ŽEMAITIJOS PIENAS®

Statement by Responsible Persons

22/03/2017

Telšiai

We, Robertas Pažemeckas, General Manager of Žemaitijos Pienas, AB, and Dalia Gecienė, Chief Accountant, hereby confirm that to the best of our knowledge the attached annual audited consolidated and company's Financial Statements of the AB Žemaitijos Pienas for the year 2016 have been prepared in accordance with the International Financial Accounting Reporting Standards as applicable in the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the group of companies and the Consolidated Annual Statement includes a fair review of the development and performance of the business, and the position of the company and the group of companies in relation to the description of the main risks and contingencies faced thereby.

General Manager Robertas Pažemeckas

Chief Accountant Dalia Gecienė

Lietuvos Respublika · Akcinė bendrovė ŽEMAITIJOS PIENAS · Telšiai

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB ŽEMAITIJOS PIENAS

Qualified Opinion

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

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

Basis for Qualified Opinion

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

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

Key Audit Matters

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

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

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

Investments, granted loans and receivables

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

Other information

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

March 22, 2017

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

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

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016
(All amounts in EUR thousands unless otherwise stated)

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

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

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

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in EUR thousands unless otherwise stated)

		The Group		The Company	
	Notes	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Sales	19	**149.897**	**149.114**	**147.616**	**144.273**
Cost of sales		(112.971)	(112.358)	(114.891)	(114.142)
GROSS PROFIT		**36.926**	**36.756**	**32.725**	**30.131**
Operating expenses	20	(19.943)	(28.003)	(20.528)	(24.817)
Other operating income and expenses	21	228	306	599	634
(LOSS) PROFIT FROM OPERATIONS		**17.211**	**9.059**	**12.796**	**5.948**
Finance costs		(0)	(1)	(0)	(1)
Other financial income and expenses	22	335	174	345	135
(LOSS) PROFIT BEFORE TAX		**17.546**	**9.232**	**13.141**	**6.082**
Income tax (benefit) expense	23	(1.726)	(939)	(1.076)	(537)
NET (LOSS) PROFIT		**15.820**	**8.293**	**12.065**	**5.545**
ATTRIBUTABLE TO:					
Equity holders of the Company		15.363	7.958	12.065	5.545
Minority interest		457	335	-	-
		15.820	**8.293**	**12.065**	**5.545**
Basic and diluted earnings per share (EUR)	**25**	**0,33**	**0,17**	**0,26**	**0,12**

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

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

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

ŽEMAITIJOS PIENAS AB

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

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

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

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements:
The financial statements were approved on 21 March 2017 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

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

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

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements.
The financial statements were approved on 21 March 2017 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

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

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

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

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

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior accountant

(All amounts in EUR thousands unless otherwise stated)

1.GENERAL INFORMATION

Reporting entity

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

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

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

As on the 31th of December 2016, its shares are held by the following shareholders

Shareholder	31 12 2016		31 12 2015	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	25.003.342	51,69%	21.589.380	44,63%
SEB SA OMNIBUS, Liuksemburg	-	-	3.413.962	7,06%
AB „Klaipėdos pienas" code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
Pažemeckienė Danutė	3.025.820	6,25%	3.025.820	6,25%
AB „Žemaitijos pienas"	2.070.621	4,28%	2.070.621	4,28%
Regina Jarulaitienė	1.140.620	2,36%	1.140.620	2,36%
Romusas Jarulaitis	1.105.510	2,29%	1.105.510	2,29%
Other shareholders	13.127.243	27,13%	13.127.243	27,13%
Total share capital, shares units	**48.375.000**	**100,00%**	**48.375.000**	**100,00%**

The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 per value. All the shares are issued, subscribed and fully paid.
Taking into account the legal requirements the Company prepares consolidated financial statements.

As on the 31th of December 2016 the Group consisted of AB "Žemaitijos Pienas" and the following subsidiaries (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2016	Cost of investment 2015	Net assets as of 31 December 2016	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87,82%	87,82%	3.150	3.150	11.880	Cheese production and selling

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The basis for preparation of financial statements

All amounts in these financial statements are stated in euros and rounded to thousands.
The Company accounted for in these financial statements all amounts are measured and presented in euros. Since 2015 of 1 January Lithuanian national currency is the Euro. The Litas is replaced by the Euro exchange rate of 3,4528 = 1 Euro. Since 2015 of 1 January the Euro has become the Company's functional currency.
The financial statements are prepared on the historical basis.
Financial year of the Company and other entities of the Group coincides with calendar year.

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

Consolidation principles

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

The subsidiaries' acquisitions are accounted by applying the acquisition method. The acquisition price includes the actual value of transferred property, issued proprietary measures or undertaken liabilities, as well as the costs, directly related with the acquisition. The assets and liabilities of the procured company, which comply with the recognition criteria, provided in the IFRS 3, are estimated as the factual values as of the date of acquisition. The initial estimation of the subsidiary's assets and liabilities is corrected within twelve months as of the date of acquisition after obtaining additional data, which help to accurately estimate the real value of the subsidiary's assets and liabilities.
Investments into subsidiaries are accounted in the Company's financial condition report by using the acquisition price method. The dividends, received from the subsidiaries are considered income only in the amount they are paid from the subsidiary's profits, earned after the acquisition. The part of dividends, exceeding such profits, is held coverage of the investment and considered the reduction of the investment cost price.
The financial results of the subsidiary, acquired (sold) during the financial year, are included into the consolidated total income statement from the date of acquisition of the subsidiary till the date of sales of the subsidiary.

The minority shareholders' share covers the share of actual values of assets and liabilities of such shareholders.
All significant deals between the Group companies, balance residuals, income, costs and unrealised income (loss) from mutual operations are eliminated from the consolidated financial statements.

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

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

Amendment to IAS 1. "Presentation of Financial Statements"

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

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

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

Amendments to IAS 16 and IAS 41. "Agriculture: Bearer Plants"

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

Amendments to IAS 27. "Ownership Method in Individual Financial Statements"

The amendments allow for using the ownership method for investments into subsidiaries, joint ventures and associates. In case an economic entity prepares separate financial statements, the economic entity must account the investments into its subsidiaries, joint ventures and associates: a) at the cost price; b) in accordance with IFRS 9 or c) by using the ownership method, as described in IAS 28. The economic entity must apply the same accounting procedure for each type of investment. In case the investments, accounted at the cost price or by applying the ownership method, are attributed to those intended for sale or distribution, such investments are accounted in accordance with the IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".
The amendments had no influence on the Company's financial statements.

Amendments to IAS 28. "Investments in Associates and Joint Ventures"

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

Amendment to IAS 34. "Interim Financial Reporting"

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

Amendments to IFRS 11. "Joint Arrangements"

Amendments to IFRS 11 "Joint Arrangements" provide explanations how to account shares in joint operations, where the business is performed. After an economic entity acquires a share in joint operations, where performance of joint activities is considered business, as stated in the IFRS 3, the economic entity, depending on the held share as per Article 20, shall apply all the principles of IFRS 3 and other principles of joint operations accounting, provided in other IFRS, which are not in conflict with IFRS 11, and shall disclose the information, related with joint operations, required in accordance with other IFRS. An economic entity, involved in joint operations, may increase its share in joint business operations, as stated in IFRS 3, by acquiring an additional share in the joint operations. In such cases the previous shares in the joint operations shall not be repeatedly estimated, if the participant in the joint operations keeps the overall control.
The amendments have no influence on the financial statements since the Company does not participate in joint operations.

Amendments to IFRS 10 and IFRS 12. "Investment Entities: Applying the Consolidation Exception"

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

IFRS improvements

The combined IFRS improvements document:
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- IFRS 7 "Financial Instruments. Disclosures"
- IAS 19 "Employee Benefits"

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

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

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

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

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

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

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

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

IFRS 15 will supersede the IAS 18 "Revenues", IAS 11 "Construction Contracts" and some interpretations relating with revenues; it changes the basis for deciding whether the revenues are recognized outright or in a certain period; provides new and more comprehensive instructions as regards specific situations; expands and improves the requirements for disclosure of information on the revenues. The Company has not estimated the influence of the said amendments yet.

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

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

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

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

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

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

Amendments to IFRS 2 "Clarifications of Classification and Measurement of Share-Based Payment"
(in effect as of 1 January 2018 or on the date of commencement of the fiscal year after 1 January 2018, but not earlier than they are adopted by the EU)

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.
The cost of Company's assets consists of the expenses directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and other expenses incurred to produce these assets before setting them into use and expenses of disassembling, transportation and production site cleaning.

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

Subsequent costs

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

Depreciation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment property

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.
Depreciation is computed on a straight-line basis over the estimated useful life of 20 - 40 years.
Transfers to or from investment property are made when and only when there is an evidence of a change in use.

Non-current intangible assets

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

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

- Software and licences 3 years

Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are written off when incurred.
Depreciation of non-current intangible assets is estimated when there are signs that the assets may have been affected by obsolescence.

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

Leased assets

Leases, in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other lease is treated as operational lease.
Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Inventories

Inventories, including production in progress and finished products, are accounted in financial statements to the lower value (cost price or potential net realisation values). The potential net realisation value is estimated by subtracting the estimated costs of finishing and sales of the products from the sales price during usual operation.
Depreciation of inventories down to the potential net realisation value, lower than their cost price, is performed when the cost price will not be covered after the inventories are sold or used.
The costs of inventories is determines based on FIFO principle.
In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities.
Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production

Governmental grants

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

Grants are related to assets

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

Impairment

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

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

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

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.

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

Dividends

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

Employee allowances

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

Provisions

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

Foreign currency

Translation of amounts in foreign currencies into the national currency

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

As on the 31th of December 2016 the applicable rates used for principal currencies were as follows:

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

Non-derivative financial instruments

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

Cash and cash equivalents include cash balances and demand deposits.

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

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

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

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

Financial derivatives

The Company and the Group did not use or have derivative financial instruments within the period ended on the 31th of December 2016.

Contingencies

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

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

Revenue

Sales of goods

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

Services rendered, assets disposed

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

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

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

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

Expenses

Expenses are recognized on an accrual basis when incurred.

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

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

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

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

Segment reporting

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

Corporate income tax

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

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

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

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

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

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

Basic and diluted earnings (loss) per share

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

Subsequent events

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

Impairment losses on receivables

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

Amount receivable impairment losses recognised to be paid after the delay of 60-120 days or more. Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of non-financial assets

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

Deferred Tax Assets and Liabilities

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

Corrections of accounting estimates and errors

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

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

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

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

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

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

Among such errors are consequences of incorrect mathematical calculation, incorrect use of the accounting policies, human error or incorrect interpretation of facts when recognizing, estimating or providing the elements of financial statements.
Significant errors of the previous reporting period are retrospectively corrected in the comparative information, provided in the financial statements for the current reporting period.

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

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

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

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

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

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

Inventories as of 31 December 2015 (EUR thousand):

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

Less: write off to net realizable value	(5.573)	(4.676)	(5.263)	(4.366)
Total:	**25.194**	**26.091**	**23.091**	**23.987**

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

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

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

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

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

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

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

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

The retrospectively corrected articles of the financial condition statement:

(All amounts in EUR thousands unless otherwise stated)

Statements of financial position retrospective 31 December 2015:

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

Statements of comprehensive income retrospective 31 December 2015:

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

(All amounts in EUR thousands unless otherwise stated)

Cash flow statements retrospective 31 December 2015:

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

5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

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

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

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

(All amounts in EUR thousands unless otherwise stated)

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

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

In 2016 amortization of non-current intangible assets of the Group and the Company amounts to EUR 103 thousand and EUR 103 thousand respectively (In 2015 – EUR 96 thousand and EUR 95 thousand).
Investments in the purchase of non-current intangible assets made by the Group and the Company in 2016 amount to EUR 98 thousand and EUR 97 thousand respectively (In 2015 - EUR 29 thousand and EUR 29 thousand). As all the assets of the Group and the Company are located in Lithuania, all the investments were made in the Lithuanian geographic segment.

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

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Acquisition cost						
As of 31 December 2014	**13.570**	**47.335**	**11.123**	**4.162**	**3.341**	**79.530**
-acquisition	126	1.955	204	374	8.282	10.941
-sold or written-off assets	-	(277)	(91)	(117)	(275)	(760)

(All amounts in EUR thousands unless otherwise stated)

-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-		-		-	-
-adding value	-	490	-	12	-	502
-reclassification	4	838	-	0	(842)	-
As of 31 December 2015	**13.700**	**50.340**	**11.236**	**4.431**	**10.506**	**90.213**
-acquisition	2.497	5.243	769	310	(2.804)	6.015
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(20)	(101)	(173)	(177)	-	(471)
-adding value	-	973	-	19	-	992
-reclassification	1.609	5.308	-	0	(6.917)	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
As of 31 December 2016	**17.786**	**61.762**	**11.832**	**4.585**	**785**	**96.750**
Accumulated depreciation						
As of 31 December 2014	**6.959**	**40.866**	**9.801**	**3.564**	**-**	**61.190**
-depreciation	666	2.550	661	321	-	4.198
-depreciation of written-off and sold assets	-	(274)	(60)	(113)	-	(447)
-recalculation of the accounting policy change	4	(376)	-	-	-	(372)
-transfers to investing assets	-	-	-	-	-	-
As of 31 December 2015	**7.629**	**42.765**	**10.402**	**3.772**	**-**	**64.569**
-depreciation	710	3.389	420	335	-	4.855
-depreciation of written-off and sold assets	(19)	(90)	(163)	(168)	-	(440)
-recalculation of the accounting policy change	4	-	-	-	-	4
-reclassification	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
As of 31 December 2016	**8.324**	**46.064**	**10.659**	**3.940**	**-**	**68.988**
Accumulated impairment losses						
As of 31 December 2014	**44**	**1**	**-**	**4**	**2**	**52**
-impairment losses	-	-	-	-	-	-
-reversal of impairment	(4)	-	-	(2)	-	(6)
As of 31 December 2015	**40**	**1**	**-**	**2**	**2**	**45**
-impairment losses	(1)	(1)	-	(2)	-	(4)
-reversal of impairment	(4)	-	-	-	-	(4)
As of 31 December 2016	**35**	**-**	**-**	**-**	**2**	**37**
Net book value:						
As of 31 December 2015	**6.031**	**7.574**	**834**	**658**	**10.504**	**25.601**
As of 31 December 2016	**9.427**	**15.698**	**1.173**	**645**	**783**	**27.726**

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

The Company	**Land, buildings and constructions**	**Machinery and equipment**	**Vehicles**	**Other property, plant and equipment**	**Constructio n in progress and prepayments**	**Total**
Acquisition cost						
As of 31 December 2014	**8.724**	**41.797**	**8.088**	**3.765**	**3.338**	**65.712**
-acquisition	43	1.952	188	343	8.017	10.543

(All amounts in EUR thousands unless otherwise stated)

-recalculation of the accounting policy change	-	-		-	-	-
-sold or written-off assets	-	(245)	(91)	(111)	(275)	(722)
-adding value	-	490	-	12	-	502
-reclassification	-	576	-	-	(576)	-
-transfers to accounts investing assets	-	-	-	-	-	-
As of 31 December 2015	**8.767**	**44.570**	**8.185**	**4.010**	**10.504**	**76.036**
-acquisition	2.497	5.221	689	272	(3.202)	5.477
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(20)	(92)	(146)	(152)	-	(410)
-adding value	-	974	-	19	-	993
-reclassification	1.590	4.950	-	-	(6.540)	-
-transfers to accounts investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
As of 31 December 2016	**12.834**	**55.623**	**8.728**	**4.149**	**762**	**82.095**
Accumulated depreciation						
As of 31 December 2014	**3.895**	**35.834**	**7.013**	**3.227**	-	**49.970**
-depreciation	504	2.218	419	298	-	3.439
-depreciation of written-off and sold assets	-	(242)	(60)	(107)	-	(409)
-recalculation of the accounting		-		-		-
-transfers to investing assets	-	-	-	-		-
-reclassification	-	-	-	-	-	-
As of 31 December 2015	**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)	(143)	-	(378)
-recalculation of the accounting policy change	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers from investing assets	-	-	-	-	-	-
As of 31 December 2016	**4.956**	**40.765**	**7.639**	**3.582**	-	**56.943**
Accumulated depreciation						
As of 31 December 2014	**1**	**1**	-	**4**	-	**6**
- impairment losses	-	-	-	-		-
- reversal of impairment	-	-	-	(2)	-	(2)
As of 31 December 2015	**1**	**1**	-	**2**	-	**4**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(1)	(1)	-	(2)	-	(4)
As of 31 December 2016	-	-	-	-	-	-
Net book value						
As of 31 December 2015	4.367	6.759	813	590	10.504	23.033
As of 31 December 2016	7.878	14.858	1.089	567	762	25.154

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

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

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

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

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

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

6. INVESTMENT PROPERTY

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

Changes in the investment assets as of 31 December 2016:

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

The fair value of investment assets approximates its book value.
The Company's depreciation of the investment assets for the year 2016 amounted to EUR 69 thousand (2015 – EUR 69 thousand).
The Company's investment assets in 2016 and 2015 represents rented assets to ABF Šilutės Rambynas and UAB Čia Market.
All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

7. LOANS GRANTED

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

Loans granted as of 31 December 2016:

	The Group			The Company		
	31 12 2016	31 12 205 – after corrections	31 12 2015 – before corrections	31 12 2016	31 12 2015 - after corrections	31 12 2015 - before corrections
Loans granted:	**3.464**	**5.140**	**1.528**	**3.464**	**5.140**	**1.528**
Loans granted to related parties	1.866	3.653	41	1.866	3.653	41
Loans granted to milk producers	1.445	1.355	1.355	1.445	1.355	1.355
Loans granted to the staffs	153	132	132	153	132	132
Less: current portion of loans granted	*(1.100)*	*(1.292)*	*(651)*	*(1.100)*	*(1.292)*	*(651)*
Non- current loans granted	**2.364**	**3.848**	**877**	**2.364**	**3.848**	**877**

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

8. INVENTORIES

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

Inventories as of 31 December 2016:

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

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

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

9. TRADE ACCOUNTS RECEIVABLE

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

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

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

Changes in impairment loss for bad debts for 2016 are included into operating expenses in the statement of comprehensive income.

Changes in the allowance for impairment of trade accounts receivable:

	The Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Balance at beginning of year	573	671	573	671
Impairment allowance for bad debts	1.591	(98)	1.070	(98)
Balance at end of year	**2.164**	**573**	**1.643**	**573**

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

Analysis of trade receivables based on the terms of payment on the 31st December, 2016

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

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

Trade related receivables	2.095	1.099	1.373	216	**4.783**
Reduction of value			(1.373)	(216)	**(1.588)**

10. OTHER ACCOUNTS RECEIVABLE

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

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

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

11. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents as of 31 December 2016 (EUR thousand):

	The Group		The Company	
	31 12 2016	**31 12 2015**	**31 12 2016**	**31 12 2015**
Cash at bank	16.948	10.181	10.870	4.785
Cash on hand	52	42	51	42
Total:	**17.000**	**10.223**	**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 2015, 2016 Company acquired it's own shares in 2.070.621 units or 4.28% of shares in total. On 31 December 2015, 2016 the Company had its own shares were purchased for

EUR 1.323 thousand. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

Legal reserve

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

Other reserves

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

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

13. GOVERMENTAL GRANTS RECEIVED

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

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

	The Group	The Company
Grants received		
As of 31 December 2014 (balance)	**7.800**	**5.694**
- received	27	27
As of 31 December 2015 (balance)	**7.827**	**5.721**
- received	-	-
As of 31 December 2016 (balance)	**7.827**	**5.721**
Accumulated amortisation		
As of 31 December 2014 (balance)	**5.667**	**3.909**
- amortization	566	416
As of 31 December 2015 (balance)	**6.232**	**4.324**
- amortization	469	405
As of 31 December 2016 (balance)	**6.701**	**4.729**
Net book value		
As of 31 December 2015	**1.595**	**1.397**
As of 31 December 2016	**1.126**	**992**

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

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

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

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

On 31 December 2016, the residual value of all of the Company's received grants constituted EUR 992 thousand (on 31 December 2015 it constituted EUR 1.397 thousand).

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

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

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

14. BORROWINGS

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

The Group and the Company had no loans, borrowings as of 31 December 2015, 2016:

15. OBLIGATIONS UNDER FINANCE LEASE

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

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

	31 12 2016		31 12 2015	
The Group	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	-	-	32	32
In the second to fifth years inclusive	-	-	-	-
Minimum lease payments	-	-	32	32
Less: future interest	(0)		(0)	
Present value of minimum lease payments	-		32	

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

As of 31 December 2016 and 2015, the Group's and the Company's finance lease agreements were in EUR.

16. OPERATING LEASE

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

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

	The Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Within one year	1.264	994	1.264	994
In the second to fifth years	1.895	1.006	1.895	1.006
After five years	-	-	-	-
Total:	**3.159**	**2.000**	**3.159**	**2.000**

The currency of the payment of operating lease is EUR.

17. PAYABLES

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

	Group		Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Payables to suppliers	15.357	12.007	14.927	11.443
Payables to related parties	384	268	3.607	2.054
Prepayments	294	291	188	262
Total:	**16.035**	**12.566**	**18.722**	**13.759**

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

18. OTHER LIABILITIES

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

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

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

Other current liabilities	1.241	485	1.240	484
Total:	**6.144**	**7.689**	**5.652**	**5.271**

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

19. INFORMATION ON SEGMENTS

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

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

The Group	**Sales, EUR thousand**		**Variation in % As comparing 2016 with 2015**
	Jan-Dec 2016	**Jan-Dec 2015**	
Fermented cheese	63.848	58.031	**10,02%**
Fresh dairy products	52.820	60.904	**-13,27%**
Butter and spreadable fat mixes	11.147	8.514	**30,93%**
Dry dairy products	11.816	9.146	**29,19%**
Ice cream	21	48	**-56,25%**
Other	10.245	12.471	**-17,85%**
Total:	**149.897**	**149.114**	**0,53%**

The Company	**Sales, EUR thousand**		**Variation in % As comparing 2016 with 2015**
	Jan-Dec 2016	**Jan-Dec 2015**	
Fermented cheese	59.408	54.799	**8.41%**
Fresh dairy products	51.544	52.818	**-2,41%**
Butter and spreadable fat mixes	11.147	8.514	**30,93%**
Dry dairy products	11.816	9.146	**29,19%**
Ice cream	21	48	**-56,25%**
Other	13.680	18.948	**-27,80%**
Total:	**147.616**	**144.273**	**2,32%**

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

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

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

During the year of 2016 sales income from each customer did not constitute more than 10% of the total income.

20. OPERATING EXPENSES

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

As of 31 December operating expenses consisted of the following:

	The Group			The Company		
	Jan-Dec 2016	Jan-Dec – after corrections	Jan-Dec 2015 – before corrections	Jan-Dec 2016	Jan-Dec – after corrections	Jan-Dec 2015 – before corrections
Wages, salaries and social security*	11.361	10.755	10.755	11.136	10.505	10.505
Services	6.062	5.492	5.492	5.745	4.779	4.779
Marketing	3.067	4.154	4.154	2.924	3.822	3.822
Fuel and spare parts	1.349	1.319	1.319	1.337	1.303	1.303
Depreciation and amortisation	858	604	604	836	969	969
Change in write off of inventoriews to net realizable value	(2.868)	2.517	1.620	(2.762)	2.415	1.518
Materials	449	371	371	438	359	359
Taxes, other than income tax	229	201	201	198	201	201
Other expenses	(564)	2.590	6.203	676	464	4.077
Total sales and distribution expenses:	**19.943**	**28.003**	**30.719**	**20.528**	**24.817**	**27.533**

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

21. INCOME AND EXPENSES OF OTHER ACTIVITIES

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

Income and expenses from other activities as of 31 December 2016 (EUR thousand):

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

22. FINANCIAL INCOME AND EXPENSES

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

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

23. CORPORATE INCOME TAX EXPENSES (BENEFIT)

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

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

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

24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES

In 2015-16 a new company has not been purchased in the Group . Any company of the Group has not been liquidated.

25. EARNINGS PER SHARE

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

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

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

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

26. COMMITMENTS AND CONTINGENCIES

As of 31 December 2016 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.
At of 31 December 2016 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.

27. FINANCIAL RISK MANAGEMENT

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

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

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

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

Credit risk

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

(All amounts in EUR thousands unless otherwise stated)

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

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of receivables (Note 9), net of impairment losses recognized at the financial statements date.

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

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

Liquidity risk

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

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

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

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

Interest bearing finance lease liabilities						
Trade payables and prepayments	-	12.298	-	-	-	12.298
Commitments to related parties	-	268	-	-	-	268
Balance as of 31 December 2015	**-**	**12.577**	**21**	**-**	**-**	**12.598**
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	-	-	-	-	-
Trade payables and prepayments	-	15.598	-	-	-	15.598
Commitments to related parties	-	2.328	-	-	-	2.328
Balance as of 31 December 2016	**-**	**17.926**	**-**	**-**	**-**	**17.926**
Changes throught 2016	**-**	**5.349**	**(21)**	**-**	**-**	**5.328**

The Company	**On demand**	**Up to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	11	21	-	-	32
Trade payables and prepayments	-	11.705	-	-	-	11.705
Commitments to related parties	-	2.054	-	-	-	2.054
Balance as of 31 December 2015	**-**	**13.770**	**21**	**-**	**-**	**13.791**
Interest bearing loans and borrowings	-	-	-	-	-	-
Interest bearing finance lease liabilities	-	-	-	-	-	-
Trade payables and prepayments	-	15.115	-	-	-	15.115
Commitments to related parties	-	3.607	-	-	-	3.607
Balance as of 31 December 2016	**-**	**18.722**	**-**	**-**	**-**	**18.722**
Changes throught 2016		**4.952**	**(21)**	**-**	**-**	**4.931**

Market risk

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

Foreign exchange risk

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

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

(All amounts in EUR thousands unless otherwise stated)

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

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

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

Fair value of financial instruments

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

Fair value of assets and liabilities provided in the balance sheet as of the 31st December 2016 does not significantly differ from their carrying amount.

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

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

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

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

Capital management

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

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2016.

(All amounts in EUR thousands unless otherwise stated)

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

Current debt to equity ratios presented below:

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

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

No breaches of required ratio occured during the year ending as of 31 December 2016.

28. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Company are:

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

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

Company	Relationship
Šilutės Rambynas ABF	Subsidiary, comon major shareholder
Žemaitijos Pieno Investicija AB	Common major shareholder
Baltijos Mineralinių Vandenų Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder
Čia Market UAB	Common major shareholder
Muižas Piens SIA	Common major shareholder
Samogitija UAB	Common major shareholder
S.A.R. Dziugas France	Common major shareholder
Dziugas PL.Sp.z.o.o.	Common major shareholder

Dziugas UK Ltd	Common major shareholder
Dziugas USA LLC	Common major shareholder

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

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

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

(All amounts in EUR thousands unless otherwise stated)

	5.884	5.731	5.870	5.718
Total Purchases:	**5.884**	**5.731**	**29.122**	**27.419**

Balances outstanding with related parties

	The Group		The Company	
	31 12 2016	**31 12 2015**	**31 12 2016**	**31 12 2015**
3) Accounts recievable and financial debts				
From Group				
Šilutės Rambynas ABF	-		-	
	-		-	
From Related parties				
	-		-	-
Baltijos mineralinių vandenų kompanija UAB	-		-	-
Samogitija UAB	0	20	0	20
Žemaitijos pieno investicija UAB	466	728	466	728
Klaipėdos pienas AB	1.407	2.937	1.400	2.929
Čia Market AB	2.490	1.670	2.490	1.669
Muizas piens SIA	237	217	237	217
Dziugas France S.A.R.	-	-	-	-
Dziugas USA LLC	467	20	467	20
	5.067	*5.592*	*5.060*	*5.583*
Total balances of payables:	**5.067**	**5.592**	**5.060**	**5.583**

	The Group		The Company	
	31 12 2016	**31 12 2015**	**31 12 2016**	**31 12 2015**
4) Balances of payables				
To Group				
	-	-	-	-
Šilutės Rambynas ABF	-	-	3.229	1.786
	-	-	**3.229**	**1.786**
To Related parties				
	-	-	-	-
Baltijos mineralinių vandenų kompanija UAB	279	254	279	254
Žemaitijos pieno investicija UAB	79	-	79	-
Klaipėdos pienas AB	15	-	15	-
Čia Market AB	5	-	-	-
Muizas piens SIA	-	10	-	10
Dziugas PL.Sp.z.o.o.	5	4	5	4
Dziugas UK Ltd	-	-	-	-
	383	*268*	*378*	*268*
Total balances of payables:	**383**	**268**	**3.607**	**2.054**

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

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. In 2016, the Company have calculated EUR 1.588 thousands of decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (in 2015 – EUR 3.799 thousand). Evaluation of these doubtful accounts is being reviewed every financial year, by checking the financial state of the related party and the market, in which the related party is operating. The

Group has many transactions with the related parties (the companies in "Žemaitijos pieno investicija" AB Group), and Group's profit as well as sales are strongly influenced by the transactions with AB "Žemaitijos pieno investicija" group. It includes rent of fixed assets, raw material sales as well as full buy up of cheeses from "Šilutės Rambynas" ABF , sales of distribution services to "Baltijos mineralinių vandenų kompanija" UAB and sales of finished goods to "Čia Market" UAB , sales of raw materials, production and various services to "Klaipedos pienas" AB .

EVENTS AFTER THE REPORTING PERIOD

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

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

on 21 March 2017

Robertas Pažemeckas	Dalia Gecienė
General Director	Senior accountant

I. GENERAL INFORMATION ABOUT THE ISSUER

1. The reporting period covered by the report

The consolidated annual report is prepared and submitted for the financial year 2016.

2. The Issuer and its contact details

Name of joint stock company "Žemaitijos pienas"
Legal - organizational form public limited company
A registered limited liability company registered
23 June 1993
Company code 180240752
VAT payer code LT802407515
The share capital of 14,028,750 euros
Address Sedos g. 35, LT-87101 Telšiai
Phone 8 (444) 22201
Fax: 8 (444) 74897
Email info@zpienas.lt
Website address www.zpienas.lt

3. Information about branches and representative offices

December 31 2016. consolidated AB "Žemaitijos Pienas" Group consists of the parent company Žemaitijos pienas, its subsidiary and associated company. The company's subsidiaries:

AB-F „Šilutės Rambynas", company code 277141670.
The company owns 87.82 percent.
Home address - Klaipėdos g. 3, Šilutė.
Activities - cheese and other dairy products.

Related company SIA "Muižas piens", code 40003786632
The company owns 32 percent.
Home address - Skaistkalnes 1, Riga, Latvia.
Nature of business - retail and wholesale.

AB "Žemaitijos pienas" owns production workshops, warehouses and other economic activities necessary for Real Estate in Sedos g. 35, Telšiai, Also has 4 structural units with warehouses and transportation means Below are a Lithuanian cities:

- Vilnius branch addr.: Algirdas g. 40/13, Vilnius
- Kaunas branch addr.: Kėdainių g. 8A, Kaunas
- Klaipėda branch addr.: Šilutės pl. 33, Klaipėda
- Panevėžys branch addr.: J. Janonio. 9, Panevėžys

4. Issuer and its subsidiaries' main activity or activities

AB Žemaitijos pienas 'core business - dairy products (cheese and cheese products, prepackaged cheese and cheese products, processed cheese and cheese products, cream, cream cheese, butter milk products themed, mixed Spreads, milk fat, pasteurized cream, buttermilk, whey, dried milk products, fresh dairy products (milk, cream, cottage cheese, cheese products, yoghurt, desserts, cottage cheeses, curd cheese, fermented dairy products)) the development, manufacture and sales of Lithuanian and foreign markets.

SC-F „Šilutės Rambynas“main activity - cheese and cheese product development, production and sales of pasteurized cream, pasteurized whey and concentrated whey production and sales.

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.

5. Data about securities traded on regulated markets

AB Žemaitijos pienas "ordinary shares are listed on "Nasdaq Vilnius" stock exchange Baltic additional securities trading list since 1997. 13 October.

Shares types - ordinary, intangible;
Number of shares - 48,375,000 units;
Nominal value of shares - 14,028,750 euros;
The par value - 0,29 EUR
The total number of voting rights - 46,304,379[1]
ISIN code LT0000121865;
VSE symbol - ZMP1L

6. Agreements with securities intermediaries of public trading

2004. 16 July. the company entered into an agreement with AB „Šiaulių bankas“, home addr .: Tilžės st. 149, Šiauliai , according to which the company's securities account management since 2004. 23 July. Passed to AB Šiaulių Bankas.

7. Data for the companies in trading in shares on regulated markets

Traded on a regulated market only AB "Žemaitijos pienas" securities, currently 48,375,000 ordinary shares of units is included in the Nasdaq Vilnius Baltic Secondary List. (VSE symbol ZMP1L). The par value of 0,29 euro. The total nominal value of shares 14 028 750 euro.

Securities without participation in the system capital, the circulation of which is regulated by the Securities Act, no.

Trading on other stock exchanges and other organized markets is not being carried out and has not been carried out.

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[1] Do not participate in the company's treasury and its controlled shares

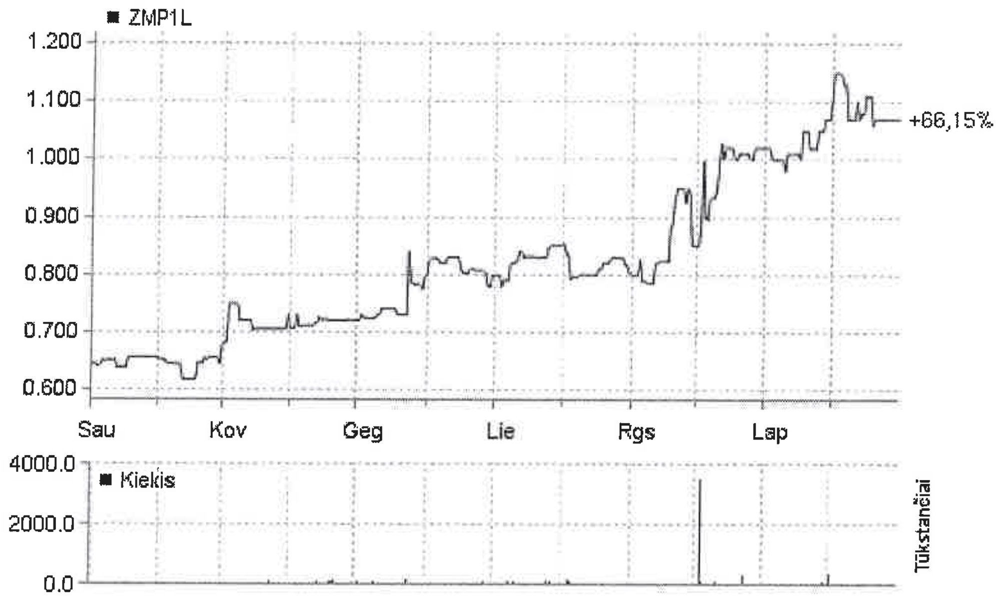
The following graphic information about the transaction is concluded (trade) AB "Žemaitijos pienas" shares on the Vilnius Stock Exchange during 2016. January - December. period. Data source - NASDAQ OMX Vilnius website address:

http://www.nasdaqbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt&currency=0&date=&start=2016.01.01&end=2016.12.31

ABF "Šilutės Rambynas" securities are not traded on a regulated market.

8. Historical data of securities

Public company "Žemaitijos pienas" securities trading on NASDAQ OMX Vilnius Stock Exchange 2012 - 2016 years' data:



9. The Issuer's share capital

2016. 31 December. AB Žemaitijos pienas share capital consisted of:

Type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	In share capital (%)
Ordinary shares, intangible	48 375 000	0.29	14 028 750	100

All shares are fully paid and there are no restrictions on the transfer of securities.

10. Objective overview of the Company's financial position, performance, development and investment overview

AB Žemaitijos pienas "- the old dairy traditions Lithuanian dairy products manufacturing company, cherishing classic dairy product recipes and techniques for promoting the hundred-year history reflects the heritage and cultural products resuscitation and consumption, as well as to innovation, that develops and offers users a new and unusual products.

AB Žemaitijos pienas appeared in 1924, founded as a dairy. In that year, it a dairy in Telšiai, the capacity of which at the time was seen as truly great. At the end of 1984 work started in Telšiai dairy in new premises, which operated until opening and privatization of the biggest Telšiai cheese factory in Baltic states. AB Žemaitijos pienas was registered in June 23 1993. Tent District Board re-registered in October 16 1998 Lithuanian Ministry of Economy.

The extraordinary work is this company's business card, which is undeniably evidence of AB Žemaitijos pienas reliability and solidity take advantage of their products in the domestic market as well as in making Žemaitija and Lithuania known in the world. Currently the company employs about 1,200 professional and creative staff with a significant contribution, optimism and wisdom allows the company to achieve ambitious goals and to face new challenges in the national and international markets.

Through many years of accumulated experience and unique recipes today allows to provide a wide range of products to customers with excellent taste and high quality range. Today, the company produces over 200 titles for new and existing user's favorite dairy products - including organic dairy group DOBILAS. Brand MAGIJA (eng. MAGIC) products since its inception, has won the trust of consumers and gained astonishing popularity. Customers loved fermented and processed cheese, the only Lithuania unripened torn sausages PIK-NIK.

Companies Lithuania and pride - hard cheese DŽIUGAS - in many national and international exhibitions earned the highest achievements. Users liked the company produced milk, kefir, yogurt, sour cream, cream, cottage cheese and covered with cheese curds, natural and various additives flavored butter, as well as many other products. Nurtured and our country's culinary heritage. ŽEMAITIJOS PIENAS homemade cottage cheese and sour cream, butter Žemaitiškas kastinys produced only from traditional raw materials and additives in accordance with the traditional technologies, these products have won exceptional taste Lithuanian culinary heritage fund certificates and marked with a special sign of the Fund.

The Company's production of the many consumers in Lithuania and abroad. AB Žemaitijos pienas products exported to the European Union and other global markets. Most of AB,"Žemaitijos pienas" products produced in line with not only European but also global standards, are awarded in the international exhibition of gold medals and diplomas.

The company in order to remain competitive both in the purchase of raw milk and dairy products sales markets has continued to invest in upgrading production facilities by implementing the most advanced technologies in 2014, a new production line of glazed cheeses was launched, in the same year designed the new milk powder production workshop (worth more than 6 million. EUR). In 2015 a new technology and high-performance cleaning milk line was installed and put into use, each year the investment in new technologies, energy savings, business process improvement and intends to allocate funds for the financing of the company and other activities (reffered in chapt 13 of this report)

At the beginning of the year 2016 the company reorganized the management of the quality of work of the Department, and at the end decided that all international food safety standards compliance checks will be carried out in advance of the time without adjustment, i.e. all audits carried out by selecting the unreported auditing scheme.

In 2016 AB "Žemaitijos pienas" invested in the production units of equipment renewal and modernization, in order to ensure control of hazards in the efficiency of the products manufactured.

In 2016 the company signed a contract with the National Agency for the payment of the award under the Lithuanian Rural Development Programme 2014-2020 measures "Investments in tangible assets" activity area "Support for investment in agricultural product processing, marketing and (or) development." By acquiring new equipment, the company aims to reduce the pollution discharged into wastewater, and more efficient use of energy resources.

11. Significant events of the previous financial year-end

The first months of the year 2016, Bureau Veritas Certification auditors audited IMSKVS system in accordance with international standards ISO 22000, FSSC 22000, BRC and IFS requirements. In 2016 January 26 - 28-day Bureau Veritas unit Lithuania auditors by our compliance with the international standard BRC (British Retail Consortium) 7th version. Conformity assessment of the highest possible assessment of A ++. In 2016 January 26 - 28-day Bureau Veritas unit Lithuania auditors by our compliance with the international standards ISO 22000 and FSSC 22000. The audit discrepancies identified. April 4-8, "Bureau Veritas" unit in Poland by the auditor IMSKVS compliance with the international standard IFS requirements. Conformity assessment of what is equivalent to 98.78% the highest A-level assessment.

- <u>Year awards:</u>

- At the Exhibition "Agro Balt 2016" were announced and awarded the best of this year's exhibition contest winners - gold medal was decorated ŽEMAITIJOS kefir cocktail with bananas and strawberries.
- Lithuanian Trade Enterprises Association (ALTE) organized the competition "The most popular trade items in 2016 was joined by the winners and diplomas decorated:
  - ŽEMAITIJOS half-fat cottage cheese,
  - MAGIC vanilla curd cheese,
- Hard cheese DŽIUGAS GOURMET (matured for 36 months) assessed TASTE Crystal Award Crystal Taste Award ".
- 2016 Superior Taste Award chocolate MAGIC Curd cheese received 2 stars for taste and quality.
- "Made in Lithuania 2016 GERMANTO GOUDA won the gold medal.
- At the end of the year 2016 "Product of the Year" was decorated with medals:
  - GERMANTO Cheese Gouda - Gold medal
  - ŽEMAITIJOS butter - Gold medal
  - Curd cheese magic with cocoa and caramelized hazelnuts - Silver Medal.

12. Principal risks and uncertainties facing the company, a description of

The main factors creating business risk are changes in raw milk and dairy products markets, as well as the possible political, legal, social and technological changes, directly or indirectly related to AB

"Žemaitijos pienas" "business, which may adversely affect the Company's cash flows and operating results.

External risk factors - economic situation of economic crisis, currency fluctuations, etc. - are all factors which AB "Žemaitijos pienas" cannot influence. For example increased energy costs affect the company as it increases production costs as well as increasing prices for transport fuel increases of raw materials and product distribution Bringing transportation costs, resulting in the company needs to increase its prices.

Socio-demographic environment also influences AB "Žemaitijos pienas" activities. Decline in the number of family members, reduced fertility, increased mortality and emigration are important because the company's milk production end users are people. Decline in the number of people strongly influenced by Lithuania in sales volumes. The company is making every effort to develop exports.

In any market vendor face a number of competitors - other companies that are vying for their goods buyers, based on the price differences between goods and services, the diversity of ways, etc. The market economy, competition between firms not only inevitable, but also necessary, because the competitive struggle forcing producers to reduce production and marketing costs, develop new products, expanding the range of products, improve product quality, encourage the search for new markets, etc.

AB "Žemaitijos pienas", like every entity that, market conditions for profit, and it gets to keep the risk, as well as competition with other milk processing companies. The company's management can not ignore the external business environment influencing the company.

The maximum "AB Žemaitijos pienas"Lithuania competitors in the market must be regarded as major Lithuanian milk industry companies: AB "Pieno žvaigždės", AB "Rokiškio sūris" and AB "Vilkyškių pieninė".

The modern economy is characterized by a fierce competitive struggle, because AB "Žemaitijos pienas" forced to know the closest competitors and track their progress, monitor actions, strategies and implement changes in their own production, sales and production being.

The AB "Žemaitijos pienas" competitors include foreign and milk products manufacturers and sellers of their products importing to Lithuania.

Since most of the company's production is exported, and the global dairy industry crisis started in 2014 continued in the 2016 period, therefore, significantly dropped prices for dairy products sales markets, the continued Russian embargo and abolished milk production quotas in the EU and unpredictable future due to the high content from intervention of skimmed milk powder using a negative impact on the dairy industry in the market, while at the same time, the company and its financial results. A classification of the increasing state regulation of the dairy farming sector, restrictions on the freedom to negotiate raw milk prices, set up new restrictions on relations with milk producers negatively assessed phenomena.

The company specializes in fresh dairy products and cheese, most of its income from the sale of these products. For this reason, the company's revenue, profit and overall financial condition is affected by, and can make a negative of fresh dairy products and cheese demand and price changes in the market. Fresh dairy products segment mainly affected by the Lithuanian market, and cheese - the export market.

13. Financial and non-financial performance analysis and environmental and personnel-related information

13.1. Analysis of the financial performance

The principal financial performance indicators, reflecting the Company's and the Group's activities during 2015-2016, are the following:

Financial ratio	According to the International Financial Standards			
	2016		2015	
	Group's	Company's	Group's	Company's
Sales, thousand euro	149.987	147.616	149.114	144.273
Gross Margin, %	24,63	22,17	24,65	20,88
Net Margin, %	10,55	8,17	5,56	3,84
EBITDA, thousand euro	22.533	17.633	13.182	9.687
EBITDA margin, %	15,03	11,95	8,84	6,71
ROE, %	22,74	19,84	13,81	10,07
ROA, %	17,04	14,00	10,05	7,33
Current Ratio	2,72	2,14	2,4	2,19
Quick Ratio	1,58	1,19	1,19	0,99
Debt-to-equity ratio	0,34	0,42	0,37	0,37
Debt Ratio	0,25	0,29	0,27	0,27
Amount of Fixed Asset Investments	9.098	8.559	11.201	10.803

The ratios specified above were calculated applying the following formulas:

Gross Margin = gross profit / sales
Net Margin = net profit / sales
EBITDA = net profit + corporation tax + interest expense + depreciation and amortisation expense.
EBITDA margin = EBITDA / sales
ROE = net profit / equity capital
ROA = net profit / assets
Current Ratio = current assets / current liabilities
Quick Ratio = (current assets – stocks) / current liabilities
Debt-to-equity ratio = amount due and liabilities / equity capital
Debt (arrears) Ratio = amount due and liabilities / assets

Comparison of procurement quantities and prices of raw milk in 2016, 2015 and 2014:

Procurement of raw milk (recalculated to base fat richness)	2016	2015	2014
Quantity of purchased milk, thousand tons	359	361	343
Purchase price, EUR/t	188	194	244

Distribution of **the products, sold by the company** Žemaitijos Pienas AB **during 2015 and 2016** according to the type of a product was as follows:

Name of a product group	Sales, EUR thousand		The change, comparing between 2016 and 2015, %
	2016	2015	
Fermented cheeses	59.408	54.799	8,41
Fresh dairy products	51.544	52.818	- 2,41
Butter and spreadable butter blends	11.147	8.514	30,93
Dry dairy products	11.816	9.146	29,19
Ice-cream	21	48	- 56,25
Other	13.680	18.948	- 27,80
Total	**147.616**	**144.273**	2,32

Distribution of **the products, sold by the group** Žemaitijos Pienas AB **during 2015 and 2016** according to the type of a product was as follows:

Name of a product group	Sales, EUR thousand		The change, comparing between 2016 and 2015, %
	2016	2015	
Fermented cheeses	63.848	58.031	10,02
Fresh dairy products	52.820	60.904	-13,27
Butter and spreadable butter blends	11.147	8.514	30,93
Dry dairy products	11.816	9.146	29,19
Ice-cream	21	48	-56,25
Other	10.245	12.471	-17,85
Total	**149.897**	**149.114**	0,53

The Company's sales according to geographic segments (secondary segments) in 2015 and in 2016:

Sales according to geographic segments	Turnover, EUR thousand	
	2016	2015
Lithuania	81.608	82.317
Other Baltic States and the CIS	25.423	17.812
Other European countries	29.988	33.869
Other	10.597	10.275
Total	**147.616**	**144.273**

The Group's sales according to geographic segments (secondary segments) in 2015 and in 2016:

Sales according to geographic segments	Turnover, EUR thousand	
	2016	2015
Lithuania	80.263	75.668
Other Baltic States and the CIS	27.401	20.332
Other European countries	31.328	42.355
Other	10.905	10.759
Total	**149.897**	**149.114**

13.2. Environment protection

AB "Žemaitijos pienas", milk products manufacturing and marketing company, according to the criteria assigned to the IPPC environmental permit rules in Appendix 1 of the devices. 2006-12-29 company issued the Integrated Pollution Prevention and Control permit an unlimited duration but because of changes - adjusted. The company has no negative impact on the environment, which should be taken to reduce the immediate measures, but the company continuously monitors its own performance, plans and implements investments that would reduce production and operating costs and energy consumption in every way to improve the company's environmental condition. At the same time we are always ready to solve the environmental problems of the society.

The company constantly improves the integrated quality management and food safety management system that meets international standards BRC, ISO 22000, FSSC (ISO 22000, ISO / TS 22002-1) and IFS requirements, plans to introduce the ISO 14000 environmental management system. The company is not included in the emission trading system in accordance with the National Allocation Plan year 2013-2020.

Natural resources are used sparingly. Impact on the environment is controlled by coordinated monitoring programs. The company continually updates its fleet in order to reduce air pollution to the environment. In order to ensure emissions reduction from stationary sources of pollution, the company uses the best available techniques.

The waste is treated in accordance with the environmental requirements, provided by the annual "Waste Inventory Report" through environmental electronic data capture system. The territory of hazardous and non-hazardous waste is stored and managed in a way that does not negatively impact the environment, sorted, storage spaces marked accordingly. The waste is transported to timely prevent waste companies. AB "Žemaitijos pienas" performs extraction of secondary raw materials from the waste stream and systematically communicate the waste collectors and processors.

AB "Žemaitijos pienas" production process occupies an important place in the pack. Products are packaged in glass, PET, plastic, paper, combined, wood and other packaging. Packaging waste management company cooperates with NGO "Packaging management organization, which takes care of a responsible packaging collection and recycling.

The company continuously carries out investment projects, the introduction of new modern technologies, which allow more efficient use of energy resources, reduce emissions into the environment of emissions, the use of other environmental measures:

- 2016. the company signed a contract with the National Agency for the payment of the award under the Lithuanian Rural Development Programme 2014-2020 measures "Investments in tangible assets" activity area "Support for investment in agricultural product processing, marketing and (or) development." By acquiring new equipment the company will seek to reduce the pollution discharged into wastewater, and more efficient use of energy resources.

13.3. Human Resources Policy Aspects

The company aims to create and develop long-term relationships with employees, especially when the labor market situation is not satisfactory - the lack of high-skilled workers. Therefore, employees are encouraged to grow professionally. Employees have the opportunity to improve their knowledge and skills in seminars, courses. There are training programs prepared by the trained and certified professionals, production workers, operators, fitters, foremen, craftsmen.

Professional training during the reporting period:

Ref. No.	Work / training title	Trained staff 2016
1.	Trained new employees by initial training program	219
2.	Trained and certified production staff under the continuing education program	136
3.	Trained (training runs) production staff by continuous training	-
4.	The company's specialists trained personnel in internal training	290
5.	Trained staff external training company premises (purchased service)	400
6.	Qualified new g. masters and foremen	14
7.	Trained staff safety issues	238
8.	Trained staff work with new equipment	85
9.	Employees participated in external training (courses, seminars, conferences)	97
10.	Training programs prepared	8
	Total:	1.487

Great attention is paid to foreign language learning. Employees are trained in courses organized by the company and various other forms of learning and training, foreign language skills deepened abroad.

13.4. Personnel

According to data from December 31 2016 AB "Žemaitijos pienas" the number of employees was 1.214, compared with December 31 2015. the number of employees increased slightly, which in the past reporting period was the 1.197.

In the last financial year, AB "Žemaitijos pienas" the average number of employees:

	2016 12 31	2015 12 31
The average number of employees	1.214	1.197

Grouping of employees by education:

The number of employees	2016 12 31	2015 12 31
With a Master's education	43	49
Higher education	187	180
With higher education	241	182
With professional education	291	280
With secondary education	366	424
With low education	86	82
Total:	1.214	1.197

AB "Žemaitijos pienas" number of employees in accordance with their respective teams, and their average earnings in accordance with the relevant employee groups in euro includes:

The number of employees by groups	12 31 2016		12 31 2015		12 31 2014	
	Workers number	Average salary euros	Workers number	Average salary euros	Workers number	average wage, euros
Leaders	7	4.930	27	2.755	21	2.503
Specialists	272	1.310	246	1.184	239	1.027
Labor	935	743	924	755	932	592
Total:	1.214		1.197		1.192	

The Company's employees the rights and obligations provided for in their job descriptions. Employment contracts do not provide for special rights or obligations.

During the previous fiscal year, the average ABF "Šilutės Rambynas" personnel change:

	12 31 2016	12 31 2015	12 31 2014
The average number of employees	192	195	179

ABF "Šilutės Rambynas" grouping of employees by education:

The number of employees by education	12 31 2016	12 31 2015	12 31 2014
With masters degree	9	9	8
Higher education	21	21	20
With higher education	27	27	23
With professional education	76	76	73
With secondary education	37	40	36
With low education	22	22	19
Total:	**192**	**195**	**179**

ABF "Šilutės Rambynas" average salary in accordance with the relevant groups of workers in euro:

The number of employees by employee groups	12 31 2016		12 31 2015		12 31 2014	
	The number of employees	Average salary EUR	The number of employees	Average salary EUR	The number of employees	Average salary, EUR
Leaders	7	2.049	6	2.167	4	1.913
Specialists	34	988	43	979	87	828
Labor	151	793	148	772	88	614
Total:	192		197		179	

Employment contracts there are no special rights or obligations. Both AB "Žemaitijos pienas" both ABF "Šilutės Rambynas" constituted and functioning of the collective agreement.

14. References and additional explanations of the annual financial report of the data

The annual financial statements and notes of the data is sufficiently comprehensive and informative so no additional explanation. The annual report is prepared in accordance with the Ministry of the Group's consolidated financial statements, Minister of Financial Statements and other statutory requirements.

15. Data on the issuer's own shares

During the financial year 2011 of AB "Žemaitijos pienas" via Stock Exchange NASDAQ OMX Vilnius, the official tender submarket was bought 10 units. AB Žemaitijos pienas ordinary shares of 1 (one) litas par value for 5,21 euros. December 2012. The NASDAQ OMX Vilnius stock exchange order-based company purchased 1,360,010 units. shares by euros 867 thousand, all of the Company's shares are fully paid, the company now owns 2,070,621 units. of its own shares, representing 4.28 per cent. During 2013 period, the company bought 710 their own shares. 611 pcs. July 04 2016. By August 02 d. 2016 the company intended to buy part of the shares, but this time the shares have not been purchased. The company's own shares during the reporting period did not transfer. It should be noted that the subsidiary is not acquired any shares in the Company.

16. Company group's business plans and forecasts

Currently AB "Žemaitijos pienas" is one of the largest and most advanced milk processing companies in Lithuania, which currently employs more than a thousand employees. AB "Žemaitijos pienas" products are sold and highly appreciated not only in Lithuania, but also abroad. Every year, increasing sales show that the company has a strong position in the dairy market and strengthens them consistently.

AB "Žemaitijos pienas" skills and practices associated with those activities, which the company does best, and that helps it to stand out in a large competition. AB "Žemaitijos pienas" has long been in the same - the milk processing market, and gained a great experience: the company's customers know what they can expect from AB "Žemaitijos pienas", the company knows what consumers expect. In addition, over a long period of operation, the company has a well-established and good relations with suppliers.

The company trying to make its manufactured goods to the consumer to purchase a number of commercial facilities (shops), a manufacturer of its goods to the consumer wants to present as soon as a greater number of trade intermediaries: wholesalers, retailers and other entities. Therefore AB "Žemaitijos pienas" is usually subject to an intensive distribution strategy, which is typical of everyday consumer goods realization, including food products.

AB "Žemaitijos pienas" long-term goals - to become technically and technologically modern, competitive, reliable and stable growth for companies, their production products to ensure a profitable market in the European Union as well as the global markets, with a focus on products with high added value, own brands and persistent marketing effect; maintain the highest level of product quality; full use of existing facilities; systematic accumulation of intellectual capital.

Company's current main objectives:

- Buy the milk market, but not more expensive than the raw milk Lithuania buys other market participants;

- To reduce production costs and production costs, ensuring a stable and increasing product quality, so the main cost of production and cost reduction directions referred to as the negotiations with the major packaging, jams and so on, suppliers for price reductions and production efficiency;
- View the range produced to give up cost-inefficient production;
- All manufactured products must be kept at the highest technological standards complying warehouses;
- To increase sales to the company at favorable prices. To focus on the main strongest products with its own brand and retain at least 25 percent. domestic market share. Export markets focus on higher value-added product sales to the end user;
- Prepare the pricing in line with market requirements;
- To strengthen the marketing function, and company name, investing in brand-building, dissemination, customer loyalty-building;
- Reduce distribution costs, as a way of naming the distribution channels truncation, i.e. the distribution channels the number of participants is minimized;
- Encourage employees for the final result and assumed execution of the plans;
- Constantly improve, upgrade existing equipment of technological processes and transport economy to the higher production and quality of work, cost and productivity.
- Install a new ERP, which aims - to create a sound business management system that includes monitoring and control mechanisms in all the company's business processes to ensure timely and expeditious original recording.

ABF "Šilutės Rambynas" as a related company has such a policy in the food production and sales activities in the areas.

17. Information about the company's research and development activities

The company as its subsidiary (together or separately) constantly makes investments and looking for ways to ensure steady revenue growth and improved operating efficiency. The company also pays great attention to new product development. 2016. User Submitted kefir desserts, cut into cubes and grated fermented semi-hard cheeses.

The company focuses on high quality and added value for the consumer, and has collaborated with LUHS, VU, KTU CPST scientists, Lithuanian and foreign experts. Derivatives laboratory tests National Food and Veterinary Risk Assessment Institute, Eurofina, Hamilton, KTU MI, LUHS Veterinary Academy and others. laboratories, improved formulation, strengthening the uniqueness of the product, the development of new products. Research is continuous in nature, mainly directed to the existing product basket of product development.

For the highest standards of performance, advanced operational methods and innovative approach both in technology and in business management as well as individual company management and work processes, the company constantly seeks to improve going into foreign internships, exhibitions, cooperates with the largest suppliers, horizontally integrating good production practices, not only in their own production and logistics processes, but the improvement initiatives already starting from the suppliers of industrial processes and products.

18. Information about the company's use of financial instruments

AB "Žemaitijos pienas" assets are reflected according to IAS financial instruments - related companies. The Company's management estimates that the consideration to the performance of companies, their trends, and the market prospects, there is no risk of these stocks depreciation. AB "Žemaitijos pienas" adheres to a conservative financial policy instruments in use, so the credit risk, cash flow risk, liquidity risk or not it is materially insignificant. Hedges used, long-term financing instruments used to a limited extent - only financial leasing, where contracts are concluded exclusively on favorable terms.

The company's main risk - Receivables liabilities liquidity AB "Žemaitijos pienas" operates through trade credit insurance or other forms of almost total export turnover.

AB "Žemaitijos pienas" is formed and an Audit Committee, which is the main risk, provides management proposals and their implementation, thereby increasing the company's assets and liabilities reliability.

Information about the issuer's financial risks is presented in the annual financial statements notes.

II. FURTHER INFORMATION ABOUT THE ISSUER, ITS SHAREHOLDERS, OTHER ISSUERS BODIES

19. Issuer's share capital structure

Registered in the Register 48,375,000 share capital. He divided the 48-375 000 pcs. ordinary 0,29 euro. the nominal value of the shares.

2016. 31 December. AB "Žemaitijos pienas" share capital consisted of:

Type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	In share capital (%)
Ordinary shares	48 375 000	0.29	14 028 750	100

All shares are fully paid and there are no restrictions on the transfer of securities.

20. All restrictions on the transfer of securities

Securities transfer (disposition) restrictions apply.

21. Shareholders

December 31 2016. the company a total of was 2.920 shareholders. All issued shares are entitled to the same rights provided for in the Companies Law and the Articles of Association.

Shareholders owning or controlling more than 5 percent. AB "Žemaitijos pienas" share capital and voting rights:

Ref. No.	Shareholder	2016.		
		shares Number of shares.	Proportion of ownership, directly[2]	Voting rights percent., indirectly[3]
1.	Algirdas Pažemeckas	25 003 342	54	20.12
2.	Danutė Pažemeckienė	3 025 820	6.53	67.59
4.	AB „Klaipėdos pienas", į/k 240026930, Šilutės pl.33, Klaipėda	2 901 844	6.27	67.85
5.	Other shareholders	17 443 994	33.20	-
	Total	**48 375 000**	**100.00**	-

There are no restrictions on transfer of securities. The shareholders are interest and non-property rights and have duties under the Companies Law and the Articles of Association.

Restrictions on voting rights. All the company's shares to which voting rights are of equal nominal value of each share at the general meeting of shareholders one vote.

22. Shareholders' rights

The shareholders have the laws and regulations rights granted to property and non-property rights:

The shareholders have the following property rights -

get the company's profit (dividend); get liquidation of the company's assets; free access to a share capital increase from company funds, except in cases prescribed by law; the shareholder is a natural person - to bequeath all or part of the shares to one or more persons; according to the law to sell or otherwise dispose of all or part of the shares to other persons, other property rights, which are possible under the law;

The shareholders have the following non-property rights -

participate in meetings; granted by the shares to vote at meetings; to obtain confidential information about the company's business; to elect and be elected to the company's management and control bodies, to occupy any position in the company, unless otherwise established by the Republic of Lithuania Law on Companies of the company's articles of association; provide specific suggestions of the company's financial, economic, organizational and others. activities to improve the appeal court of shareholders, the supervisory board, the board and the chief executive decisions or actions that are in violation of the law, the Articles of Association, the shareholders' rights and interests. One or more shareholders without a separate power of attorney shall be entitled to compensation for damage caused to the shareholders; other non-statutory rights.

Representatives of the Issuer knowledge there are no agreements between shareholders that may be the transfer of securities and (or) voting rights or other special rights acquired.

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[2] Law on Securities Article 25

[3] Law on Securities Art. 26, related parties - R. Jarulaitis (2.39 per cent.), R. Jarulaitienė (2.46 percent). D. Gecienė (1.03 per cent.), Baltic Holding (1.44 percent.)

A person acquires all the rights and duties granted by the acquired company share capital and (or) voting rights: in case of capital increase - from the company statutes amendments relating to the authorized capital and (or) voting rights in an increase in the registration date, in other cases - from property rights to the company share capital and (or) voting rights occurred.

23. Shareholders with special control rights and description of these rights

There are no shareholders with special control rights.

24. All restrictions on voting rights

The company has no shareholders, which would restrict the right to vote and / or subject to other restrictions or system under which the securities property rights granted separated from the holding of securities.

25. All agreements between shareholders of which the issuer is aware and that may be the transfer of securities and (or) voting rights

The Issuer is not aware of agreements between shareholders, which could limit the transfer of securities and (or) voting rights.

26. Changing order of the amendment articles

AB "Žemaitijos pienas" operate under the laws of the Republic of Lithuania, Government resolutions and normative acts regulating the activities of companies, the Company's Articles of Association.

AB "Žemaitijos pienas" may be changed by the Republic of Lithuania according to the laws.

27. Issuer's bodies

Issuer's bodies are the General Meeting, the Supervisory Board, the Board and Chief Executive Officer (CEO), also acts have their respective audit committee. Control bodies are the company's board and the manager.

The Supervisory Board is a collegial supervisory body in company care. The Council is chaired by the Chairman. Company Council, consisting of 3 members elected by the general meeting of shareholders for four years. Company stipulate that the Board member's cadence is unlimited.

The Company's Board is a collegial body that represents the company's shareholders for the period between meetings and making decisions in the company's most important economic activity. Board working procedures adopted by the Board shall determine its rules of procedure. The Board consists of 5 members. Board members are not more than four years by the Supervisory Board. Their terms of office limited. The activities managed by the chairman of the Board shall elect its members. Board members of the company acting jointly, the obligation is not specialized.

The Head of the Managing Director, who follows the Articles of Association, the general meeting decisions of the Board and other company local acts, he does not have the specific operating rights in the company.

Organizes daily activities of the company and carry out the actions necessary to carry out its functions, the corporate bodies to implement the decisions of the company and its operations.The General Manager is responsible and reports to the Board on a regular basis.

The General Meeting does not have any special rights to unforeseen legislation.

company bodies is governed by the laws of the Republic of Lithuania and other laws and the Articles of Association set requirements. According to the documents mentioned in the provisions of the company's bodies are elected, appointed and dismissed from office.

Bodies of the issuer does not have any exclusive and / or special rights in determining the regulation of release or by purchasing securities of the issuer, in this area they have the rights provided by the legislation.

General Meeting and his rights

Amend and supplement the Articles of Association; to collect and remove the firm, the Supervisory Board members; approve the annual financial statements, the Board of the Company's activities; a decision to increase the authorized capital; determine the type of shares issued by the Company, the class and the minimum issue price; a decision to reduce the share capital; decide to issue convertible bonds; take a decision to change one type or class of shares of the Company to another, to approve the share exchange procedures; adopt a decision for the Company to acquire its own shares; a decision to transform the company to liquidate the Company or to cancel the liquidation; a decision to reorganize the Company and approve the reorganization plan (conditions). Cases prescribed by law the decision on the Company's reorganization, merger, may be made by the Board; to decide on the distribution of profits; decide to set up reserves, excluding revaluation reserve. The Company's shareholders do not have any special rights and responsibilities in the company.

28. Issuer's management and supervisory bodies

Issuer's management bodies are the Board (collegiate) and head of the company (sole - CEO). A company's supervisory body - the Supervisory Board, as well as the Company has an Audit Committee. Control bodies are the company's board and the manager.

The Supervisory Board is a collegial supervisory body in the company's care. The Council is chaired by the Chairman. Company Council, consisting of 3 (three) members, elected by the general meeting of shareholders for four years. Company stipulate that the Board member's cadence is unlimited.

The Supervisory Board's powers and responsibilities:

elected members of the Board and remove them from office. If the company is operating at a loss, the Supervisory Board must consider whether the board members for the position; supervised by the Board and the Company's Chief Executive Officer; the AGM comments and suggestions on the Company's business strategy, annual financial statements, profit distribution plan and the annual report, as well as the Board and the Company's Chief Executive Officer; sets (combination) of the Board of the monthly / quarterly limits production for tasting free of charge to customers, the market for the exploration and / or expansion and the end of the quarter to approve; submit proposals to the Board and the Company Manager to revoke their decisions which contradict laws and other legal acts, the Articles of Association or the General Meeting of Shareholders; solve other articles of the Company, as well as the annual General Meeting of the Supervisory Board within the competence of the Company and its management bodies supervisory issues; determined by the Company's director's salary if he is a member of the Board; Board at the request of a decision on the company working for the Supervisory Board member's termination of employment.

The Company's Board is a collegial body that represents the company's shareholders for the period between meetings and making decisions in the company's most important economic activity. Board working procedures adopted by the Board shall determine its rules of procedure. The Board consists of 7 (seven) members (under statute) 2016-12-31 state of the company is 5 (five) members of the board. Board members are not more than four years by the supervisory board, no special rules for the collection or removal of members of the Board is not provided. Their terms of office limited. The activities managed by the chairman of the Board shall elect its members.

The Board shall consider and approve:

The company's business strategy; Structure of management and employees; the positions to which the way of competition; the consent of the Supervisory Board, for each month are established and approved by the Company's products and the quantity that is available for free for buyers tasting, to investigate and / or expand the market; The Company's branches and representative offices; Director General and Deputy job description and salary.

The Board shall elect the company's manager. The Board agrees with the head of the Company proposed the nomination of the deputy and nominations for the position to which the way of competition.

The Board analyzes and evaluates the Director General on:
The Company's business strategy; The Company's activities; The Company's financial condition; economic performance, income and expenses, inventory and other records of the data;financial sources for the accumulation and use; The Company's transactions.

The Board examines the Director General of the Company's draft annual accounts and profit distribution project and these projects approved, submit them to the General Meeting. The Board sets the Company of tangible asset depreciation and intangible assets amortization methods and standards.

The Board shall timely preparation of general meetings, ensure the registered holders of the shares drawing up the lists, create agenda of the meeting, to present to the shareholders of the Company's annual financial statements, profit distribution project, the Company's activity report and other relevant information items on the agenda.

The Board shall, without the approval of the general meeting shall take decisions on these issues:
decisions to be other legal persons the founder or member; decisions to establish branches and representative offices; decisions on long-term assets with a book value of more than 1/20 of the share capital, investment, transfer or lease; decisions on long-term assets with a book value of more than 1/20 of the share capital, to pledge or mortgage; decisions on other persons, the amount of which exceeds 1/20 of the authorized capital of the surety or guarantee; decisions on the acquisition of fixed assets at the price bigger than 1/20 of the share capital; solutions for corporate restructuring, reorganization conditions and / or projects to restructure, reorganize the company / es; The company's entry into associations, concerns, and (or) consortia and withdrawal from them; to allocate funds for charity, health protection, culture, science, physical education and sports, as well as natural disasters and the eradication of the state of emergency; determined by the chief executive officer of the funds used the size of the fund; other articles of the Company or the shareholders meeting of the Board within the competence of decisions.

The Head of the Managing Director, who follows the Articles of Association, the general meeting decisions of the Board and the administration work regulations.

Organizes daily activities of the company and carry out the actions necessary to carry out its functions, the corporate bodies to implement the decisions of the company and its operations. The General Manager is responsible and reports to the Board on a regular basis.
company bodies is governed by the laws of the Republic of Lithuania, legislation and the company's articles of association the power available to them. According to the documents mentioned in the provisions of the company's bodies are elected, appointed and dismissed from office.

The Head and the administration:

The Head of the Managing Director, who follows the company's articles of association, the general meeting decisions of the Board and the administration work regulations. Managing Director is appointed and recalled by the Board. Director General of the selected competition may be organized. The employment contract with the Director General signed by Chairman of the Board. The employment contract with the CEO, who is also Chairman of the Board, the Board shall be signed by an authorized member of the Board. General Director of the Company participate in Board meetings in an advisory capacity, if it is not a member of the board.

Chief executive officer (CEO):

led by the Company's administration; within its jurisdiction conclude transactions on behalf of the Company; represent the Company in dealings with third parties and in court and in arbitration. The right to represent the company's CEO acquired from the date set out in the employment contract; opens and closes the company's accounts with banking institutions; prepare and submit to the Board for approval the Company's management structure, job lists, salary and promotion for the systems of work; preparing a draft share subscription agreement; hire and dismiss employees, conclude and terminate employment contracts with them, the results of the work, with employee disciplinary sanctions and incentives, including of material nature; sets internal rules, approved by the departments of regulations, administrative rules of procedure; issue a mandate for those functions which are within its competence; Companies of cases stipulated by law to convene a general meeting of shareholders, it organizes, prepares the necessary general shareholders' meeting documents; ensure the Company's property, trade secrets protection; performs other laws and the Articles of Association functions; disposal of the Company's assets, including cash.

Supervisory Board composition:

Name surname	**Occupation Issuer**	**Number of shares held in stock. and the share capital%**	**Election date**	**End of term**	**The beginning of "Žemaitijos pienas" work**
Kestutis Trečiokas	Supervisory Board Chairman	-	2016 12 29	2020 12 29	closed
Hugo Ader	Supervisory Board member	-	2016 12 29	2020 12 29	closed
Aristydas Kulvinskas	Supervisory Board	-	2016 12 29	2020 12 29	closed

Board structure:

Name surname	Occupation Issuer	Number of shares held in stock. and the share capital%	Election date	End of term	The beginning of "Žemaitijos pienas" work
Rigilda Banienė	Member of the Board, Personnel and Legal Director	-	2016 12 01	2019 02 07	2016.07.25
Algirdas [4]Pažemeckas	Chairman of the Board, Group leader Brendan	25 003 342 54.00	2014 02 07	2019 02 07	1986 12 26
Marius Dromantas	Member of the Board, Director of the Department of Transport	-	2014 02 07	2019 02 07	2003 12 01
Dalia Gecienė	Member of the Board, Senior. accountant	475 160 1.03	2014 02 07	2019 02 07	1986 07 29
Ramunas Dargis	Member of the Board, Production Department Manager	-	2016 04 02	2020 04 02	2003 05 26

Administration:

Name surname	office	Number of shares held in stock.	Share of the capital%
Robert Pažemeckas	General Manager	------	--------
Dalia Gecienė	Senior. Accountant	475 160	1.03

During the reporting period (2016). Company (issuer) of the supervisory board members, board members, the company's chief executive officer and chief financial officer / chief accountant credited to euros 587.365 EUR (five hundred and eighty-seven thousand three hundred and sixty-five euros) related to labor relations and 395.000 EUR (three hundred and ninety-five thousand) bonuses.

[4] 2016-12-31 The Board upheld Mr. Pažemeckas request and dismissed from the members of the Board and Chairman of the Board;

During the reporting period, the supervisory board and management board members, the company's chief executive officer and CFO / chief accountant did not receive any guarantees or warranties, transfers of assets or any other property rights.

The Supervisory Board and the Board members, the company's CEO and CFO / chief accountant does not have a significant material obligations to the Company (the issuer), as well as company (issuer) has no obligations to these persons.

Guarantees and warranties and / or other obligations of the collateral for the management or supervisory bodies of these entities to ensure the fulfillment of obligations during the period of the year 2016 given on behalf of the issuer was not, the issuer did not give these entities and loans.

The Company's Audit Committee

AB Žemaitijos pienas runs the company's audit committee, which consists of three persons - Angelė Taraškevičienė (Chairman), Stanislava Vaičienė and Daiva Katarskienė (members).

Name surname	Job office authority	Number of shares held in stock. issuer	In office of the Committee	Terms of office end Committee
Angele Taraškevičienė	JSC "values audit", the leader of	-------------	2013-04-26	Before elected as members of the company's body removed from office or termination of the term of office
Stanislava Vaičienė	AB Žemaitijos pienas , Accountant	---------------	2013-04-26	Before elected as members of the company's body removed from office or termination of the term of office
Daiva Katarskienė	AB Žemaitijos pienas, Accountant	-------------------	2013-04-26	Before elected as members of the company's body removed from office or termination of the term of office

The main function of the audit committee - to be the company's Supervisory Board advisory body, and the main task - to increase the supervisory board of the company working in the field of financial supervision efficiency, helping to ensure that decisions are taken impartially and due consideration. The audit committee, as such functions to provide the Board with recommendations related to external audit selection, appointment, reappointment and removal and with the terms and conditions, monitor the external audit process and assess how the external auditor and audit company follow the independence and objectivity principles, The Company monitors the financial reporting process, carry out other acts of the Republic of Lithuania and Vilnius Stock exchange listed companies management recommendations of the Code functions.

It should be noted that the Company does not set up any other committee.

III. OTHER INFORMATION RELATED TO THE ISSUER

29. All significant agreements to which the issuer is a party and which take effects, alter or terminate upon a change in control of the issuer, as well as their effects, except for the disclosure of such agreements do significant damage to the issuer

Agreements to which the issuer is a party and which take effect, alter or terminate upon a change in the issuer's control.

30. All of the issuer and its board members or employees agreements providing for compensation if they resign or are dismissed without a valid reason or if their employment is terminated due to a change of control of the issuer

The Issuer has not entered into agreements with its members or employees, which provided compensation if they resign or are dismissed without a valid reason or if their employment is terminated due to change of control of the issuer.

31. Issuer transactions

Significant transactions or alien to the issuer's normal course of business of the issuer on behalf of related parties or other entities in 2016. period has not been concluded.

The Issuer is not entered into the transaction as a result of changes in relation to the issuer's control happen significant changes relate to the issuer and / or have negative consequences to the issuer.

No form of unusual and / or the relevant bodies of the issuer, committee members or employees agreements which provide for compensation when the bodies of the rights and duties of that body, in the company for some reason an end.

Also knowledge of the issuer is not concluded transactions, which could lead to a conflict of interest between the company and its executives, including directors and shareholders or between the executive.

32. Information about compliance with the Corporate Governance Code

AB Žemaitijos pienas adheres to the Securities Exchange listed companies management requirements of the Code of compliance with this document in a separate annex to the consolidated annual report form an integral part.

33. Data on the publicly disclosed information

During 2016. the reporting period, a lot has been part of the material and the AB Žemaitijos pienas-related events.

date	market	company	news
30/12/201609:00	VLN	Žemaitijos pienas	ON retirement from the Board
30/12/201609:00	VLN	Žemaitijos pienas	Notice of AB ZEMAITIJOS PIENAS voting rights acquisition Attachments:
29/12/201618:00	VLN	Žemaitijos pienas	Notice of AB ZEMAITIJOS PIENAS general meeting decisions

date	market	company	news
			taken Attachments:
29/12/20168:25 AM	VLN	Žemaitijos pienas	VOTING FOR ASSIGNMENT OF CONTRACTS
22/12/201618:00	VLN	Žemaitijos pienas	FOR Supervisory Board member resignation
20/12/201620:00	VLN	Žemaitijos pienas	VOTING FOR ASSIGNMENT OF CONTRACTS
16/12/201616:00	VLN	Žemaitijos pienas	For the interim measures against
12/06/201617:00	VLN	Žemaitijos pienas	Due to the company's extraordinary general meeting of shareholders Attachments:
12/1/201617:00	VLN	Žemaitijos pienas	Due to the company's board member appointment
11/25/20168:42 AM	VLN	Žemaitijos pienas	New wording of AB Žemaitijos pienas "Articles of Association
10/30/20168:08 AM	VLN	Žemaitijos pienas	Notice of AB ZEMAITIJOS PIENAS general meeting decisions taken Attachments:
10/25/201612:04 PM	VLN	Žemaitijos pienas	For the General Meeting of Shareholders Attachments:
10/21/20168:00 PM	VLN	Žemaitijos pienas	Due to the company's extraordinary shareholders meeting of project specifications Attachments:
10/21/201612:15 PM	VLN	Žemaitijos pienas	For the interim measures against
10/20/20161:51 PM	VLN	Žemaitijos pienas	Notice of AB ZEMAITIJOS PIENAS voting rights acquisition Attachments:
10/14/20168:26 AM	VLN	Žemaitijos pienas	CORRECTION: For a group of shareholders submitted alternative draft decision Attachments:
10/13/20162:37 PM	VLN	Žemaitijos pienas	For a group of shareholders submitted alternative draft decision Attachments:
10/13/20169:31 AM	VLN	Žemaitijos pienas	Due to the company's extraordinary general meeting of shareholders (partly modified agenda) Attachments:

date	market	company	news
8/26/201611:50 AM	VLN	Žemaitijos pienas	It will stop the trade in company shares
8/24/20164:15 PM	VLN	Žemaitijos pienas	Due to the company's extraordinary general meeting of shareholders Attachments:
8/4/20167:33 AM	VLN	Žemaitijos pienas	Due to the company's extraordinary general meeting of shareholders Attachments:
8/3/20165:36 PM	VLN	Žemaitijos pienas	Report on the decision of the board and the intention of the company shares removed from trading on a regulated market NASDAQ Vilnius and exit of shares publicly Attachments:
6/28/201612:18 PM	VLN	Žemaitijos pienas	2016. 27 June. AB Žemaitijos pienas Board decision
6/23/20166:00 PM	VLN	Žemaitijos pienas	For the transaction; Attachments:

6/16/20167:42 AM	VLN	Žemaitijos pienas	For the transaction; Attachments:
6/14/20165:15 PM	VLN	Žemaitijos pienas	AB ZEMAITIJOS PIENAS extraordinary general meeting of shareholders in 2016. 14 June. decisions Attachments:
5/24/20161:30 PM	VLN	Žemaitijos pienas	On the General Meeting of Shareholders Attachments:
5/13/20166:00 PM	VLN	Žemaitijos pienas	CORRECTION: AB Zemaitijos pienas 'financial documents Attachments:
4/29/20166:00 PM	VLN	Žemaitijos pienas	AB Zemaitijos pienas 'financial documents Attachments:
4/29/20165:00 PM	VLN	Žemaitijos pienas	AB ZEMAITIJOS PIENAS general meeting in 2016. 29 April. decisions Attachments:
4/8/20166:00 PM	VLN	Žemaitijos pienas	AB ZEMAITIJOS PIENAS Board draft decisions in 2016. 29 April. held the Ordinary General Meeting of Shareholders agenda Attachments:
4/1/20165:00 PM	VLN	Žemaitijos pienas	Due to the company's board member appointment
4/1/20164:00 PM	VLN	Žemaitijos pienas	Due to the Ordinary General Meeting of Shareholders
3/10/201610:56 PM	VLN	Žemaitijos pienas	For the interim financial statements
2/29/20166:00 PM	VLN	Žemaitijos pienas	Unaudited preliminary AB Žemaitijos pienas Group 2015 operating results Attachments:
1/7/20162:16 PM	VLN	Žemaitijos pienas	For the interim financial statements

source - http://www.nasdaqomxbaltic.com/market/?issuer=ZMP&market=&legal%5B%5D=main&legal%5B%5D=firstnorth&start_d=1&start_m=1&start_y=2014&end_d=31&end_m=6&end_y=2014&keyword=&pg=news&lang=lt[5]

Report on material events after the reporting period:

date	market	company	news	language
2/10/20176:00 PM	VLN	Žemaitijos pienas	On the Bank of Lithuania issued a decision of the Director	en
2/9/201710:42 AM	VLN	Žemaitijos pienas	Notice of AB ZEMAITIJOS PIENAS voting rights acquisition Attachments:	en

About all the events AB Žemaitijos pienas "the statutes and regulations of the Republic of Lithuania informed the procedures laid down in the Vilnius Stock Exchange (NASDAQ Vilnius). Announcements were published in the central regulated information database and the company's website www.zpienas.lt.

[5] At this address you can find more detailed information and reports published content;

IV. OTHER INFORMATION

34. Details of the audit

AB Žemaitijos pienas (Group) in 2016. 31 December. consolidated balance sheet and the related year then ended in consolidated profit (loss), cash flows and changes in equity for the year then ended by 2016. 10 October. signed a contract performed by Grant Thornton Baltic UAB.

Additional information that should be disclosed in accordance with the law governing companies, other legal acts or the statutes and which are not disclosed in this annual report and annual financial statements - none.

Annual report signed
2017. March 21

Robert Pažemeckas
General Director

Dalia Gecienė
Senior accountant