			5.426
Total current liabilities		**19.221**				**13.117**
Total liabilities		**20.620**				**15.334**
TOTAL EQUITY AND LIABILITIES		**75.685**				**74.892**

*Corrections made have a rolling effect on FY 2016 financial statements (please refer to the Company's and the Group's correction of error disclosures above)

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position (continued)

Corrections for the year 2016		The Group					
ASSETS	Notes	31st Dec 2016 before corrections	Corrections of AB Žemaitijos Pienas	Construction in progress reclassification 10)	Accounting for defined benefit obligation 6)*	Correction of deferred income tax 8)*	31st Dec 2016 after corrections
Non-current assets							
Intangible assets	5	120					120
Property, plant and equipment	5	27.726	843	265			28.834
Investment assets	6	121					121
Investments into subsidiaries	1	1					1
Loans granted	7	2.365					2.365
Other financial assets		20					20
Deferred income tax asset	24	2.150	(310)			15	1.855
Total non-current assets		**32.503**					**33.316**
Current assets							
Inventories	8	25.233	587	(265)			25.555
Prepayments		198					198
Trade accounts receivable	9	15.598	1.181				16.779
Other accounts receivable	10	2.328					2.328
Cash and cash equivalents	11	17.000					17.000
Total current assets		**60.357**					**61.860**
TOTAL ASSETS		**92.860**					**95.176**
EQUITY AND LIABILITIES							
Capital and reserves							
Share capital	12	14.029					14.029
Own shares (-)		(1.323)					(1.323)
Legal reserve		1.401					1.401
Other reserves		4.565					4.565
Retained earnings		33.615	5.242		(92)	15	38.782
FY 2016 result		15.820	2.244				18.064
Equity attributable to equity holders of the Company		**68.107**					**75.518**
Non-controlling interest		1.447			(10)		1.436
Total Equity		**69.554**					**76.954**
Non-current liabilities							
Grants received	13	1.126					1.126
Long-term provision for defined employee benefits	14	-	818		74		892
Total non-current liabilities		**1.126**					**2.018**
Current liabilities							
Accrued expense and other current liabilities	18	16.035	(7 000)				9.035
Accrued expenses and other current liabilities	14, 19	6.144	997		28		7.168
Total current liabilities		**22.179**					**16.203**
Total liabilities		**23.305**					**18.221**
		-					-
TOTAL EQUITY AND LIABILITIES		**92.859**					**95.176**

*Retrospective correction from FY 2015 (please refer to the Company's and the Group's correction of error disclosures above)

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of financial position (continued)

Corrections for the year 2015		The Group					
ASSETS	**Notes**	**1st Jan 2016 before corrections**	**Corrections of AB Žemaitijos pienas**	**Construction in progress reclassification 10)**	**Accounting for defined benefit obligation 6)**	**Correction of deferred income tax 8)**	**1st Jan 2016 after corrections**
Non-current assets							
Intangible assets	5	124					124
Property, plant and equipment	5	25.601		228			25.829
Investment assets	6	147					147
Investments into subsidiaries	1	1					1
Loans granted	7	3.848					3.848
Other financial assets		27					27
Deferred income tax asset	24	2.639	(793)			15	1.861
Total non-current assets		**32.387**					**31.837**
Current assets							
Inventories	8	25.194		(228)			24.966
Prepayments		360					360
Trade accounts receivable	9	12.628					12.628
Other accounts receivable	10	1.752					1.752
Cash and cash equivalents	11	10.223					10.223
Total current assets		**50.157**					**49.929**
TOTAL ASSETS		**82.544**					**81.766**
EQUITY AND LIABILITIES							
Capital and reserves							
Share capital	12	14.029					14.029
Own shares (-)		(1.323)					(1.323)
Legal reserve		1.401					1.401
Other reserves		4.565					4.565
Retained earnings		40.378	4.494		(92)	15	44.795
Equity attributable to equity holders of the Company		**59.050**					**63.464**
Non-controlling interest		990			(10)		980
Total Equity		**60.040**					**64.444**
Non-current liabilities							
Grants received	13	1.595					1.595
Long-term provision for defined benefit obligation	14	2	818		74		894
Total non-current liabilities		**1.597**					**2.489**
Current liabilities							
Obligations under finance lease		32					32
Trade accounts payable	18	12.566	(6.258)				6.308
Income tax payable		622					622
Accrued expenses and other current liabilities	14, 19	7.689	154		28		7.871
Total current liabilities		**20.909**					**14.833**
Total liabilities		**22.506**					**17.322**
TOTAL EQUITY AND LIABILITIES		**82.546**					**81.766**

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of comprehensive income

Corrections for the year 2016	Notes	The Company									
		31st Dec 2016 before corrections	Correction of bonus accrual for suppliers 2)	Split of change of vacation reserve between cost of sales and operating expenses 9)	Allocation of indirect overhead expenses 3)	Net realizable value of inventories 4)	Reversal of allowance of trade receivables from related parties 5)	Accounting for defined benefit obligation 6)	Accounting for Board's bonuses 7)7)	Correction of deferred income tax 8)	31st Dec 2016 after corrections
SALES		**147.616**									**147.616**
Cost of sales		(114.891)	742	292	723						(113.134)
GROSS PROFIT		**32.725**									**34.482**
Operating expenses		(20.528)		(292)		(135)	1.181		(749)		(20.524)
Other operating income and expenses		598									598
(LOSS) PROFIT FROM OPERATIONS		**12.795**									**14.556**
Other financial income and expenses		346									346
(LOSS) PROFIT BEFORE TAX		**13.141**									**14.902**
Income tax (benefit) expense		(1.076)								482	(593)
TOTAL INCOME FOR PERIOD		**12.065**	**742**	**-**	**723**	**(135)**	**1.181**	**0**	**(749)**	**482**	**14.309**
ATTRIBUTABLE TO:											
Equity holders of the Company		12.065									14.309
Non-controlling interest		-									-
		12.065									**14.309**
Basic and diluted earnings per share (EUR)		**0,26**									**0,31**

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected statements of comprehensive income

Corrections for the year 2016	The Group		
	31st Dec 2016 before correction	Corrections of AB Žemaitijos pienas	31st Dec 2016 after correction
SALES	**149.897**		**149.897**
Cost of sales	(112.979)	1.757	(111.222)
GROSS PROFIT	**36.918**	**1.757**	**38.675**
Operating expenses	(19.936)	5	(19.931)
Other operating income and expenses	228		228
(LOSS) PROFIT FROM OPERATIONS	**17.211**	**1.761**	**18.972**
Finance costs	-		-
Other financial income and expenses	335		335
(LOSS) PROFIT BEFORE TAX	**17.546**	**1.761**	**19.307**
Income tax (benefit) expense	(1.726)	483	(1.243)
LAIKOTARPIO BENDROSIOS PAJAMOS	**15.820**	**2.244**	**18.064**
ATTRIBUTABLE TO:			
Equity holders of the Company	15.363	**2.244**	17.607
Non-controlling interest	457		457
	15.820	**2.244**	**18.064**
Basic and diluted earnings per share (EUR)	0,33		0,39

(All amounts in EUR thousands unless otherwise stated)

Retrospectively corrected Cash flow statements for 2016:

	The Group			The Company		
	2016 before correction	2016 after corrections	The difference for the year 2016	2016 before correction	2016 after corrections	The difference for the year 2016
Cash flow from operating activities						
Profit(loss) for the period	15.820	18.064	2.244	12.065	14.309	2.244
Adjustments:						
Depreciation and amortization	4.987	4.987	-	4.492	4.492	-
Amortization of grants received	(469)	(469)	-	(405)	(405)	-
Gain (loss) on disposal and write-off of non-current assets	(24)	(24)	-	(24)	(24)	-
Corporate income tax expenses	489	(61)	(550)	220	(262)	(482)
Impairment of accounts receivable	1.582	401	(1.181)	1.061	(120)	(1.181)
Net financial expenses (income)	(335)	(202)	133	(346)	(256)	90
Impairment of inventories to net realizable value	(2.868)	(2.733)	135	(2.762)	(2.627)	135
Elimination of non-cash items	(1.867)	-	1.867	(2)	-	2
Net cash flows from ordinary activities before changes in working capital	**17.315**	**19.963**	**2.648**	**14.300**	**15.108**	**808**
Changes in working capital:						
(Increase) in inventories	2.829	2.107	(721)	2.566	1.843	(723)
Decrease (increase) in trade and other receivables	(4.561)	(4.561)	-	(4.571)	(4.571)	-
(Increase) decrease in prepayments	162	162	-	192	192	-
(Increase) in other prepayables	917	(757)	(1.674)	920	(764)	(1.684)
(Decrease) increase in trade payables	3.469	2.727	(742)	4.964	4.222	(742)
(Decrease) increase in other payables	315	(310)	(625)	381	1.615	1.234
Bonus to board members paid		(395)	(395)		(395)	(395)
Income tax (paid)	(622)	(622)	-	(159)	(159)	-
Net cash flows from operating activities	**19.825**	**18.314**	**(1.509)**	**18.593**	**17.092**	**(1.502)**
Cash flows from (to) investing activities						
(Acquisition) of tangible and non-tangible assets	(9.098)	(7.949)	1.149	(8.559)	(7.410)	1.149
Proceeds from sale of tangible assets	61	53	(8)	60	53	(8)
Collection of loans granted	2.572	2.572	-	2.572	2.572	-
Loans granted	(888)	(888)	-	(888)	(888)	-
Interest received	108	108	-	108	108	-
Net cash flows (to) investing activities	**(7.245)**	**(6.104)**	**1.141**	**(6.708)**	**(5.566)**	**1.141**
Cash flows from (to) financing activities						
Dividends	(5.952)	(5.557)	395	(5.952)	(5.557)	395
Financial lease payments	(32)	(25)	7	(32)	(25)	7
Other income from financial activities	181	148	(33)	191	149	(42)
Net cash flows from (to) financing activities	**(5.803)**	**(5.828)**	**370**	**(5.792)**	**(5.432)**	**360**
Net (decrease) increase in cash and cash equivalents	**6.777**	**6.777**		**6.093**	**6.093**	-
Cash and cash equivalents at the beginning of the year	**10.223**	**10.223**	-	**4.827**	**4.827**	-
Cash and cash equivalents at the end of the year	**17.000**	**17.000**	-	**10.921**	**10.921**	-

(All amounts in EUR thousands unless otherwise stated)

5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Changes in intangible assets of the Group:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 1 January 2016	**39**	**237**	**394**	**670**
-acquisition	43	8	47	98
-sold or written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	**81**	**240**	**357**	**679**
-acquisition	23	1	87	111
-sold or written-off assets		-	(6)	(6)
As of 31 December 2017	**105**	**241**	**438**	**784**
Accumulated amortisation				
As of 1 January 2016	**37**	**183**	**325**	**545**
-amortization	13	29	61	103
-amortization of transferred and written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	**49**	**208**	**302**	**559**
-amortization	17	19	39	74
-amortization of transferred and written-off assets	-	-	(6)	(6)
As of 31 December 2017	**66**	**226**	**335**	**627**
Net Book Value				
As of 1 January 2016	**2**	**53**	**69**	**124**
As of 31 December 2016	**32**	**33**	**55**	**120**
As of 31 December 2017	**39**	**14**	**103**	**156**

Changes in intangible assets of the Company:

The Company	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 1 January 2016	**39**	**224**	**394**	**657**
-acquisition	43	7	47	97
-sold or written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	**81**	**226**	**357**	**665**
-acquisition	23	0	87	110
-sold or written-off assets	-	-	(6)	(6)
As of 31 December 2017	**105**	**226**	**438**	**769**
Accumulated amortisation				
As of 1 January 2016	**37**	**171**	**325**	**533**
-amortization	13	29	61	102
-amortization of transferred and written-off assets	-	(5)	(84)	(89)
As of 31 December 2016	**49**	**195**	**302**	**547**
-amortization	17	18	39	74
-amortization of transferred and written-off assets	-	-	(6)	(6)
As of 31 December 2017	**66**	**213**	**335**	**614**
Net Book Value				
As of 1 January 2016	**2**	**53**	**69**	**124**
As of 31 December 2016	**32**	**31**	**55**	**119**
As of 31 December 2017	**39**	**13**	**103**	**155**

In 2017 amortization of non-current intangible assets of the Group and the Company amounts to EUR 74 thousand and EUR 74 thousand respectively (In 2016 – EUR 103 thousand and EUR 102 thousand, respectively). Amortisation expenses of intangible assets are recognised as Operating expenses in the statement of comprehensive income (Note 21).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2017 amount to EUR 111 thousand and EUR 110 thousand, respectively (In 2016 - EUR 98 thousand and EUR 97 thousand). All the acquisitions above are located in Lithuania.

As at 31st December 2017, the Company and the Group have EUR 534 thousand and EUR 545 thousand, respectively, of fully amortized non-current intangible assets that are still in use.

(All amounts in EUR thousands unless otherwise stated)

Changes in property, plant and equipment of the Group:

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments (restated*)	Total (restated*)
Acquisition cost						
As of 1 January 2016 (as previously reported)	**13.700**	**50.340**	**11.236**	**4.432**	**10.506**	**90.214**
Correction (Note 4)					**228**	**228**
As of 1 January 2016 (restated*)	**13.700**	**50.340**	**11.236**	**4.432**	**10.734**	**90.443**
-acquisition*	2.497	2.176	634	310	1.278	6.895
-sold or written-off assets	(20)	(101)	(173)	(177)	-	(471)
-adding value	-	973	-	19	-	992
-reclassification	1.609	8.375	135	-	(10.119)	-
As of 31 December 2016 (restated*)	**17.786**	**61.762**	**11.832**	**4.585**	**1.893**	**97.859**
-acquisition	211	2.109	559	246	6.280	9.404
-sold or written-off assets	(3)	(119)	(227)	(1.754)	-	(2.102)
-reclassification	5	353	-	-	(359)	-
-transfers to investment property	(2.275)	-	-	-	-	(2.275)
As of 31 December 2017	**15.724**	**64.106**	**12.164**	**3.076**	**7.814**	**102.886**
Accumulated depreciation						
As of 1 January 2016	**7.629**	**42.765**	**10.402**	**3.773**	**-**	**64.569**
-depreciation	710	3.389	420	335	-	4.855
-depreciation of written-off and sold assets	(15)	(90)	(163)	(168)	-	(436)
As of 31 December 2016	**8.324**	**46.064**	**10.659**	**3.940**	**-**	**68.988**
-depreciation	529	2.663	300	315		3.807
-depreciation of written-off and sold assets	(2)	(114)	(227)	(1.749)		(2.092)
-reclassification	4	-	-	-	-	4
-transfers from/to investment property	(32)	-	-	-	-	(32)
As of 31 December 2017	**8.822**	**48.613**	**10.732**	**2.506**	**-**	**70.675**
Impairment						
As of 1 January 2016	**40**	**1**	**-**	**2**	**2**	**46**
- impairment losses	(1)	(1)	-	(2)	-	(4)
-reversal of impairment	(4)	-	-	-	-	(4)
As of 31 December 2016	**35**	**-**	**-**	**-**	**2**	**38**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(4)	-	-	-	-	(4)
As of 31 December 2017	**31**	**-**	**-**	**-**	**2**	**34**
Net book value						
As of 1 January 2016 (restated*)	**6.031**	**7.575**	**834**	**658**	**10.732**	**25.829**
As of 31 December 2016 (restated*)	**9.427**	**15.698**	**1.173**	**645**	**1.891**	**28.834**
As of 31 December 2017 (restated*)	**6.871**	**15.493**	**1.432**	**570**	**7.812**	**32.176**

(All amounts in EUR thousands unless otherwise stated)

Changes in property, plant and equipment of the Company:

The Company	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments (restated*)	Total (restated*)
Acquisition cost						
As of 1 January 2016	**8.767**	**44.570**	**8.185**	**4.010**	**10.504**	**76.036**
-acquisition*	1.718	2.798	687	273	843	6.319
-sold or written-off assets	(20)	(92)	(145)	(152)	-	(409)
-adding value	-	973	-	19	-	992
-reclassification	2.369	7.374	-	-	(9.742)	-
As of 31 December 2016 (restated*)	**12.834**	**55.623**	**8.727**	**4.150**	**1.605**	**82.939**
-acquisition	211	2.002	494	188	5.579	8.474
-recalculation of the accounting policy change	(3)	(116)	(227)	(1.754)	-	(2.099)
-sold or written-off assets	-	63	-	17	-	80
-transfers to investment property	(2.275)	-	-	-	-	(2.275)
As of 31 December 2017	**10.767**	**57.573**	**8.994**	**2.601**	**7.184**	**87.119**
Accumulated depreciation						
As of 1 January 2016	**4.399**	**37.810**	**7.372**	**3.418**	-	**52.999**
-depreciation	576	3.036	402	307	-	4.321
-depreciation of written-off and sold assets	(19)	(81)	(135)	(144)	-	(379)
As of 31 December 2016	**4.956**	**40.765**	**7.639**	**3.581**	-	**56.941**
-depreciation	428	2.507	279	279	-	3.493
-depreciation of written-off and sold assets	(2)	(111)	(227)	(1.749)	-	(2.089)
-transfers to investment property	(32)	-	-	-	-	(32)
As of 31 December 2017	**5.350**	**43.161**	**7.691**	**2.111**	-	**58.313**
Impairment						
As of 1 January 2016	**1**	**1**	-	**2**	-	**4**
- impairment losses	-	-	-	-	-	-
-reversal of impairment	(1)	(1)	-	(2)	-	(4)
As of 31 December 2016	-	-	-	-	-	-
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2017	-	-	-	-	-	-
Net book value						
As of 1 January 2016 (restated*)	**4.367**	**6.759**	**813**	**592**	**10.504**	**23.033**
As of 31 December 2016 (restated*)	**7.878**	**14.858**	**1.088**	**569**	**1.605**	**25.998**
As of 31 December 2017 (restated*)	**5.417**	**14.412**	**1.303**	**490**	**7.184**	**28.806**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

For the year ending at 31 December 2017 the depreciation costs of the Group's and the Company's property, plant and equipment amount to EUR 3.807 thousand and EUR 3.493 thousand, respectively (2016 – EUR 4.855 thousand and EUR 4.321 thousand).

The amount of depreciation accounted under the caption 'Cost of Sales' for the financial years 2017 and 2016 amounts to EUR 2.408 thousand and EUR 2.959 thousand by the Company, respectively. By the Group, EUR 2.608 thousand and 3.413 thousand, respectively. The rest of the Company's and the Group's depreciation is accounted under the 'Operating expenses' caption. Part of the depreciation amount is also accounted under the 'Inventory' caption in the value of unsold Inventories as of 31 December 2016 and 2017.

During the year 2017, the Company and the Group have reviewed the depreciation rates / useful lives of part of its vehicles and part of the machinery and equipment group. The effect of this change in estimate has amounted to EUR 1.660 thousand and EUR 1.866 thousand of lower depreciation expenses for the year 2017 for the Company and the Group in comparison to the formerly used depreciation rates. It is estimated that the expected effect for future years will be similar to the effect incured in year 2017.

By decision of the Board of the Company, from 1 January 2017, the 10-15 years' useful life cycle was applied to newly acquired production lines. This management assessment was applied prospectively and the useful life period was revised in 2017.

In 2018, the Board of the Company and the Group decided to review the residual values and useful lives of the following asset groups: 'Land, buildings and constructions', 'Machinery and equipment', 'Vehicles' and 'Other property, plant and equipment'. However, due to the large quantity of items to be reviewed, the review is still in the process.

All of the acquisitions in non-current tangible and intangible assets made by the Group and the Company during year 2017 and 2016 as disclosed above relate to Lithuania.

Part of property, plant and equipment of the Company and the Group with the acquisition cost amounting to EUR 42.413 thousand and 50.937 thousand, respectively, was fully depreciated as at 31 December 2017 (EUR 39.604 thousand and EUR 47.538 thousand as at 31 December 2016), but was still in use.

6. INVESTMENT PROPERTY

	The Group	The Company
Acquisition cost		
As of 1 January 2016	**214**	**2.972**
As of 31 December 2016	**214**	**2.972**
- acquisition	824	824
- transfers from long-term tangible assets	2.275	2.275
As of 31 December 2017	**3.313**	**6.071**
Accumulated depreciation		
As of 1 January 2016	**67**	**1.812**
- depreciation	26	69
As of 31 December 2016	**93**	**1.881**
- depreciation	168	210
- transfers from long-term assets	32	32
As of 31 December 2017	**292**	**2.123**
Net book value, Eur thousand:		
As of 1 January 2016	**147**	**1.160**
As of 31 December 2016	**121**	**1.091**
As of 31 December 2017	**3.021**	**3.948**

The fair value of the investment property, approximates their book value (level 3 in fair value hierarchy). Large part of the investment property was acquired during 2017, thus the fair value of these amount approximate their book value. Moreover, another part of the investment property has been evaluated by external evaluators which also confirmed that the fair value approximates their book value (comparable price method was used as primarily valuation method).

At the moment of acquisition, the Company and the Group use independent assessor valuations in case the assets are bought/sold within related parties. In other cases assets are purchased in competitive market at the market price.

For the year ending at 31 December 2017 the depreciation costs of the Company's investment property amount to EUR 210 thousand (2016 – EUR 69 thousand).

The Company's investment assets in 2017 and 2016 represents rented assets to ABF Šilutės Rambynas, UAB Čia Market, other non- related parties and legal persons. Rental income and related costs are disclosed in Note 22.

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

Depreciation is included in the 'Operating expenses' caption.

7. LOANS GRANTED

The Company has granted loans to 27 Company's employees as at 31 December 2017 (41 as at 31 December 2016). The average annual loan interest rate: 3%.

Loans have been granted to the employees as a motivating tool based on the Regulations for Provision of Loans to employees. The maximum limit of the fund intended for these loans granted makes up EUR 232 thousand . On all occasions loans are being granted to a borrower after he/she undertakes to secure repayment of a loan by pledging his/her or another person's real property assets or using other means of security of repayment of a loan acceptable to the company (a credit institution guarantee or other). Upon assessment of a possible risk, liquidity of property being pledged and etc. a value of the property being pledged makes up from 100% to 200% of an amount being borrowed.

The Company has also granted loans to 80 farmers (milk-suppliers) as at 31 December 2017 (95 as at 31 December 2016). The average interest rate on loans granted: 3.92%. All long-term loans have been granted with collateral (land has been pledged at market prices).

The related party Klaipedos pienas, AB owed EUR 953 thousand to the Company as at 31 December 2017 (as at 31 December 2016 – EUR 1 400 thousand). The loan has been granted with a variable/floating annual interest rate; a loan repayment period – the year 2029; properties have been pledged.

	The Group		The Company	
	31st Dec 2017	31st Dec 2016	31st Dec 2017	31st Dec 2016
Loans granted:	**2.600**	**3.464**	**2.600**	**3.464**
Loans granted to related parties	953	1.866	953	1.866
Loans granted to milk suppliers	1.522	1.445	1.522	1.445
Loans granted to the staff	125	153	125	153
***Current portion of loans granted** (Note 10)*	*(761)*	*(1.100)*	*(761)*	*(1.100)*
Non- current loans granted	**1.839**	**2.364**	**1.839**	**2.364**

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

8. INVENTORIES

	The Group			The Company		
	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016 (restated*)	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016 (restated*)
Raw materials	3.429	3.491	3.191	2.928	3.035	2.661
Finished goods and work in progress	30.318	24.646	27.107	28.231	23.217	25.451
Goods for resale	292	259	241	292	259	241
	34.039	**28.396**	**30.539**	**31.451**	**26.511**	**28.354**
Less: Allowance for inventories	(4.538)	(2.840)	(5.573)	(3.994)	(2.636)	(5.263)
Total (EUR thousand):	**29.501**	**25.556**	**24.966**	**27.457**	**23.874**	**23.091**

The majority of this allowance is related to obsolescence of hard cheese. Most of the allowance relates to the finished goods and work in progress captions.

Changes in the allowance for impairment of inventories (EUR thousand):

	The Group		The Company	
	2017	2016 (restated*)	2017	2016 (restated*)
Balance at beginning of year	**2.840**	**5.573**	**2.636**	**5.263**
Additional allowance made	1.698	-	1.358	-
Reversals of allowance made	-	(2.733)		(2.627)
Write-off	-	-	-	-
Balance at end of year	**4.538**	**2.840**	**3.994**	**2.636**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

The acquisition cost of the Group's and the Company's inventories accounted for at net realizable value as at 31 December 2017 amounted to EUR 7.310 thousand and EUR 5.457 thousand, respectively (as at 31 December 2016: EUR 4.358 thousand and EUR 3.095 thousand, respectively). Changes in impairment allowance for inventories during 2017 and 2016 were recorded within the Group's and the Company's operating expenses (Note 21).

As at 31st December 2017 the value of Company's inventories held at subsidiary ABF Silutes Rambynas was equal to EUR 1.377 thousand, related party AB Klaipedos pienas - EUR 525 thousand and third parties (UAB Vinges logistika and UAB Autoverslo logistika) - EUR 25 thousand (as at December 2016 the values were equal to EUR 1.640 thousand and EUR 146 thousand, respectively).

The allowance formed by the Company for the inventories as at 31 December 2017, 2016 and 2015 (EUR 3.994 thousand and EUR 2.279 thousand, respectively) was formed for matured hard cheese. The Company has formed this allowance by assessing various obsolescence related information (such as: production date, taste specifics, etc) and also the Management's forecast of future sales.

The amount of inventory used (written-off) by the Company/Group in production of goods for the financial years 2017 and 2016 accounted under the caption 'Cost of Sales' amounts to EUR 97.5 million and 67 million, respectively.

9. TRADE ACCOUNTS RECEIVABLE

	The Group			The Company		
	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016
Trade accounts receivable	14.834	12.972	11.107	14.311	12.450	10.577
Accounts receivable from related parties	3.066	4.790	2.094	3.013	4.783	2.085
Total accounts receivable:	**17.900**	**17.762**	**13.201**	**17.324**	**17.233**	**12.662**
Allowance for bad debts	(584)	(576)	(386)	(63)	(55)	(386)
Allowance for bad debts of related parties	(189)	(407)	(187)	(189)	(407)	(187)
Net trade receivables:	**17.127**	**16.779**	**12.628**	**17.072**	**16.771**	**12.089**

Changes in the allowance for impairment of trade accounts receivable (EUR thousand):

	The Group		The Company	
	2017	2016 (restated*)	2017	2016 (restated*)
Balance at beginning of year	983	573	462	573
Additional allowance made	-	385	-	-
Reversals of allowance made	(221)	-	(221)	(136)
Write-off	11	25	11	25
Balance at end of year	**773**	**983**	**252**	**462**

Accounts receivable impairment losses are usually recognised after the delay of payment as per payment terms for 60-120 days or more.

Analysis of trade receivables based on the terms of payment on the 31st December, 2017 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables, not past due	Trade accounts receivables past due: Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	13.117	1.133	22	562	**14.834**
Allowance formed	-	-	(22)	(562)	**(584)**
Trade accounts receivables from related parties	1.478	1.538	45	5	**3.066**
Allowance formed	-	(189)	-	-	**(189)**

The Company (EUR thousand)	Trade accounts receivables, not past due	Trade accounts receivables passed due: Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	13.116	1.132	22	41	**14.311**
Allowance formed	-	-	(22)	(41)	**(63)**
Trade accounts receivables from related parties	1.454	1.509	45	5	**3.013**
Allowance formed	-	(189)	-	-	**(189)**

Analysis of trade receivables based on the terms of payment on the 31st December, 2016 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables, which period has not passed	Trade accounts receivables which due term has passed: Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	11.695	701	16	560	**12.972**
Allowance formed	-	-	(16)	(560)	**(576)**
Trade accounts receivables from related parties	2.094	1.107	1.373	216	**4.790**
Allowance formed	-	-	(191)	(216)	**(407)**

The Company (EUR thousand)	Trade accounts receivables, which period has not passed	Trade accounts receivables which due term has passed: Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	11.694	701	16	39	**12.450**
Allowance formed	-	-	(16)	(39)	**(55)**
Trade accounts receivables from related parties	2.095	1.099	1.373	216	**4.783**
Allowance formed	-	-	(191)	(216)	**(407)**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

For the assessment of allowance on intercompany trade receivables, please refer to Note 27.

10. OTHER ACCOUNTS RECEIVABLE

	The Group 31st Dec 2017	The Group 31st Dec 2016	The Company 31st Dec 2017	The Company 31st Dec 2016
Income tax prepayment	637	458	505	407
Current portion of long-term loans granted (Note 7)	761	1.100	761	1.100
VAT receivable	775	528	660	528
Other receivables	277	242	275	238
Iš viso:	**2.450**	**2.328**	**2.201**	**2.273**

11. CASH AND CASH EQUIVALENTS

	The Group 31st Dec 2017	The Group 31st Dec 2016	The Group 1st Jan 2016	The Company 31st Dec 2017	The Company 31st Dec 2016	The Company 1st Jan 2016
Cash at bank	12.247	16.948	10.181	4.659	10.870	4.785
Cash on hand	30	52	42	29	51	42
Total:	**12.277**	**17.000**	**10.223**	**4.688**	**10.921**	**4.827**

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 2016 and 2017 the Company owned 2.070.621 units of its shares or 4.28% of shares in total. On 31st December 2016 and 2017 the total value of acquired shares amounted to 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. The Group and the Company are on legal dispute regarding acquisition of own shares as disclosed in Note 25.

Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the annual profit are required until legal reserve reaches 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 be used should be restored to retained earnings and redistributed.

The reserve of EUR 5.000 thousand for acquisition of the own shares was formed through the allocation of profits of the year 2016.

13. GOVERMENT GRANTS RECEIVED

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

	The Group	The Company
Grants received		
As of 1 January 2016 (balance)	**7.826**	**5.721**
- received	-	-
As of 31 December 2016 (balance)	**7.826**	**5.721**
- received	202	202
As of 31 December 2017 (balance)	**8.028**	**5.922**
Accumulated amortisation		
As of 1 January 2016 (balance)	**6.232**	**4.324**
- amortization	468	404
As of 31 December 2016 (balance)	**6.700**	**4.728**
- amortization	360	347
As of 31 December 2017 (balance)	**7.060**	**5.075**
Net book value (EUR thousand)		
As of 1 January 2016	**1.595**	**1.397**
As of 31 December 2016	**1.126**	**992**
As of 31 December 2017	**968**	**847**

(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, under the caption 'Cost of Sales' and reduces depreciation costs of non-current assets.

As according to the grant agreement, the Company and the Group is obligated to fulfil the requirements related to Company's and Group's revenue and net profit. In 2017, the Company and the Group was in compliance with the grant agreement requirements.

Based on the latest grants agreements (as described in more details in annual report part 'Overview of activities, state, and development') the Company/Group has a purchase commitment in approximately EUR 9 M as at 31 December 2017 (EUR 18 M as at 31 December 2016).

14. DEFINED BENEFIT OBLIGATIONS

The Company has accounted for long-term defined benefit obligations for its employees based on requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's employee additional rewards policy. The increase of the defined benefit obligations in 2017 are as a result of the significant increase of the rewards base based on the Company's employee additional rewards policy which was introduced in May 2017.

	The Company		
	31st Dec 2017	**31st Dec 2016 (restated*)**	**1st Jan 2016 (restated*)**
Long term liability of post retirement employee benefits	221	171	171
Short term liability of post retirement employee benefits (Note 19)	79	59	59
Long term liability under additional rewards policy	3.067	646	646
Short term liability under additional rewards policy (Note 19)	583	95	95
Total:	3.950	971	971

	The Group		
	31st Dec 2017	**31st Dec 2016 (restated*)**	**1st Jan 2016 (restated*)**
Long term liability of post retirement employee benefits	253	196	196
Short term liability of post retirement employee benefits (Note 19)	101	75	75
Long term liability under additional rewards policy	3.319	696	696
Short term liability under additional rewards policy (Note 19)	657	106	106
Total:	4.330	1.073	1.073

(All amounts in EUR thousands unless otherwise stated)

The movement of defined benefit obligations

	The Group		The Company	
	Post retirement employee benefits	Long term employee benefits (Premium based on additional rewards policy)	*Post retirement employee benefits*	Long term employee benefits (Premium based on additional rewards policy)
Balance as at 1 January 2016 (restated*)	**271**	**802**	**230**	**741**
Actuarial (gain) loss	-	-	-	-
Change accounted in the statements of comprehensive income	-	-	-	-
Balance as at 31 December 2016 (restated*)	**271**	**802**	**230**	**741**
Change accounted in the statements of comprehensive income**	70	3.005	57	2.740
Actuarial (gain) loss	13	169	13	169
Balance as at 31 December 2017	**354**	**3.976**	**300**	**3.650**

**The significant increase in employee reward based on additional rewards policy is due to change in the policy made in year 2017. For more details please see Note 3.

The main assumptions used in assessing the liability of the Company's long-term employee benefits are presented below:

	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016 (restated*)
Discount rate	1,34 - 1,57 %	0,83 - 1,51 %	0,83 - 1,51 %
Inflation rate	3,00 %	3,00 %	3,00 %
Turnover rate	16 – 20 %	16 – 20 %	16 – 20 %

Sensitivity to the discount rate and inflation rate change:

	The Group	
	31st Dec 2017	31st Dec 2016
Discount rate +0,5%	(108)	(33)
Discount rate -0,5%	111	35
Inflation +0,5%	109	34
Inflation -0,5%	(107)	(32)
Turnover rate +5%	(724)	(174)
Turnover rate -5%	1.005	286

	The Company	
	31st Dec 2017	31st Dec 2016
Discount rate +0,5%	(100)	(31)
Discount rate -0,5%	106	33
Inflation +0,5%	104	32
Inflation -0,5%	(99)	(30)
Turnover rate +5%	(654)	(156)
Turnover rate -5%	900	257

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

15. NON-CONTROLLING INTEREST

Financial information of subsidiaries that have material non-controlling interests is provided below.

Summarised financial information of the subsidiary is as follows (in EUR thousand):

	Silutes Rambynas ABF	
	31st Dec 2017	31st Dec 2016
Current assets	12.047	11.088
Non-current assets	2.594	1.965
Current liabilities	1.141	974
Non-current liabilities	380	161
Revenue	36.726	29.031
Profit	1.216	3.755
Total comprehensive income	1.216	3.755

The subsidiary paid no dividends neither in year 2017 nor in year 2016.

16. EARNINGS AND DIVIDENDS PER SHARE

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

	The Group		The Company	
	31st Dec 2017	31st Dec 2016 (restated*)	31st Dec 2017	31st Dec 2016 (restated*)
Net profit (loss) attributable to the equity shareholders in EUR thousand	5.250	17.607	4.182	14.309
Weighted average number of circulation shares (units)	46.304.379	46.304.379	46.304.379	46.304.379
Basic earnings (loss) per share in EUR	**0,11**	**0,38**	**0,09**	**0,31**

	The Group		The Company	
	31st Dec 2017	31st Dec 2016	31st Dec 2017	31st Dec 2016
Dividends declared	4.630	5.557	4.630	5.557
Weighted average number of circulation shares (units)	46.304.379	46.304.379	46.304.379	46.304.379
Dividends declared per share in EUR	**0,10**	**0,12**	**0,10**	**0,12**

17. OPERATING LEASE

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

	The Group		The Company	
	31st Dec 2017	31st Dec 2016	31st Dec 2017	31st Dec 2016
Within one year	992	1.264	992	1.264
In the second to fifth years	798	1.895	798	1.895
After five years	-	-	-	-
Total:	**1.790**	**3.159**	**1.790**	**3.159**

In the year 2017 and 2016 the currency of the payment of operating lease was EUR.
The terms and conditions of the contract with all later additions do not provide any restrictions on the Company's and Group's activities, associated with dividends, additional borrowings or additional long-term rent.

18. PAYABLES

Trade payables (In the statement of financial position) (EUR thousand):

	The Group			The Company		
	31st Dec 2017	31st Dec 2016 (restated*)	01st Jan 2016 (restated*)	31st Dec 2017	31st Dec 2016 (restated*)	01st Jan 2016 (restated*)
Payables to suppliers (restated*)	9.150	8.357	5.749	8.487	7.927	5.184
Payables to related parties	496	384	268	2.597	3.607	2.054
Advances received	349	294	291	349	188	262
Total:	**9.995**	**9.035**	**6.308**	**11.433**	**11.722**	**7.500**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

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

19. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	The Group			The Company		
	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016 (restated*)	31st Dec 2017	31st Dec 2016 (restated*)	1st Jan 2016 (restated*)
Other short-term liabilities	1.668	1.799	485	1.667	888	485
Vacation reserve	1.296	1.557	2.222	1.131	1.441	1.944
Bonuses for employees	1.000	1.200	1.200	1.000	1.200	1.200
Social security payable	1.004	834	850	897	763	773
Wages and salaries payable	879	897	813	758	782	708
Management Bonus	695	354	0	695	354	0
Payables based on defined obligations to employees (Note 14)	758	182*	182*	660	154*	154*
Accrued expenses	487*	63*	1.922*	488*	843*	3*
Taxes payable, other than income tax	204	282	197	158	223	159
Total:	**7.991**	**7.168**	**7.871**	**7.454**	**6.648**	**5.426**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

Other payables are non-interest bearing and have an average term of one month.

20. INFORMATION ON SEGMENTS

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

The Group	Sales, EUR thousand		Variation in % As comparing 2017 with 2016
	2017	2016	
Fermented cheese	76.686	68.117	**12,58%**
Fresh dairy products	52.288	48.551	**7,70%**
Butter and spreadable fat mixes	16.158	11.147	**44,95%**
Dry dairy products	13.329	11.816	**12,80%**
Other	13.819	10.266	**34,61%**
Total:	**172.280**	**149.897**	**14,93%**

The Company	Sales, EUR thousand		Variation in % As comparing 2017 with 2016
	2017	2016	
Fermented cheese	72.271	63.677	**13,50%**
Fresh dairy products	52.106	47.275	**10,22%**
Butter and spreadable fat mixes	16.158	11.147	**44,95%**
Dry dairy products	13.329	11.816	**12,80%**
Other	16.985	13.701	**23,97%**
Total:	**170.849**	**147.616**	**15,74%**

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.

Information on revenue made in different geographical markets is provided below:

	The Group		The Company	
	2017	**2016**	**2017**	**2016**
Sales, EUR thousand:				
Lithuania	88.331	80.263	89.967	81.608
Other Baltic States and CIS members	32.507	27.401	30.070	25.423
Other Europe countries	42.801	32.076	42.607	30.736
Other	8.641	10.157	8.205	9.849
Total, EUR thousand:	**172.280**	**149.897**	**170.849**	**147.616**

Other non-core activities are considered to be not significant, therefore such information is not provided separately to the decision makers.

For the disclosure on the revenues from transactions with a single external customer that amount to 10% or more of the entity's revenues, please refer to note 26.

(All amounts in EUR thousands unless otherwise stated)

21. OPERATING EXPENSES

	The Group		The Company	
	2017	2016 (restated*)	2017	2016 (restated*)
Wages, salaries and social security**	12.560	11.361	12.293	11.136
Marketing expenses	5.468	2.969	5.443	2.924
Rent and insurance	1.789	1.890	1.649	1.768
Inventory allowence (reversal)	1.702	(2.733)	1.362	(2.627)
Logistic services	1.458	1.579	1.384	1.494
Pension reserve and other employee related accruals***	1.197	-	1.180	-
Repairs	825	682	825	678
Utilities	685	365	666	356
Materials	555	452	548	445
Depreciation/Amortisation	696	859	666	837
Employee bonuses	340	749	340	749
Taxes, other than income tax	289	228	254	198
Production for advertising purposes	89	201	89	102
Telecommunication	64	77	57	69
Other expenses	1.993	1.363	1.815	2.507
Trade accounts receivable (reversal)	(210)	(111)	(210)	(111)
Total:	**29.500**	**19.931**	**28.362**	**20.524**

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.

** A part of salary and social security expenses is accounted under Cost of Sales. (The Company during 2017 and 2016 accounted EUR 7 167 and 6 838 thousand respectively, the Group accounted EUR 9 460 and EUR 8 676 thousand respectively)

***Please refer to Note 3 for explanation on the change between years

22. INCOME AND EXPENSES OF OTHER ACTIVITIES

	The Group		The Company	
	2017	2016	2017	2016
Other operating income				
Goods for resale sales income	306	378	308	347
Gain on sales of property, plant and equipment	41	53	35	53
Rental income	301	140	578	426
Income of the canteen	96	101	96	101
Other	114	130	224	200
	857	**802**	**1.241**	**1.127**
Other operating expenses				
Cost of goods for resale sold	(159)	(354)	(191)	(323)
Rental expenses	(166)	(91)	(155)	(77)
Other	(192)	(129)	(191)	(129)
	(516)	**(574)**	**(537)**	**(529)**
Net income and expenses of other activities:	**341**	**228**	**704**	**598**

Future rent income according to the signed rent agreements are as follows (EUR thousand):

Rent Income	The Group		The Company	
	31st Dec 2017	31st Dec 2016	31st Dec 2017	31st Dec 2016
Less than 1 year	301	140	578	426
2 – 5 years	828	951	2.124	2.200
Over 5 years	22	199	-	502
Total:	**1.151**	**1.290**	**2.702**	**3.128**

In the year 2017 and 2016 the currency of the rent income agreements was EUR.

23. FINANCIAL AND INVESTMENT ACTIVITY INCOME AND EXPENSES

	The Group		The Company	
	2017	2016	2017	2016
Income from financial and investment activities				
Interest income	82	108	82	108
Foreign currency exchange gain	256	324	256	324
Other financial income	44	91	44	89
	382	**524**	**382**	**521**
Expenses from financial and investment activities				
Foreign currency exchange (loss)	(432)	(176)	(432)	(176)
Other financial expenses	(32)	(13)	-	-
	(464)	**(189)**	**(432)**	**(176)**
Total:	**(82)**	**335**	**(50)**	**345**

24. CORPORATE INCOME TAX EXPENSES (BENEFIT)

	The Group		The Company	
	2017	2016 (restated*)	2017	2016 (restated*)
Current income tax expenses	854	1.237	626	855
Change in deferred income tax asset	516	5	537	(262)
Change in deferred income tax accounted through OCI	24	-	24	-
Income tax expenses recognised in the statement of comprehensive income	**1.394**	**1.243**	**1.187**	**593**

(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	2017	**2016 (restated*)**	**2017**	**2016 (restated*)**
Profit before tax	6.790	19.307*	5.368	14.902*
Income tax, applying valid tax rate (15%)	1.018	2.896	805	2.235
Permanent differences	154	(46)	156	(48)
Investment incentive release	(669)	(897)	(626)	(845)
Change in deferred tax allowence	538	40	499	-
Deffered tax recognition from investment incentive change	353	(750)	353	(750)
Income tax expenses reported in the statement of comprehensive income	**1.394**	**1.243**	**1.187**	**593**

	The Group			The Company		
	31st Dec 2017	**31st Dec 2016 (restated*)**	**1st Jan 2016 (restated*)**	**31st Dec 2017.**	**31st Dec 2016 (restated*)**	**1st Jan 2016 (restated*)**
Deferred income tax asset						
Accounts receivable	116	148*	88	38	70*	88
Inventory allowance	681	426*	836	599	395*	790
Accrued vacation reserve	176	223	303	170	216	292
Other accrued expenses	825**	348*	634*	763	327*	325*
Investment incentive	397	750*	-	397	750*	-
Total deferred income tax asset	**2.195**	**1.895***	**1.862***	**1.967**	**1.758***	**1.495***
Deferred income tax asset realization allowance	(577)	(39)	-	(499)	-	-
Deferred income tax asset (after realization allowance)	**1.618**	**1.856***	**1.862***	**1.468**	**1.758***	**1.495***
Deferred income tax liability						
Change in depreciation rates of tangible assets	(302)		-	(271)	-	-
Total deferred income tax liability,	**(302)**	**-**	**-**	**(271)**	**-**	**-**
Deferred income tax asset, net	**1.316**	**1.856**	**1.862**	**1.197**	**1.758***	**1.495***

* Certain amounts presented above do not correspond to the 2015 and 2016 financial statements but reflect corrections.
** The amount of deferred tax change accounted for the Company/Group under the caption "Other Comprehensive Income" for year 2017 amounts to EUR (24) thousand.

25. COMMITMENTS AND CONTINGENCIES

Material purchase commitments of the Group and the Company for the acquisition of property, plant and equipment as of 31 December 2017 and 2016 are disclosed in Note 13.

During the financial year 2017 the Company had two litigation proceedings that ended with the decision of the appeal court, however they were later on appealed for cassation:

1) Legal case on interim bonuses to Company's Board

The shareholder's meeting of the Company took a decision to pay interim bonuses of EUR 749,400 on September 16, 2016. This decision was appealed by the minority shareholder Vytautas Plunksnis and the Investors Association as an unlawful act. At the first lower court instances, the Company has won the case, however on January 15, 2018, the Šiauliai Regional Court (court of the appeal) has decided that the decision to pay interim bonuses was unlawful and annulled it. On 13 February 2018, having studied the cassation petition of AB "Žemaitijos pienas" regarding revision of the 15 January 2018 Šiauliai County Court decision recognizing part of the profit sharing decision (to the sum of 749 400 EUR) as unlawful, the Supreme Court of Lithuania accepted the cassation petition for consideration. In order to minimize the possible negative impact on the Company, during the 23-26 March, 2018, the Board members who in 2016 had already received part of the bonuses, have returned the full amounts previously received, in the total amount of EUR 395 thousand (EUR 415 thousand including interest).

The Company cannot make an estimate of the outcome of this case as the case is complicated in terms of legal interpretation and application of the law. Furthermore, there are no precedents for the matters in question.

2) Legal case on purchase and sale of own shares

The shareholder's meeting of the Company took numerous decisions related to the procedure of the purchase and sale of own shares. The latest ones (dated October 28, 2016 and December 29, 2016) were appealed by the minority shareholder Vytautas Plunksnis and Investors Association as unlawful and it was claimed that the procedure of sale of available AB "Žemaitijos pienas" own shares and establishment of the minimum price thereof to be recognized as invalid. The plaintiffs also demand that the 2 070 621 regular registered shares of the Company be recognized as invalid and that the authorized capital of AB "Žemaitijos pienas" be reduced by a corresponding amount.

At the first lower court instances, the Company has won the case. In additoin, on December 18, 2017, the Šiauliai Regional Court (court of the appeal) has ruled that decisions of the shareholder's meeting of the Company were lawful and rejected the claim in full. The litigation costs of the Company equal to EUR 10,245.22 were adjudged from the claimants. However, On 20 February 2018, having studied the 12 February 2018 cassation petition of plaintiffs Vytautas Plunksnis and the Investors Association regarding revision of the 18 December 2017 Šiauliai County Court decision and request for application of temporary protections, the Supreme Court of Lithuania decided to accept the cassation petition and apply temporary protections - prevent AB "Žemaitijos pienas" management bodies from disposing of 2 070 621 AB "Žemaitijos pienas" own regular registered shares (ISIN code LT0000121865, regular value 600 480.09 Eur.)

The Company cannot reliably estimate the outcome of this case as the case is complicated in terms of legal interpretation and application of the law. Furthermore, there are no precedents for the matters in question.

(All amounts in EUR thousands unless otherwise stated)

26. 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 information on each of the aforementioned risks the Company/Group faces, the Company's/Group's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's/Group's capital management.

The Company's management is completely responsible for development and supervision of the Company's/Group's risk management structure. The Company's/Group'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/Group's activities. With the help of trainings, procedures of management standards, the Company/Group aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

Credit risk

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

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

	The Group		The Company	
	31 12 2017	31 12 2016 (restated*)	31 12 2017	31 12 2016 (restated*)
Cash and cash equivalents	12.277	17.000	4.688	10.921
Loans granted	1.839	2.364	1.839	2.364
Trade accounts receivable	17.127	16.779	17.072	16.771
Other accounts receivable	2.450	2.328	2.201	2.273
Other	13	20	13	20
Total financial assets	**33.706**	**38.491**	**25.813**	**32.349**

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. There were three clients in the Group and in the Company from which outstanding trade receivables were higher than 10% calculated from total trade receivables before trade receivables allowance as at 2016 and 2017. The Composition of trade receivables of such clients is stated in the table below. Moreover, the client No. 1 generated approximately 10% of total Company's revenue during 2016 and 2017.

	The Group		The Company	
	2017 12 31	2016 12 31	2017 12 31	2016 12 31
Costumer No. 1	15%	12%	15%	12%
Costumer No. 2	11%	10%	11%	10%
Costumer No. 3 (related party)	12%	23%	12%	24%

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.

(All amounts in EUR thousands unless otherwise stated)

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 financial assets presented above.

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 belonging to international financial groups 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 to banks and suppliers 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
Trade payables	-	8.651	-	-	-	8.651
Trade payables to related parties	-	384	-	-	-	384
Balance as of 31 December 2016	-	**9.035**	-	-	-	**9.035**
Trade payables	-	9.500	-	-	-	9.500
Trade payables to related parties	-	495	-	-	-	495
Balance as of 31 December 2017	-	**9.995**	-	-	-	**9.995**

The Company	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Trade payables	-	8.115	-	-	-	8.115
Trade payables to related parties	-	3.607	-	-	-	3.607
Balance as of 31 December 2016	-	**11.722**	-	-	-	**11.722**
Trade payables	-	8.836	-			8.836
Trade payables to related parties	-	2.597				2.597
Balance as of 31 December 2017	-	**11.433**	-	-	-	**11.433**

Market risk

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

Foreign exchange risk

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

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

	The Group		The Company	
	31 12 2017		31 12 2017	
	Assets	Liabilities	Assets	Liabilities
EUR	32.344	21.515	24.438	22.132
USD	1.461	25	1.461	25
SEK	112	16	112	16
Other	2	2	2	2
Total:	**33.919**	**21.558**	**26.013**	**22.175**

	The Group		The Company	
	31 12 2016		31 12 2016	
	Assets	Liabilities	Assets	Liabilities
EUR	35.525	17.075	29.336	19.168
USD	3.156	1	3.156	1
PLN	7	11	7	11
Other	2	8	2	8
Total:	**38.690**	**17.095**	**32.501**	**19.188**

Fair value of assets and liabilities

The fair value of assets and liabilities provided in the statement of financial position as at the 31 December 2017 does not significantly differ from their carrying amounts.

The fair value of the Group's and the Company's investment property was estimated based on the third level of fair value hierarchy (Note 6) and is close to its carrying value.

Trade payables and receivables, except for receivables from related party Cia Market, accounted for in the Group's and the Company's statement of financial position should be settled within a period shorter than three months, therefore, it is deemed that their fair value equals their carrying amount as at 31 December 2017 and 2016 (third level of fair value hierarchy).

The fair value of receivables from Cia Market and loans granted to related parties by the Company is estimated by discounting expected cash flows at market interest rates, management estimates that their fair value approximates carrying amounts as at 31 December 2017 and 2016 (third level of fair value hierarchy).

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 comply 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.

(All amounts in EUR thousands unless otherwise stated)

Under the Lithuanian laws a company has to maintain its equity at no less than ½ of its share capital, the Company was in compliance with this requirement as of 31 December 2017 and 2016.

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 2017.

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 liabilities, and safety, which is provided by a higher level of owner's equity.

27. 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 have significant influence over 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 significant influence of the aforesaid persons.

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

No.	Company name	Company's information	The nature of the main activity
1.	ABF „Šilutės Rambynas“	Company code: 277141670; address: Klaipėdos g. 3, Šilutė, LT-99115	Dairy and cheese production
2.	AB „Žemaitijos pieno investicija“	Company code: 300041701; address: Sedos g. 35, Telšiai , LT-87101	Rental and maintenance of own and leased real estate
3.	UAB „Baltijos mineralinių vandenų kompanija“	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Production of bottled natural mineral water
4.	AB „Klaipėdos pienas“	Company code: 240026930; address: Šilutės pl. 33, Klaipėda, LT-91107	Production of ice cream
5.	UAB „Čia Market“	Company code: 141354683, address: Sedos g. 35A, Telšiai LT-87101	Retail sales in non-specialized stores
6.	SIA „Muižas piens“	Company code: 40003786632, address: Bauskas iela 58a-8, 5stavs 507 kab. Riga, LV-1004, Latvia	Wholesale of food products
7.	UAB „Samogitija“	Company code: 302501454, address: Narutavičių g. 4, Telšiai, LT-87101	Production, transportation, storage, distribution, etc. of milk and othe food products
8.	S.A.R.Dziugas France	Company code: 751860669, address: 149 avenue du Maine, Paris	Production and sale of dairy products. Activity is currently on hold.
9.	Dziugas PL Sp.z.o.o.	Liquidated in 2017	
10.	Dziugas UK Ltd	Liquidated in 2016	
11.	Dziugas USA L.L.C.	Company code: 0400754292, address: Five greentree centre, ste. 104, 525 Route 73 North Marlon, NJ08053,	Wholesale import of dairy products

12.	Dziugas Eesti OU	Company code: 14324189, address: Punane g. 56, Talin	Wholesale import and sale of dairy products
13.	Dziugas Poland	Company code: 368496450, address: Luki Wielke g. 5, Warsaw	Agents involved in the sale of food and beverages
14.	UAB „Baltic Holding“	Company code: 302688114, address: Įgulos g.18B -4, Klaipėda	IT services

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

	The Group		The Company	
	2017	**2016**	**2017**	**2016**
1)Sales				
Sales of goods				
To the Group				
Šilutės Rambynas ABF	-	-	3.697	3.695
	-	-	**3.697**	**3.695**
To the Related parties				
Baltijos mineralinių vandenų kompanija UAB	13	-	13	-
Klaipėdos pienas AB	595	358	107	104
Žemaitijos pieno investicija AB	0	-	0	-
Čia Market UAB	7.258	6.328	7.257	6.326
Dziugas USA LLC	1.034	1.245	1.034	1.245
Muizas piens SIA	877	1.484	877	1.484
	9.777	**9.416**	**9.287**	**9.160**
Sales of inventory and services				
To the Group				
Šilutės Rambynas ABF	-	-	461	609
	-	-	**461**	**609**
To the Related parties				
Baltijos mineralinių vandenų kompanija UAB	73	212	73	212
Klaipėdos pienas AB	470	156	470	156
Žemaitijos pieno investicija AB	32	41	32	41
Samogitija UAB	0	0	0	0
Čia Market UAB	228	261	224	257
Muizas piens SIA	3	(3)	3	(3)
Dziugas USA LLC	14	62	14	62
Dziugas PL Sp. Z.o.o.	-	-	-	-
	821	**730**	**817**	**725**
Total Sales:	**10.598**	**10.145**	**14.262**	**14.189**

(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	Jan-Dec 2017	**Jan-Dec 2016**	**Jan-Dec 2017**	**Jan-Dec 2016**
2) Purchases				
From the Group	-	-	-	-
Šilutės Rambynas ABF	-	-	9.183	9.025
	-	-	9.183	9.025
From Related parties				
Baltijos mineralinių vandenų kompanija UAB	1.802	1.940	1.801	1.938
Samogitija UAB	8	70	8	70
Čia Market UAB	2.921	1.122	2.905	1.110
Klaipėdos pienas AB	333	1.599	332	1.599
Žemaitijos pieno investicija AB	786	974	784	972
Muizas piens SIA	179	110	179	110
Dziugas PL Sp. Z.o.o.	31	70	31	70
Dziugas USA LLC	42	-	42	-
Dziugas Eesti OU	6	-	6	-
	6.108	**5.885**	**6.088**	**5.870**
Total Purchases:	**6.108**	**5.885**	**15.271**	**14.894**

Balances outstanding with related parties

	The Group		The Company	
	31 12 2017	**31 12 2016**	**31 12 2017**	**31 12 2016**
3) Accounts recievable and financial debts				
The Group				
Šilutės Rambynas ABF	-	-	-	-
	-		-	
Related parties				
Baltijos mineralinių vandenų kompanija UAB	-		-	-
Samogitija UAB	0	0	0	0
Čia Market AB	1.924	3.670	1.924	3.670
Klaipėdos pienas AB (loan included)	1.016	1.407	963	1.400
Žemaitijos pieno investicija UAB (loan included)	-	466	-	466
Muizas piens SIA	213	237	213	237
Dziugas PL Sp.z.o.o..	-	-	-	-
Dziugas USA LLC	677	467	677	467
	3.830	6.247	3.777	6.240
Total balances of payables:	**3.830**	**6.247**	**3.777**	**6.240**

(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	31 12 2017	31 12 2016	31 12 2017	31 12 2016
4) Balances of payables				
The Group				
Šilutės Rambynas ABF	-	-	2.109	3.229
	-	-	**2.109**	**3.229**
The Related parties				
Baltijos mineralinių vandenų kompanija UAB	318	279	318	279
Žemaitijos pieno investicija UAB	103	79	103	79
Klaipėdos pienas AB	-	15	-	15
Čia Market AB	7	5	-	-
Muizas piens SIA	49	-	49	-
Samogitija UAB	9		9	-
Dziugas PL.Sp.z.o.o.	9	5	9	5
Dziugas UK Ltd	-	-	-	-
Dziugas Eesti OU	0		0	-
	495	**383**	**488**	**378**
Total balances of payables:	**495**	**383**	**2.597**	**3.607**

In 2017, the Company accounted for impairment losses for doubtful debts related to amounts belonging to related parties, i.e. UAB Čia Market - 189 thousand (in 2016 - EUR 407 thousand, in 2017 retrospectively recalculated with the discounting of future cash flows). The assessment of these doubtful debts is reviewed each financial year by checking the financial position of the party concerned and the market in which the party concerned is operating. The key judgements and estimates used by the Management of the Company in the evaluation of this allowance was a) the anticipated time over which the outstanding accounts receivable amount is expected to be repaid by UAB Čia Market (approximately 2 years as at 31 December 2017 and approximately 3 years as at 31 December 2016) and b) the discount rate used in the allowance computation (6.5% as at 31 December 2017 and 2016).

The Group has concluded a number of transactions with related parties (AB "Žemaitijos pieno investicijos" group companies) and the Group's profit and sales are significantly affected by transactions with AB "Žemaitijos pieno investicija" group. Transactions include the leasing of fixed assets, the sale of raw materials and the purchase of manufactured products (cheese) from ABF "Šilutės Rambynas", the sale of distribution services to UAB "Baltijos mineralinių vandenų kompanija", the sale of the finished products to UAB "Čia Market", and the sale of raw materials, production and services to AB "Klaipėdos Pienas ".

Management salaries and other benefits

During the reporting period (2017), the Company accounted for 42.933 euros for the members of the supervisory board, paid 443.720 euros to the members of the management board, and the company paid a salary of 664.601 euros to the management directors / managers (for the list of management board members, refer to page 31).
For the group company ABF "Šilutės Rambynas", the general director (member of the board) has been awarded 54,748 EUR for the reporting period. (working-related allowances, "gross"), the member of the board - Linus Puskunigis was paid 30,217 EUR. (working-related benefits, "gross"), Renat Rupšienė - 34.026 Eur. (work-related benefits, "gross"). The remaining members of the company's board have not received any benefits.
On the 16th of September, 2016 by the decision of the shareholders meeting, EUR 749.400 were allocated, and in September-October of 2016, EUR 395.000 were paid as bonuses. In 2018 EUR 395,000 were refunded.

28. EVENTS AFTER THE REPORTING PERIOD

On 28 February 2018 the director of the Bank of Lithuania Supervisory Service adopted the decision "Regarding enforcement measures against AB "Žemaitijos pienas" giving the Company a warning for not complying with instructions of the Bank of Lithuania, assigning it a penalty of 158 000 EUR (which has been accrued by the Company as at 31 December 2017), and establishing obligations for AB "Žemaitijos pienas". The Company has already appealed this decision in accordance with procedures established under legal acts. More comprehensive information is provided and made publicly available as an essential event.

On 28 March 2018, AB "Žemaitijos pienas" appealed to Vilnius Regional Administrative Court against the decision of the Director of the Supervision Service of the Bank of Lithuania adopted on 28 February 2018 "On the application of sanctions against AB "Žemaitijos pienas". The Company cannot estimate the outcome of this case as this case is complicated in terms of legal interpretation and application of the law; furthermore, there are no precedents for the matters in question.

All subsequent significant events that have been announced publicly have been listed in the Company's Annual report. There were no other material post balance sheet events, that could make a significant impact to the financial statement of the Company and the Group.

The Group's consolidated financial statements and the Company's Financial Statements are signed and approved

on 11 April 2018.

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

INFORMATION ABOUT COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

AB "ŽEMAITIJOS PIENAS" ANNOUNCEMENT ABOUT COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ OMX VILNIUS

In accordance with article 22.3 the law of the Republic of Lithuania on Stocks and clause 24.5 of AB NASDAQ OMX Vilnius listing rules joint-stock company „Žemaitijos pienas" (hereinafter, the Company) hereby submits and discloses information about its compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius and specific provisions thereof. If this code or any part thereof is not complied with, specific provisions that are not being observed are indicated along with the reasons for non-compliance.

Summary of the Company's governance report

According to the Company's Articles of Association the Company's bodies include the general meeting of shareholders, supervisory board, management, and chief executive officer. The management consists of five members, although the Company's Articles of Association provide for seven members of the management. Members of the management are appointed and dismissed by the supervisory board. The management has the authority to appoint and dismiss the chief executive officer. The supervisory board consists of three members who are completely independent of the Company. For more information about the Company's management, shareholder rights, members of the bodies and other facts please see the Company's 2017 Consolidated Annual Statement.

Below are the data and information provided in table form:

PRINCIPLES / RECOMMENDATIONS	YES/NO/N/A	COMMENT
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company publicly discloses certain aspects and objectives of its development strategy in annual and biannual reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company acts in accordance with its activity plans, which are intended to ensure profitable operation by developing and strengthening a modern enterprise seeking to optimize shareholder value.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's board of supervisors, management, and CEO engage in coordinated cooperation seeking to attain maximum benefit for the company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and management bodies ensure that the rights and interests of Company shareholder, employees, raw material suppliers, and other involved parties are duly respected. Employees have the possibility to improve their qualifications through courses and seminars held Lithuania and abroad. No small part of the employees and milk producers are shareholders of the Company.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company's management bodies include Company management and CEO, supervisory bodies – board of supervisors and audit committee.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Specified functions are fulfilled by collegial supervisory and management bodies of the Company – board of supervisors and management.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	N/A	The Company has both supervisory board and management.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[31]	Yes	Two collegial bodies are set up – the Company's board of supervisors and management. Provisions outlined in Principles III and IV apply here in so far as possible.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[32]	Yes	The Company's board of supervisors has 3 (three) members. The Company's management *de jure* has 7 (seven) members, *de facto* they are 5 (five). The Company believes that such number of management representatives is sufficient for effective work of the Company.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to the Company's Articles of Association the board of supervisors and management are elected for a period of 4 (four) years. The number of terms is unlimited. Release or dismissal from Company management and supervisory board is regulated by laws of the Republic of Lithuania.

[31] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[32] *Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.*

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes/No	The CEO of the Company and chairman of the Company's management coincide, otherwise a completely independent board of supervisors is set up (not a single member is in any way related with the Company or its largest shareholder other than through their duties as supervisor). The Company believes that supervision and control functions assure transparency and impartiality of actions taken by the Company' management as well as ensure that the management works to the benefit and in the interests of the Company. Otherwise those who are competent, good, professional, and reliable are few on the market (difficult to find).
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[33]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Company's collegial supervisory body – the board of supervisors is elected by a meeting of shareholders. The Company discloses information about candidates to the Company's collegial body. Minor shareholders are in no way restricted in their right to represent their interests and have their representative in the collegial body. Not a single member of the board of supervisors is associated with the Company, its bodies, or shareholders.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Each candidate to join members of management or supervisory body fills out a statement of interests (form) specifying personal information; the person (member) also confirms that they assume the obligation of notifying the Company of any changes. Information about members of the collegial supervisory board (names, surnames, relations with the issuer, and management of capital, other important professional obligations, information about education) is also provided in annual reports.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Information about candidates is issued along with meeting materials prior to upcoming election of the board of supervisors or members of management. Members of the board of supervisors and management are assigned specific areas of activity and are responsible for proper fulfillment of such activities.

[33] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	Members of collegial bodies of the Company have many years of experience managing companies, comprehensive knowledge and experience to properly fulfill their functions.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	New members of the management are informed about functions and Company organization and activities at meetings of the management or individually as may be necessary.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[34] number of independent[35] members.	Yes/No	"Žemaitijos pienas" management consists of relatively independent management members who ensure suitable resolution of conflicts of interests in so far as possible. Members of the Company's board of supervisors are independent persons (see 2.7 for clarification).

[34] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[35] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;	No	Based on supplied recommendations current members of the Company's management are not wholly independent.

6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		The Company does not have additional criteria regarding independence of members of its collegial bodies.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	Members of the Company's board of supervisors comply with complete independence criteria established in legal acts.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	The Company has internal legal acts set in place to ensure loyalty of members of its collegial bodies. All members of such bodies are obliged to inform the Company of any circumstances that may affect independence of a member or pose a risk of a conflict of interests.

3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[36] The general shareholders' meeting should approve the amount of such remuneration.	No	Members of the Company's board of supervisors and management may be remunerated for their work on the board or in the management.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[37] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[38]	Yes	The Company's board of supervisors analyzes and the management approves and submits to the general meeting of shareholders the feedback and suggestions on the annual financial statement and profit sharing draft of the Company, its annual statement. During the year the board considers the results of activities. It also carries out other functions assigned to the management.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective companynot-pertaining body (institution).	Yes	Members of the Company's board of supervisors and management are guided by the interests of the Company and its shareholders in fulfilling their functions.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[39] of the meetings of the collegial body throughout the financial year of	Yes	Members of the collegial bodies strive to fulfill their functions with utmost care: they participate in meetings of the collegial bodies and, as members of said collegial bodies, assign sufficient time to fulfill their corresponding functions. All meetings of the collegial bodies had a quorum, which enabled constructive decision-making.

[36] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.
[37] See Footnote 33.
[38] See Footnote 33. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.
[39] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

the company, shareholders of the company should be notified.		
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	There has been no conflict between shareholders and collegial bodies. The shareholders are informed about Company matters in accordance with the law, i.e. as provided for in the Law on Companies and in the Articles of Association.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Company management bodies enter into transactions in accordance with provisions of legal acts and the Company's Articles of Association.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.[40] Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes/No	Members of the management (majority) are employees of the Company and so are not entirely independent. All the same, when making decisions, both the board of supervisors and the management of the Company seek to fulfill the interests of the shareholders in so far as possible.
4.7. Activities of the collegial body should be organized in a manner that independent members of the	Yes/No	The Nomination and Remuneration Committees specified in recommendations 4.12-4.13 are not

[40] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[41]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		formed in the Company as the Company believes that the management and/or board of supervisors in part fulfill the functions of a Nomination Committee and Remuneration Committee as they carry out their regular work. Moreover, these functions are properly fulfilled by special departments active in the Company.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence	No	The Audit Committee follows Audit Committee provisions, monitors preparation of financial statements, process of audit, performs other functions. The collegial bodies remain wholly responsible for the decisions made within the scope of their competence and make final decisions.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees	Yes	The Audit Committee consists of 3 members of which 1 is independent.

[41] The Law of the Republic of Lithuania on Audit (Official Gazette, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Audit Committee provisions are approved by the board of supervisors. This committee acts in accordance with requirements of legal acts.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. 4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and	Yes No	Company employees responsible for (associated with) the areas considered by the Audit Committee can attend committee meetings and provide all requisite information. The Company does not form a Nomination Committee (see 4.7 for clarification).

shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total **compensation** obtained by executive directors and members of themanagement bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	No	The Company does not form a Remuneration Committee (see 4.7 for clarification).

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit	Yes	The Company observes the essence of provisions of this recommendation. The main objective of the Audit Committee is to supervise auditing of the Company's financial statements as well as to control the procedure of issuing of accounting and financial information to stakeholders. The main function of this committee is to systematically and comprehensively evaluate (and encourage improvement of) risk management in the organization and effectiveness of control and supervision processes as well as to provide the general meeting of shareholders, board of supervisors, and management with its conclusions regarding fulfillment of tasks and goals, risk management procedures, and internal controls.

company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report		

alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company does not employ the practice (rules) of evaluation of activities of the board of supervisors and management as a written document.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	Meetings of the Company's board of supervisors are presided over by the chairperson of the board of supervisors or another authorized member of the board. Meetings of the Company management are presided over by the chairperson of the management or another authorized member of the management.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[42]	Yes	Meetings of the management are convened in accordance with a schedule (once a month) approved in advance with extraordinary meetings held as necessary. Meetings of the board of supervisors are convened at least once a month.

[42] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	All members of the collegial bodies are issued all the materials associated with the agenda by e-mail or otherwise in advance of the meeting.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decisionmaking process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	Meetings of the board of supervisors are open and can be attended by members of the management.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorized capital consists of regular registered shares granting their holders the same material and immaterial rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company provides investors with information about the rights attached to newly issued or already issued shares.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[43] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Approval of the general meeting of shareholders is obtained for particularly important transactions whose criteria are established in the Republic of Lithuania Law on Companies, other legal acts, and Company's Articles of Association.

[43] The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	General meeting of Company shareholders is convened in accordance with the Republic of Lithuania Law on Companies, other legal acts, and Company's Articles of Association. All Company shareholders are informed about the place, date, and time of the meeting. Before a general meeting all Company shareholders, as required by the Republic of Lithuania Law on Companies and Company's Articles of Association, have the opportunity to peruse the materials associated with the meeting no later than is provided for in legal acts.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	According to the procedure established in the Republic of Lithuania Law on Companies documents (or drafts thereof) prepared for the general meeting of shareholders are published on the Stock Exchange website as well as on the Company's website no later than 21 days in advance of the general meeting of shareholders which allows shareholders to publicly access the information.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Company shareholders have the right to participate in the general meeting of shareholders either in person or in absentia assuming their representative has due authorization or a vote cessation contract is entered into with such a person in accordance with procedure established by legal acts. The Company also furnishes its shareholders with the opportunity to vote by filling out a general voting ballot as provided for in the Republic of Lithuania Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Implementation of the outlined measures would result in expenditures disproportionate to expected benefits. Otherwise the Company enables the use of certain technologies to express one's opinion without direct participation in meetings.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company observes these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The Company observes this recommendation. A member of the Company's collegial body abstains from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not publish statements of its remuneration policy as this is not required by legal acts. However, information about remuneration under certain categories is made public in biannual and annual financial statements.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The Company does not publish remunerations as this is not required by legal acts except to the scope and degree disclosed in annual and biannual statements.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	Because of the above reasons the remuneration policy that could serve as the basis for a remuneration report is not approved in the Company.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	General information about payments and loans granted to members of the Company's board of supervisors and management is made public in annual and biannual statements.

8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included	No	Median remuneration rates for different categories of Company employees are made public in biannual and annual statements.

in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The remuneration system in effect in the Company includes both non-variable and variable components.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The variable remuneration component in the Company is calculated according to established performance evaluation parameters.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The variable remuneration component in the Company is calculated according to established performance evaluation parameters.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof	No	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	If a labor contract is terminated through inadequate performance no termination payments are made or they are reduced by an amount determined in accordance with requirements of legal acts.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.13. Shares should not vest for at least three years after their award.	N/A	The Company does not employ this practice.

8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	N/A	The Company does not employ this practice.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	N/A	The Company does not employ this practice.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	Approved.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	No	
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company provides the information required by the Republic of Lithuania Law on Stocks and/or other legal acts.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	N/A	The Company does not employ schemes remunerating directors in shares, share options, or any other rights to purchase shares or be remunerated on the basis of share price movements.

8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The corporate governance framework of the Company assures that the rights of stakeholders that are protected by law are respected.
Principle X: Information disclosure and transparency ***The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.***		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information	Yes	Information about the Company specified in these recommendations is disclosed in annual and intermediate reports, statements about essential Company events, and Company's financial statements. This information is made public via the Stock Exchange disclosure system.

about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses information in Lithuanian and English simultaneously, in so far as possible, via the Stock Exchange disclosure system. The Stock Exchange publishes the received information on its Internet website and trading system thus ensuring simultaneous disclosure of information to all. Moreover, the Company strives to disclose information either before or after a trading session on Stock Exchange and to have it simultaneously available to all markets that trade in the Company's stock. The Company does not disclose the information that might have an effect on the price of the stock it has issued in comments, interviews, or otherwise while such information is publicly available through the Stock Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company publicly discloses its annual and biannual statements on its Internet website thus ensuring low cost and impartial access to information. Website address: www.zpienas.lt
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company uses its Internet website to publicly disclose its annual and biannual reports, activity outcomes, audited financial statements, announcements regarding essential events and changes in the price of its shares on the Stock Exchange in Lithuanian and English.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent firm of auditors conducts an audit of the Company's annual financial reports and annual statement.

11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The general meeting of shareholders entrusts selection of the firm of auditors to the management unless the shareholders decide otherwise.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The firm of auditors has not received any payments for non-audit services from the Company, except for those disclosed in Company's annual report.