

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AB ŽEMAITIJOS PIENAS

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

Qualified Opinion

We have audited the accompanying separate financial statements of AB ŽEMAITIJOS PIENAS, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB ŽEMAITIJOS PIENAS and its subsidiary (hereinafter the Group) contained in file abzemaitijospienas-2023-12-31-en.zip (SHA-256-checksum: 27b4b7ec1f4ac8b0305ef6221aa171127e49a3e1d157d680744b25eacbc242af), which comprise the Consolidated and company's statements of financial position as at 31 December 2023, and the Consolidated and company's statements of comprehensive income, the Consolidated and company's statements of changes in equity and the Consolidated and company's statements of cash flows for the year then ended, and the notes to the Consolidated and company's statements, including significant accounting policies and explanatory information.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the accompanying Consolidated and company's financial statements present fairly, in all material respects the separate and consolidated financial position of the Company and the Group as at December 31, 2023, and their separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Qualified Opinion

As disclosed in Note 20 to the financial statements, on 29 July 2021, the Board of the Company approved the regulations on the payment of one to three-year partnership bonuses for persons (sellers) selling milk to AB ŽEMAITIJOS PIENAS. Although the Company failed to achieve a net profitability of 5% in 2021, the Board of the Company took a decision on 12 May 2022 to pay the partnership bonuses for raw milk delivered to the Company in 2021 through the newly set assistance fund. Where the assistance fund is set under a prospective approach. The partnership bonuses paid and recognized as cost of sales during 2022 totalled EUR 1,035 thousand. If the assistance fund would be set under a retrospective approach, net profit for the financial year 2022 in the statement of comprehensive income should be increased by EUR 1,035 thousand.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public – interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 Financial Statements 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 Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Qualified opinion.

Key Audit Matters

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

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

Revenue recognition

See note 3 of the financial statements "Income from contracts with customers. Sales" and Note 22 "Segment Information"

The sales revenue of the Group and the Company in 2023 amounted to EUR 278,004 thousand and EUR 277,305 thousand respectively, they mainly consisted of income from the sale of goods. The Group and the Company recognize revenue from the sale of goods based on the quantity of goods shipped and the agreed prices. Revenue is recognized only when control of the goods passes to the buyer in accordance with the agreed delivery terms. Revenue is recognized net of discounts or other sales incentives provided. Although revenue recognition involves only limited decision making, due to the size and volume of transactions, it is an audit area that requires significant time and resources and is therefore considered a key audit matter.

We performed the revenue recognition audit by combining tests of controls with the substantive test procedures. We evaluated the system of key control procedures related to revenue recognition and verified its effectiveness through tests based on a selected sample of relevant information. We have reviewed the revenue recognition accounting policy for all significant revenue streams and assessed its compliance with the requirements of International Financial Reporting Standards as adopted by the European Union.

We also performed the following substantive test procedures:

- We selected the transactions concluded with customers during the year and received confirmations from third parties regarding these transactions or reconciled the transactions with the signed contract or goods sales orders, goods transportation documents, invoices and subsequent payments received from customers;
- We selected a sample of transactions completed before and after year-end and assessed whether revenue was recognized in the appropriate period based on the moment of transfer of risk based on the terms of delivery and shipping documents;
- Our work also included selected revenue accounting entries testing, to assess whether they were posted to the general ledger with any unusual corresponding entries.

Inventory net realizable value and allowance for obsolescence

Inventories of the Company and the Group amount to EUR 49,576 thousand and EUR 52,457 thousand, respectively, before impairment allowance and to EUR 48,225 thousand and EUR 50,580 thousand, respectively, after impairment allowance as of 31 December 2023 (Note 9). This is significant to our audit since it is a material figure for the Company and the Group comprising 30,68% of the Company's and 30,38% the Group's total assets, and requires management judgment in assessing whether the carrying value of some inventories is not higher than their net realizable value at the balance sheet date. There is also management judgment required in determining the inventory obsolescence allowance, as it is based on management's assessment of historical and forecast of particular inventory sales, physical obsolescence rates and other relevant factors.

Among other audit procedures, we have gained an understanding of how management evaluates inventory net realizable value and calculates allowance for obsolescence. We have reviewed the calculations of inventory net realizable value, which was performed by the management of the Company and the Group based on review of subsequent sales after the year-end. We have also tested the ageing of the inventories and the computation of the obsolescence level. Further, we have also analysed various obsolescence related information and management's forecast of future sales, applied in the calculations of impairment allowance. Finally, we have evaluated the adequacy of the Company's and the Group's disclosures included in Note 9.

Other information

The other information comprises the information included in the Group's annual report, including Company's Corporate Governance Code Compliance Report and Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the 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 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.

In addition, our responsibility is to consider whether information included in the Group's consolidated annual report, including Corporate Governance Code Compliance Report, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Group's consolidated annual report, including Corporate Governance Report and Remuneration Report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Group's annual report, including Corporate Governance Report and Remuneration Report, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and Business Accounting Standards/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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing 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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Report on other legal and regulatory requirements

In accordance with the decision made by shareholders in extraordinary meeting on July 25, 2023 we have been chosen to carry out the audit of Company's financial statements and Group's consolidated financial statements for the year 2023 and 2024. Our appointment to carry out the audit of Company's financial statements and Group's consolidated financial statements in accordance with the decision made by shareholders meeting has been renewed every two years and the period of total uninterrupted engagement is six years.

We have been chosen for the first time on 7 June 2019 to carry out the audit of Company's financial statements and Group's consolidated financial statements for the year 2019 and 2020.

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

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

In the course of audit, we have not provided any other services except for audit of financial statements.

Report on the compliance of format of the consolidated financial statements with the requirements for European Single Electronic Reporting Format

Based on our agreement we have been engaged by the management of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European Single Electronic Reporting Format of separate and consolidated financial statements, including the Company's and Group's annual report for the year ended 31 December 2023 (the Single Electronic Reporting Format of the separate and consolidated financial statements) contained in file abzemaitijospienas-2023-12-31-en.zip (SHA-256-checksum: 27b4b7ec1f4ac8b0305ef6221aa171127e49a3e1d157d680744b25eachbc242af).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the consolidated financial statements has been applied by the management of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Single Electronic Reporting Format of the consolidated financial statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Single Electronic Reporting Format of the consolidated financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibilities of management and those charged with governance

The management of the Company is responsible for the application of the Single Electronic Reporting Format of the consolidated financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the consolidated financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Single Electronic Reporting Format of the consolidated financial statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' ("ISAE 3000 (R)"). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the consolidated financial statements is prepared, in all material aspects, in accordance with the applicable requirements. Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the consolidated financial statements was applied, in all material aspects, in

accordance with the applicable requirements and such application is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the consolidated financial statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the marking up process when the assessment of the risks of material misstatement include an expectation that such internal controls are operating effectively or procedures other than testing controls cannot alone provide sufficient appropriate evidence;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of single electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Single Electronic Reporting Format of the consolidated financial statements for the year ended 31 December 2023 complies, in all material respects, with the ESEF Regulation.

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

Auditor
Arvydas Ziziliauskas
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March 26, 2024

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