

**ŽEMAITIJOS PIENAS AB**  
**INTERIM REPORT FOR THE PERIOD OF SIX**  
**MONTHS OF 2010 AND INTERNATIONAL**  
**CONSOLIDATED UNAUDITED FINANCIAL**  
**STATEMENTS FOR THE PERIOD OF SIX**  
**MONTHS OF 2010**

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AKCINĖ  
BENDROVĖ

STOCK  
COMPANY



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Konstitucijos avenue 23  
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**Confirmation by responsible persons of the company**  
***Žemaitijos pienas AB***

August 12, 2010

Telšiai

Referring to the Article 22 of the Law on Securities of the Republic of Lithuania and rules on preparation and submission of periodic and additional information of the Securities Commission of the Republic of Lithuania, we, Algirdas Pažemeckas, the Chief Executive Officer, and Dalia Gecienė, the Chief Accountant of the company *Žemaitijos pienas AB* hereby do confirm that, to the best of our knowledge, the enclosed Non-Audited Interim Consolidated Financial Statement for the period of six months of the year 2010 of the company *Žemaitijos pienas AB* was prepared in compliance with the International Financial Accountability standards applicable in European Union, corresponds to the reality and correctly represents total consolidated assets, liabilities, financial condition, profits and losses of the company and enterprises incorporated in this group, review of business development and practice, stated in the interim six months statement is correct.

Chief Executive Officer

Algirdas Pažemeckas

Chief Accountant

Dalia Gecienė

## **1. The period covered in the prepared interim report**

The report has been prepared for the first six months of 2010 according to the “Procedures for preparation and furnishing the periodical and additional information” approved under the Resolution No. 1K-3 of the Securities Commission of the Republic of Lithuania of 23 February 2007.

## **2. General information about the Issuer**

Issuer's name	Žemaitijos pienas AB
Legal-organizational form	Public Limited Company
Registration date	23 June 1993
Company Code	180240752
VAT Payer's Code	LT802407515
Authorized Capital	LTL 48,375,000 the authorized capital is divided into 48,375,000 ordinary registered shares, a par value per share being LTL 1.
Address	Sedos St. 35, LT-87101 Telšiai
Telephone	8-444-22201
Fax:	8-444-74897
E-mail	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
Internet website	<a href="http://www.zpienas.lt">www.zpienas.lt</a>

### **3. Information regarding Group's enterprises and branches**

The subsidiaries run by the Company:

*Šilutės Rambynas ABF*, Company Code 277141670.

Date and place of registration: 9 December 1992, Klaipėdos St. 3, Town of Šilutė, District of Šilutė

Authorized Capital – LTL 8,596,650, The Company owns 87.82% of shares.

Domicile address - Klaipėdos St.3, Šilutė.

Nature of business – production of ferment cheese.

*Tarpučių pienas LŽŪK*, Company Code 1151449845.

Date and place of registration: 5 June 2001, Klaipėdos St. 3, Town of Šilutė, District of Šilutė

Authorized Capital – LTL 496,027, The Company owns 10.08%, i.e. LTL 50,000 of the corporate authorized capital.

Domicile address – Klaipėdos g. 3, Šilutė.

Nature of business – chilling of raw milk.

*Žemaitijos pienas AB* has 7 branches:

- Vilnius branch, address: Algirdo St. 40/13, Vilnius
- Kaunas branch, address: Kėdainių St. 8A, Kaunas
- Anykščiai branch. address: Vilties St. 4A, Anykščiai
- Alytus branch, address: Putinų St. 23, Alytus
- Klaipėda branch, address: Šilutės St. 33, Klaipėda
- Panevėžys branch, address: J. Janonio St. 9, Panevėžys
- Telšiai branch, address: Sedos St. 35, Telšiai

### **4. Nature of the Issuer's main business**

The main business of the Company *Žemaitijos pienas AB* is a production and sale of dairy products.

### **5. Information about the agreements with the intermediaries on public trading of securities**

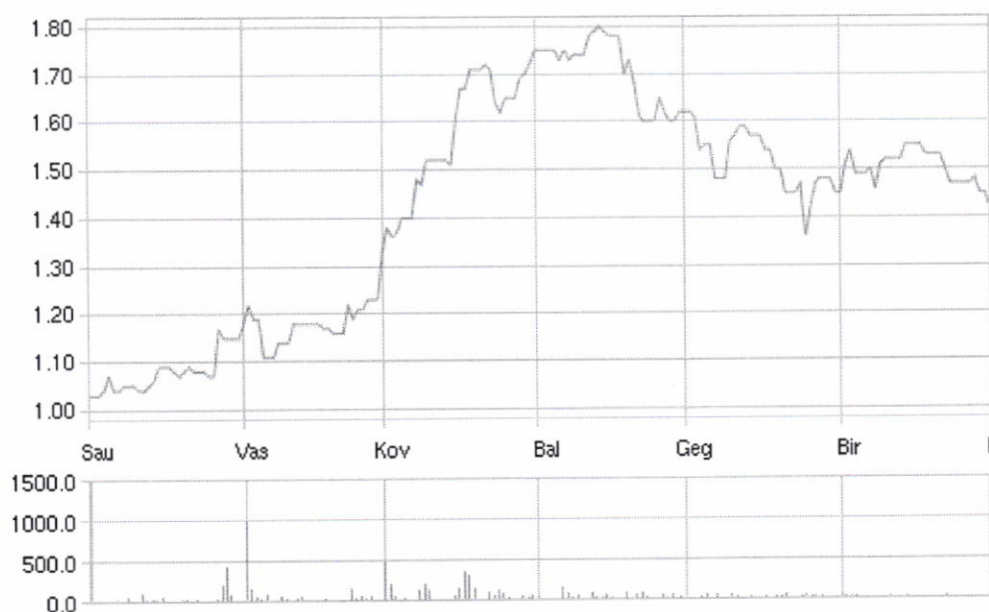
On 16 July 2004 the Company has concluded an agreement with *Šiaulių bankas AB* (address Tilžės St. 149) due to accounting of securities, issued by the company. According to this agreement, *Šiaulių bankas* will be responsible for the Company's securities' accounts starting from 23 July 2004.

## 6. Data on trading in the shares of the enterprises belonging to the Group in the regulated markets

Only the Company's shares are listed in the additional list of Vilnius Stock Exchange. Securities ISIN code is LT0000121865, the number of shares – 48,375,000.

Hereunder, the transactions of *Žemaitijos pienas AB* at Vilnius Stock Exchange during the period of the first six months of the year 2010 are presented. The graphs are taken from the website of *AB NASDAQ OMX Vilnius*:

[http://www.nasdaqomxbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt&currency=0&downloadcsv=0&date=&start\\_d=1&start\\_m=1&start\\_y=2010&end\\_d=31&end\\_m=6&end\\_y=2010](http://www.nasdaqomxbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2010&end_d=31&end_m=6&end_y=2010)



## 7. Authorized Capital

The Authorized Capital of the Company is LTL 48,375,000. It consists of 48,375,000 ordinary registered shares. A par value of a share is LTL 1.

## 8. Acquisition of the own shares

During the reported period, no transactions concerning shares owned by the Company, its subsidiaries or the persons authorized by the subsidiaries were made. The company has neither acquired its own shares nor sold them to others during the reported period.

## 9. Shareholders

On 30 June 2010, the total number of shareholders was 3 467, and on 31 December 2009 it was 3 442. All the shares issued provide the owners of the shares with equal rights, laid down in the Law of Stock Companies of the Republic of Lithuania and in the Articles of Association.

The list of the shareholders owning or holding more than 5 % of *Žemaitijos pienas AB* authorized capital and votes is as follows:

No.	Shareholder	Number of shares under ownership	The share of the authorized capital and votes under ownership, %	The share of votes in possession together with associated parties, %
1	PAŽEMECKAS Algirdas Personal code:	21, 355, 870	44.15	49.55
2	SKANDINAVISKA ENSKILDA BANKEN CLIENTS, Company Code 50203290810, SERGELS TORG 2, 10640 STOCKHOLM (Stokholmas), SWEDEN (Švedija)	3, 841, 690	10.52	10.52
3	<i>Klaipėdos pienas AB</i> , Company Code 240026930, Šilutės road. 33, 91107 Klaipėda	3, 601, 844	7.45	7.45
4	ŠUNOKIENĖ Ona	2, 614, 430	6.25	50.40

**There are no restrictions on the transfer of the securities.** The shareholders are entitled to interest and non-interest rights as well as to commitments defined in the Law on Stock Companies of the Republic of Lithuania as well as in the Company's Articles of Association.

**Restrictions on voting rights.** All the Company's shares giving the right to vote are of equal nominal value; one share gives one vote during the General Meeting.

**The shareholders of the Company are entitled to the following interest rights:**

- receive a share of Company's profit (dividend);
- receive a share of the Company in case of its liquidation;
- receive free shares in case the Authorized Capital of the Company is being increased by corporate means, except for the cases defined in the Law;
- in cases when the shareholder is a natural person, he has a right to devise all or part of the shares for a single or several individuals;
- sell or otherwise transfer all or part of the shares to other individuals, according to the procedures and terms provided in the Law.

**The shareholders of the Company are entitled to the following non-interest rights:**

- participate in the Meetings;

- vote in the Meetings, according to the voting rights determined by the number of shares in possession;
- receive non-confidential information on economic activity of the Company;
- elect and be elected to the management and supervisory bodies of the Company;
- take any position in the Company, if the Law of Stock Companies or the Articles of Association does not provide otherwise;
- give specific suggestions with respect to the improvement of financial, economic, organizational, etc. activity of the Company;
- appeal against the decisions or actions made in the General Meetings, made by the Supervisory Council, Management Board or the CEO of the Company which are against the Laws of the Republic of Lithuania, The Articles of Association or interest and non-interest rights of the shareholders;
- Shareholders, individually or collectively, have a right, without any special commission, to claim for the damages made to shareholders;
- and other non-proprietary rights provided in the Laws of the Republic of Lithuania;

An individual is entitled to all the rights and commitments which are provided by the share of the Company's authorized capital and/or voting rights: in case of increasing the authorized capital by corporate means – from the day the changes in the Articles of Association related to the increase of the authorized capital and/or of voting rights have been registered; in all other cases – from the moment the proprietary rights to the authorized capital of the Company and/or voting rights have emerged.

## **10. Risk management**

The Company is engaged in the activity of milk processing, i.e., producing dairy products out of raw milk. The main factors creating the risk for the Company business are potential changes in the markets of raw material, and dairy products. Also some political, legal, social and technological changes directly or indirectly related to the activity of *Žemaitijos pienas AB* are possible with a potentially negative impact on the Company's cash flows and activity results.

The main raw material of the Company is milk, the amount of which to be sold for processing for European Union's producers of dairy products is restricted by national milk quotas. The restriction of raw material supply can result in the lack of raw material, and increase the price of raw material. These changes could have negative effects on the Company's cash flows and activity results.

The business of the Company (especially milk procurement) represents a labour-intensive activity. Fluctuating prices of fuel and increasing wages for employees could have negative effects on the Company's growth potential and activity results.

The Company specializes in the production of fresh dairy products and various kinds of cheese. A major part of its income comes from the sale of these products. Due to these reasons negative changes in the market demand and price of these products could have negative effects on the Company's income, profit and general financial condition. Product price can also be negatively affected by the competition in the local and international market of dairy products.



## 11. Information on activity results

The main indicators for the activity of the Group in the period of the first six months of the year 2010, in thousands of LTL:

Financial indicators	Of the Group	
	The first half-year of 2010	The first half-year of 2009
Turnover	195,713	186,785
Gross profit	36,847	30,057
Profit before taxes, interests, and depreciation	12,337	8,982
Profit before taxes	2,635	(1,770)
Amount of investments in the long-term assets	4,323	7,688

Comparison of the tonnages and prices of the collected raw milk during the first six months of 2010 and 2009:

Raw milk procured (recalculated into base richness)	The first six months of the year 2010	The first six months of the year 2009
Amount of milk procured, in thousands of tones	115	148
Price for the milk procured, LTL/t	708	525

The distribution of *Žemaitijos pienas AB* products sold in the local and international markets during the first six months of the year 2010 and the year 2009 is as follows, in thousands of LTL:

Product group	Turnover, LTL	
	Six months of the year 2009	2008
Fermented cheese	82,160	85,632
Fresh dairy products	68,842	60,391
Butter and fat mix	22,643	14,419
Dry milk products	7,181	4,897
Ice cream	75	4,106
Other	14,464	16,019
Export subsidies	349	1,321
<b>In Total</b>	<b>195,713</b>	<b>186,785</b>

## 12. Activity plans, development and forecasts

In a long-term perspective, *Žemaitijos pienas AB* expects to become a strong, technically modern, and reliable company attractive for investors; to build a profitable market for its production in European Union and the Baltic States; to retain the highest level of product quality; to fully exploit available production capacities; to systematically accumulate intellectual capital.

The main current goals of the company:

- to procure milk under market conditions but not more expensive than raw milk is purchased by other market players in Lithuania;
- to increase sales at the prices favourable for the company; to focus on the main product portfolio and to retain at least 20 per cent share of the internal market; and in the export markets, to focus on sales of the higher value-added products;
- to strengthen its marketing function and name of the company;
- to reduce production costs and product cost price;
- to abandon economically ineffective production as soon as possible;
- to reduce distribution costs;
- to give incentives for employees only for the final results and achievement of plans set.

As it is hard to predict the economic situation in the State, the corporate group of *Žemaitijos pienas AB* refrains from publishing its turnover and profit forecasts for the year 2010.

## 13. Environment protection

*Žemaitijos pienas AB* is continuously concerned with and involved in improvement of its environmental protection status, keeps tracking its performance indicators, and continuously seeks to reduce and prevent any negative impact resulting from its activity on environment as well as implement innovative technologies.

The activity of *Žemaitijos pienas AB* is conducted in compliance with the 29 December 2006 permit of Integrated Pollution Prevention and Control (IPPC) that was granted the company for unlimited period of time which due to some changes, however, might be adjusted. In compliance with the IPPC permit, Company is continuously engaged in surface water and wastewater control, stationary source air pollution control, and underground water monitoring.

Increase in production amounts results in respective increases in power, steam and water consumption. Reduction of energy consumption represents one of the key aims and tasks of the Company. The increasing prices for the energy consumption serve as the main incentive for the Company to keep saving. Consequently, in April and May of 2010, one of the Company's transformer substations in capacity of 1 MWh was reconstructed, and the undertaking engaged in salt preparation for soft water production was reformed.

Based on the regulation (EC) No 2037/2000 of European Parliament and the Council of 29 June 2000 on substances that deplete the ozone layer requiring to forbid using pure hydrochlorofluorocarbohydrides in operation and maintenance of refrigerating equipment and air-conditioning systems, the Company has allocated investment for reconstruction of refrigerating systems by replacing R404A Freon-based operation with a Freon R22 and R409.

All the waste and packages are handled based on the established environmental requirements. *Žemaitijos pienas AB* carries out segregation of the secondary raw materials out of the overall waste flow and systematically sends this waste to waste recycling and collecting facilities.

Company continuously undertakes personnel training. Personnel training and qualification raising programmes are implemented on a continuous basis including but not limited to environment protection issues.

Company keeps implementing an investment project that was initiated on 19 December 2008 by submitting an application to National Paying Agency under the Ministry of Agriculture for the support in accordance with the 1<sup>st</sup> field of activity *Processing and marketing of agricultural products* of the measure *Adding value to agricultural and forestry products* under the *Rural Development Programme for Lithuania for the period 2007–2013*, on the basis of which company intends to replace obsolete and worn equipment by modern one for the total value of LTL 10 mln., that is expected to result in better foodstuff quality, lower production and operation costs as well as energy consumption, reduced air pollution by solid particles from the flour packing line and wastewater contamination

#### **14. The major events during the reported period**

Certificate issued by the Public Institution *Kulinarijos paveldo fondas* to the traditional source cream *Kastinys* produced by *Žemaitijos pienas AB*. (06 01 2010 Certificate No.3P)

In the international food exhibition *ПРОДЭКСПО – 2010*, a hard medium-fat fermented cheese *DŽIUGAS BRONZE, SILVER, GOLD* and natural string cheese sticks *PIK-NIK* were granted a gold medal (Moscow, 8-12 February 2010).

The public institution *EKOAGROS* has re-certified production of ecological products of *Žemaitijos pienas AB*. (The public institution *EKOAGROS* LT-01) (Certificate No. SER-K-10-00035) (08 03 2010).

The public institution *EKOAGROS* has certified anew the following:

*Žemaitijos pienas AB*:

2.0% fat ecological yoghurt with red currant and apple; 2.0% fat ecological yoghurt with mint. (The public institution *EKOAGROS* LT-01) (Certificate No. SER-K-10-00041) (19 03 2010).

Certificate issued by the Public Institution *Kulinarijos paveldo fondas* to the curd cheese produced by *Žemaitijos pienas AB* (03 03 2010 Certificate No.3P/2)

In *AgroBalt2010* (the 18<sup>th</sup> International Trade Fair for Agriculture, Food Stuff & Packaging Industries) 5% fat Curd Dessert with Strawberries *Fainimon* produced by *Žemaitijos pienas AB* in 130 g packaging was granted a gold medal (29 04 2010).

Shredded cheddar cheese with spices *IŠKYLAUTOJU* produced by *Šilutės Rambynas ABF* was granted a diploma in *AgroBalt2010* (the 18<sup>th</sup> International Trade Fair for Agriculture, Food Stuff & Packaging Industries) (29 04 2010).

On June 16, 2010, an award ceremony for winners of *The Most Popular Good and Supplier 2009* arranged by the Association of Lithuanian Trade Enterprises (*LPĖA*) took place at the Government House of the Republic of Lithuania:

*Žemaitijos pienas AB* butter blend *Saulutė*;

*Žemaitijos pienas AB* sour milk *Žemaitijos*;

*Žemaitijos pienas AB* glazed sweet curd cheese *Magija*;

*Žemaitijos pienas AB* spreadable processed cheese *Mildutė*;

*Šilutės Rambynas ABF* natural string cheese sticks *PIK-NIK*.

A hard medium-fat (~40%) ripened fermented cheese *DŽIUGAS* has been certified at Kaliningrad Centre of Standardizing. Certificate No. C-LT-AЯ19.B.50057.

Authors of the international certification institution *Bureau Veritas Certification* have completed the 2<sup>nd</sup> supervision audit of integrated food safety and quality management system in *Žemaitijos pienas AB* (according to the requirements of ISO 22000:2006 and ISO 9001:2008).

The international certification institution *Bureau Veritas Certification* has certified cheese and butter production and processed and pre-packed cheese production in *Žemaitijos pienas AB* in compliance with the requirements of Global Food Standard Issue 5 of British Retail Consortium (BRC). 18 03 2010 certificate no. DNKFRC92283F.

*Žemaitijos pienas AB* has successfully passed auditing of U.S. Army Veterinary Service.

On May 14, 2010 *Sodžiaus pienas ŽŪK* has been dissolved.

## **15. Issuer's Management Bodies**

Issuer's Management Bodies are as follows: General Meeting; Supervisory Council; Management Board; and Chief Executive Officer (Director General). Management Bodies include Management Board and Head of the Company.

The Supervisory Council is a collegial management body performing supervisory functions for the Company. The Supervisory Council of the Company consists of 3 (three) members which are elected by the General Meeting for the period of 4 years. The Articles of Association of the Company provide for unlimited number of cadences.

The Management Board of the Company is a collegial management body representing the shareholders of the Company during the period between the meeting and making the decision on the most important issues of the Company in the area of economic activity. The procedure of work of the Management Body is established in the Regulation of the Work of the Management Board. Management Board consists of 5 members. The members of the Management Board are elected by the Supervisory Council for the period of max. four years. The number of cadences is unlimited. The Management Board is run by a Chairman which is elected by the Management Board out of its members.

The Head of the Company, i.e., Chief Executive Officer of the Company is Director General. In his activity, Director General follows the Articles of Association, decisions of the General Meeting, decisions made by the Management Board, and the Regulation of the Work of Administration.

The Chief Executive Officer of the Company arranges the everyday activity of the Company and performs all the actions required for exercising his functions, implementing the decisions made by the management bodies of the Company, and ensuring the activity of the Company. Director General of the company is directly accountable to and regularly reports to the Management Board.

In their activity, the management bodies of the Company follow the Laws of the Republic of Lithuania, legal acts and the Articles of Association regulating their activity. The provisions in the above-mentioned documents also regulate selection, appointment and dismissal of the members of the management bodies.

**16. Members of the Collegial Bodies**

**Supervisory Council of the Company**

Name	Position within the Issuer	Number of shares under ownership and percentage of the authorized capital, %	Beginning of the cadence	End of the cadence	Start of the service at <i>Žemaitijos pienas</i>
Artūras Kanapienis	Chairman of the Supervisory Council	19 860 0.04	13/10/2007	12/10/2011	05/09/2008 Director General of <i>Žemaitijos pieno investicija AB</i>
Robertas Pažemeckas	Member of the Supervisory Council	-	13/10/2007	12/10/2011	26/08/2002
Romusas Jarulaitis	Member of the Supervisory Council	1 105 510 2.29	13/10/2007	12/10/2011	26/01/1988

**Management Board of the Company**

Name	Position	Number of shares in possession and the share of the authorized capital in possession, %	Beginning of the cadence	End of the cadence	Start of the service at <i>Žemaitijos pienas</i>
Algirdas Pažemeckas	Chairman of the Management Board, Director General	21 355 870 44.15	30/09/2008	29/09/2012	26/12/1986
Irena Baltrušaitienė	Member of the Management Board, Production Manager	577 130 1.19	30/09/2008	29/09/2012	15/08/1975

**ŽEMAITIJOS PIENAS AB**

Company Code 180240752, Sedos St. 35, Telšiai, Lithuania

**Interim Report for the Period of the First Six Months of 2010**

Algirdas Bladžinauskas	Member of the Management Board, Sales Manager	-	30/09/2008	29/09/2012	20/08/1996
Dalia Gecienė	Member of the Management Board, Chief Financial Officer	665 160 1.38	30/09/2008	29/09/2012	29/07/1986
Marius Dromantas	Member of the Management Board, Logistics Manager	-	01/06/2009	29/09/2012	01/12/2003

Administration:

Name	Position	Number of shares in possession	Share of the authorized capital in possession, %
Algirdas Pažemeckas	Director General	21 355 870	44.15
Dalia Gecienė	Chief Financial Officer	665 160	1.38

**Amounts of money accrued for the Management Bodies of the Issuer during the reported period**

The amount of money accrued for the Management Bodies during the period of the first six months of the year 2010 is LTL 563 775. This amount is allocated as follows: LTL 122 254 for the members of the Supervisory Board, and LTL 441 521 for the members of the Management Board.

No guarantees or sureties have been given to the liabilities of others during the period of the first six months of the year 2010.

**17. Transactions with the related parties**

No agreements have been made one of the parties of which was the Issuer and which would come into force, would change or would be terminated in case the control mechanism of the Issuer changes.

The Issuer has not come into any agreements providing for the compensations for the members of the management bodies or for the workers in case they are dismissed, or fired without any reasonable reason, or their service is terminated due to changes in the control mechanism of the Issuer.

## 18. Employees

According to the data of 30 June 2010, the total number of employees in the Group's enterprises was 1568. Comparing to the data of 31/12/2009, the change in number of employees was insignificant.

	30/06/2010	31/12/2009
<b>Average number of employees</b>	1568	1528

Grouping of the personnel according to the educational background:

Number of employees	30/06/2010	31/12/2009
Personnel having a university degree	221	214
Personnel having a higher education degree	410	411
Personnel having vocational education	283	290
Personnel having secondary education	543	510
Personnel having uncompleted secondary education	108	103
<b>In Total:</b>	<b>1 568</b>	<b>1 528</b>

Average monthly salaries before taxes for respective groups of employees are as follows:

Employee group	30/06/2010		31/12/2009	
	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, Lt
Administration	122	3671,40	133	3194,20
Service Personnel	223	2239,20	214	2110,20
Transportation Department	152	2350,70	175	2295,50
Raw Procurement	108	827,20	283	869,20
Production Department	636	1739,90	411	1533,00
Branches	327	2319,40	312	2255,10
<b>In Total:</b>	<b>1 568</b>		<b>1528</b>	

**By its Human Resource Policy**, the Company seeks to create and develop long-term relationships with its employees. Employees are given all the opportunities to improve their skills and enhance knowledge. The following types of training programmes are available for personnel: production workers, production machinery operators, production operators, production machinist-operators, and production supervisors.

## 19. Data on the publicly announced information

22/02/2010 resolution of the Management Board of *Žemaitijos pienas AB*

On February 19, 2010 Management Board of *Žemaitijos pienas AB* has decided to become an establisher of the Association of Lithuanian Food Industrialists jointly with other legal persons.