

STOCK
COMPANY



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REPUBLIC OF LITHUANIA
Company code: 180240752
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AB DNB Bank, bank code: 40100

Statement by Responsible Persons

31/03/2014

Telšiai

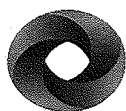
In accordance with Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodical and Additional Information adopted by the Securities Commission of the Republic of Lithuania, we, Robertas Pažemeckas, Acting General Director of Žemaitijos Pienas, 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 2013 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.

Acting General Director

Robertas Pažemeckas

Chief Accountant

Dalia Gecienė



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB ŽEMAITIJOS PIENAS

Report on the financial statements

We have audited the accompanying set of separate and consolidated financial statements of AB Žemaitijos pienas and its subsidiaries (hereinafter – the Group), which comprise the separate and consolidated statements of financial position as at December 31, 2013, and the separate and consolidated statements of comprehensive income, the separate and consolidated statements of changes in equity, the separate and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (hereinafter – the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of AB Žemaitijos pienas and the Group as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with the legal acts of the Republic of Lithuania regulating the financial accounting and preparation of the financial statements, and with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying consolidated annual report of AB Žemaitijos pienas and the Group for the year 2013 and have not identified any material inconsistencies between the financial information included in it and the financial statements of AB Žemaitijos pienas and the Group for the year ended at December 31, 2013.

Auditor, member of the Board Laimė Jablonskienė
Auditor's certificate No. 000091

March 14, 2014
Taikos av. 52c, Klaipėda
UAB Grant Thornton Rimess
Audit company's certificate No. 001410

ŽEMAITIJOS PIENAS AB

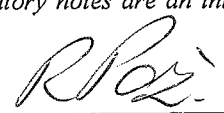
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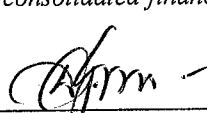
**STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013**

(All amounts in LTL thousands unless otherwise stated)

ASSETS	Notes	The Group		The Company	
		31 12 2013	31 12 2012	31 12 2013	31 12 2012
Non-current assets					
Intangible assets	5	376	408	368	383
Property, plant and equipment	5,6	62.979	64.458	43.213	44.594
Investment assets	5,6	919	259	4.755	4.193
Investments into subsidiaries	1	4	4	10.882	10.882
Loans granted	7	5.535	4.900	5.535	6.738
Deferred income tax asset	23	3.505	2.149	3.366	2.098
Total non-current assets		73.318	72.178	68.119	68.888
Current assets					
Inventories	8	112.720	97.674	99.830	90.234
Prepayments		1.513	1.740	1.482	1.697
Trade accounts receivable	9	28.899	32.978	31.695	32.042
Other accounts receivable	10	5.290	6.842	6.323	6.190
Cash and cash equivalents	11	6.958	5.789	5.153	5.427
Total current assets		155.380	145.023	144.483	135.590
TOTAL ASSETS		228.698	217.201	212.602	204.478
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	48.375	48.375	48.375	48.375
Own shares (-)		(4.569)	(3.002)	(4.569)	(3.002)
Legal reserve		4.838	4.838	4.838	4.838
Other reserves		15.764	15.000	15.764	15.000
Retained earnings		102.713	82.985	96.496	80.104
Equity attributable to equity holders of the Company		167.121	148.196	160.904	145.316
Minority interest		2.371	1.947	-	-
Total Equity		169.492	150.143	160.904	145.316
Non-current liabilities					
Grants received	13	5.929	4.389	3.632	1.744
Borrowings	14	-	-	-	-
Obligations under finance lease	15	369	796	369	796
Deferred income tax liability		1.203	1.083	-	-
Other current liabilities	23	38	24	38	24
Total non-current liabilities		7.539	6.292	4.039	2.564
Current liabilities					
Borrowings	14	1.568	13.934	1.568	13.934
Obligations under finance lease	15	426	2.457	426	2.211
Trade accounts payable	17	31.562	27.283	29.726	25.600
Income tax payable		2.869	53	2.869	53
Other accounts payable	18	15.242	17.039	13.070	14.799
Total current liabilities		51.667	60.766	47.659	56.598
Total liabilities		59.206	67.058	51.698	59.162
TOTAL EQUITY AND LIABILITIES		228.698	217.201	212.602	204.478

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


Robertas Pažemeckas
Acting General Director


Dalia Gecienė
Senior accountant

ŽEMAITIJOS PIENAS AB


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


**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts in LTL thousands unless otherwise stated)

	Notes	The Group		The Company	
		Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Sales	19	529.185	500.515	522.783	489.659
Cost of sales		(428.554)	(404.244)	(430.829)	(401.007)
GROSS PROFIT		100.631	96.271	91.954	88.652
Operating expenses	20	(74.811)	(67.050)	(72.423)	(65.677)
Other operating income and expenses	21	1.053	(1.711)	2.733	2.332
(LOSS) PROFIT FROM OPERATIONS		26.873	27.510	22.264	25.307
Finance costs		(88)	(587)	(87)	(619)
Other financial income and expenses	22	345	273	446	485
(LOSS) PROFIT BEFORE TAX		27.130	27.195	22.623	25.173
Income tax (benefit) expense	23	(3.898)	(3.181)	(3.152)	(3.051)
NET (LOSS) PROFIT		23.232	24.014	19.471	22.122
ATTRIBUTABLE TO:					
Equity holders of the Company		22.774	23.784	19.471	22.122
Minority interest		458	230	-	-
		23.232	24.014	19.471	22.122
Basic and diluted earnings per share (LTL)	25	0,47	0,49	0,40	0,46

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


Robertas Pažemeckas
Acting General Director


Daiva 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 2013**

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

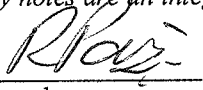
The Group

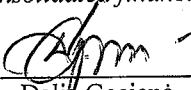
	Share capital	Own shares	Legal reserve	Reserves for purchase own shares	Other reserves	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total
Balance as of									
31 December 2011	48.375	-	4.838	14.997	3.000	56.193	127.403	1.944	129.347
Transfer to other reserves	-	-	-	3	-	-	3	-	3
The use of reserves	-	-	-	-	(3.000)	3.000	-	-	-
Acquisition of own shares	-	(3.002)	-	-	-	-	(3.002)	-	(3.002)
Subsidiary company liquidation result	-	-	-	-	-	8	8	(227)	(219)
Net profit	-	-	-	-	-	23.784	23.784	230	24.014
Balance as of									
31 December 2012	48.375	(3.002)	4.838	15.000	-	82.985	148.196	1.947	150.143
Dividends	-	-	-	-	-	(2.315)	(2.315)	-	(2.315)
Transfer to other reserves	-	-	-	-	764	(764)	-	-	-
Reserves used	-	-	-	-	-	-	-	-	-
Acquisition of own shares	-	(1.567)	-	-	-	-	(1.567)	-	(1.567)
Subsidiary company liquidation result	-	-	-	-	-	33	33	(34)	(1)
Net profit	-	-	-	-	-	22.774	22.774	458	23.232
Balance as of									
31 December 2013	48.375	(4.569)	4.838	15.000	764	102.713	167.121	2.371	169.492

The Company

	Share capital	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Total
Balance as of							
31 December 2011	48.375	-	4.838	14.997	3.000	54.982	126.192
Dividends	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	3	-	-	3
Reserves used	-	-	-	-	(3.000)	3.000	-
Acquisition of own shares	-	(3.002)	-	-	-	-	(3.002)
Net profit	-	-	-	-	-	22.122	22.122
Balance as of							
31 December 2012	48.375	(3.002)	4.838	15.000	-	80.104	145.316
Dividends	-	-	-	-	-	(2.315)	(2.315)
Transfer to reserves	-	-	-	-	-	-	-
Reserves used	-	-	-	-	764	(764)	-
Acquisition of own shares	-	(1.567)	-	-	-	-	(1.567)
Net profit	-	-	-	-	-	19.471	19.471
Balance as of							
31 December 2013	48.375	(4.569)	4.838	15.000	764	96.496	160.904

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


Robertas Pažemeckas
Acting General Director


Dalia Gecienė
Senior accountant

ŽEMAITIJOS PIENAS AB


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

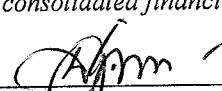
**CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts in LTL thousands unless otherwise stated)

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Cash flow from operating activities				
Profit (loss) for the period	23.232	24.014	19.471	22.122
Adjustments:				
Depreciation and amortization	14.999	17.282	12.845	15.217
Amortization of grants received	(864)	(903)	(515)	(558)
Gain (loss) on disposal of non-current assets	(174)	80	(175)	(210)
Corporate income tax expenses	(1.236)	268	(1.268)	138
Impairment of accounts receivable	324	786	324	786
Impairment of property, plant and equipment	-	(16)	-	-
Impairment of inventories to net realizable value	8.710	5.624	8.094	5.624
Net financial expenses (income)	(257)	(73)	(359)	134
Elimination of non-cash items	(3.073)	(552)	(3.223)	(527)
Loss from liquidation of subsidiaries	-	(20)	-	(5)
Net cash flows from ordinary activities before changes in working capital	41.661	46.490	35.194	42.721
Changes in working capital:				
(Increase) decrease in inventories	(23.755)	(12.261)	(17.690)	(15.145)
(Increase) decrease in trade receivables	3.755	6.593	23	7.247
(Increase) decrease in prepayments	227	(1.199)	215	(1.193)
(Increase) decrease in other receivables	1.658	526	1.792	1.116
(Decrease) increase in trade payables	4.279	(8.025)	4.125	(3.857)
(Decrease) increase other accounts payable	120	510	338	654
Corporate income tax paid	2.817	53	2.817	53
Net cash flows from operating activities	30.762	32.687	26.814	31.595
Cash flows from (to) investing activities				
Acquisition of intangible assets and property, plant and equipment.	(14.979)	(11.285)	(12.821)	(9.302)
Proceeds on sale of property, plant and equipment	986	851	986	307
Acquisition of subsidiaries	-	10	-	76
Sale of investments available for sale	-	-	-	-
Repayment of loans granted	5.257	6.569	5.257	8.002
Loans granted	(5.980)	(7.213)	(5.980)	(7.213)
Interest received	438	448	481	452
Net cash flows (to) investing activities	(14.278)	(10.620)	(12.077)	(7.678)
Cash flows from (to) financing activities				
Acquisition of own shares	(1.567)	(3.000)	(1.567)	(3.000)
Dividends, bonus paid	(1.147)	-	(1.147)	-
Grants received	2.403	3.044	2.403	1.483
Loans received	68.510	48.264	68.510	48.264
Repayment of loans	(80.866)	(69.716)	(80.866)	(69.716)
Financial lease payments	(2.457)	(4.038)	(2.212)	(3.675)
Interest paid	(88)	(627)	(87)	(619)
Other financial (income) and expenses	(103)	238	(45)	34
Net cash flows from financial activities	(15.315)	(25.835)	(15.011)	(27.229)
Net increase (decrease) in cash and cash equivalents	1.169	(3.768)	(274)	(3.312)
Cash and cash equivalents at the beginning of the year	5.789	9.556	5.427	8.739
Cash and cash equivalents at the end of the year	6.958	5.789	5.153	5.427

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


Robertas Pažemeckas
Acting General Director


Dalia Gecienė
Senior accountant

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL 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 2013, its shares are held by the following shareholders

Shareholder	31 12 2013		31 12 2012	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	21.589.380	44,63%	21.589.380	44,63%
SKANDINAVISKA ENSKILDA BANKEN CLIENTS				
code 50203290810, SERGELS TORG 2	-	-	3.643.525	7,53%
10640 STOCKHOLM, SWEDEN				
SEB SA OMNIBUS, Liuksemburg	3.413.962	7,06%	-	-
AB „Klaipėdos pienas“				
code 240026930,	2.901.844	6,00%	3.601.844	7,45%
Šilutės pl. 33, 91107 Klaipėda				
Pažemeckienė Danutė	3.025.820	6,25%	3.025.820	6,25%
AB „Žemaitijos pienas“	2.070.621	4,28%	1.360.010	2,81%
Other shareholders	15.373.373	31,78%	15.154.421	31,33%
Total share capital, LTL	48.375.000	100,00%	48.375.000	100,00%

The authorized capital was divided into 4.837.500 units of ordinary registered shares of one Litas 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 2013 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 2013	Cost of investment 2012	Net assets as of 31 December 2013	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87,82%	87,82%	10.878	10.878	19.466	Cheese production and selling
Tarpučių Pienas ŽŪK	Klaipėdos str. 3, Šilutė, Lithuania	12,08%	100,00%	-	-	0	Liquidated on 31 January 2013
SIA Muižas piens	Skaitekaines g. 1, Rīga, Latvija	32%	-	4	4	-	Retail sale, wholesale
				10.882	10.882		

The Company employed 1.205 staff members as on the 31th of December 2013 (1.231 staff members as on the 31th of December 2012). The Group employed 1.381 staff members as on the 31th of December 2013 (1.416 staff members as on the 31th of December 2012).

EXPLANATORY NOTES**FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts in LTL thousands unless otherwise stated)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in the national currency Litas (LTL), which is the functional currency of the Company. They are prepared on the historical basis.

Financial year of the Company and other entities of the Group coincides with calendar year.

The preparation of the financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are correspond to the present circumstances. On the basis of the assumptions and estimates mentioned, the judgements about carrying values of assets and liabilities that are not readily apparent from other sources are made. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Management on application of IFRS as adopted by the European Union that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in other Note.

The accounting principles of the Company as set forth below have been consistently applied and coincide with those applied last year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared as of 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities that meet the recognition conditions under IFRS 3 are recognized at their fair values at the acquisition date. The initial accounting for the subsidiaries assets and liabilities are adjusted within twelve months of the acquisition date if additional data is received that allows a more precise determination of fair value of the subsidiaries' assets and liabilities.

Investments in subsidiaries in the Company's stand alone balance sheet are recognized at cost. The dividend income from the investment is recognized only to the extent that the dividends are received from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets and liabilities recognized.

All intercompany transactions, balances, income, expenses and unrealized profits (losses) between Group companies are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

The influence of application of new standards, amendments of the standards in force and new explanations on financial statements

During the year the Company has adopted the following amendments to the standards:

Amendment to IAS 12 Income tax. Deferred tax – Recovery of Underlying Assets.

The amendment did not impact the Company's financial statements.

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income.

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

Amendment to IAS 27 Consolidated and Separate Financial Statements.

This standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The amendment did not impact the Company's financial statements.

Amendment to IAS 28 Investments in Associates and Joint Ventures.

This standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The amendment did not impact the Company's financial statements.

Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

Effective for annual periods beginning on or after 1 January 2013.

This amendment is not relevant to the Company.

IFRS 10 Consolidated Financial Statements.

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The amendment did not impact the Company's financial statements.

IFRS 11 Joint Arrangements.

IFRS 11 eliminates proportionate consolidation of jointly controlled entities.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

This amendment is not relevant to the Company.

IFRS 12 Disclosures of Interests in Other Entities.

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The amendment did not impact the Company's financial statements.

IFRS 13 Fair Value Measurement.

This standard does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

The amendment did not impact the Company's financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs').

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

This interpretation is not relevant to the Company.

Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU as well as standards adopted by EU but not yet effective

Amendment to IAS 19 Employee Benefits

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group has not yet evaluated the impact of the implementation of this amendment.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The Company considers the impact of this standard on its financial position and operating results.

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems).

Effective for annual periods beginning on or after 1 January 2014. Earlier adoption is permitted.

This amendment is not relevant to the Company

IFRS 9 Financial Instruments – Classification and Measurement

The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities.

Effective for annual periods beginning on or after 1 January 2015. Earlier adoption is permitted.

The Company considers the impact of this standard on its financial position and operating results.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendments apply to entities that qualify as investment entities.

Effective for annual periods beginning on or after 1 January 2014, once endorsed by the EU.

This interpretation is not relevant to the Company.

Improvements to IFRS

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

IFRS 1 First-time adoption of IFRS;

IAS 1 Presentation of Financial Statements;

IAS 16 Property, Plant and Equipment;

IAS 32 Financial instruments: Presentation;

IAS 34 Interim Financial Reporting.

Effective for annual periods beginning on after 1 January 2013, once endorsed by the EU.

The Company considers the impact of these improvements on its financial statements.

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

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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 is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- | | | |
|----------------------------|-------|-------|
| • Buildings and structures | 20–40 | years |
| • Plant and machinery | 5 | years |
| • Vehicles | 4–10 | years |
| • Other assets | 4–10 | years |

Depreciation methods, residual values and useful lives are reassessed on each day of presenting financial statements. The Group capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500. Until 1 September 2012 the minimum acquisition cost was LTL 3.000.

Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

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.

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

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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 work in progress, are valued at the lower of cost or net realisable value. Net realisable value is the selling price, less the estimated cost of completion, marketing and distribution.

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.

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Reversals of impairment

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

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

Dividends

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

Employee allowances

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

Provisions

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

Foreign currency***Translation of amounts in foreign currencies into the national currency***

Transactions in foreign currencies are translated into Litas 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 Litas 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 2013 the applicable rates used for principal currencies were as follows:

<u>year 2013</u>	<u>year 2012</u>
1 EUR = 3,4528 LTL	1 EUR = 3,4528 LTL
1 LVL = 4,9184 LTL	1 LVL = 4,9520 LTL
1 USD = 2,5098 LTL	1 USD = 2,6060 LTL

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.

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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 31st of December 2013.

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.

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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 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

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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 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.

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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 2013:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2011	110	419	829	1.359
- acquisition	2	100	107	209
- transfers between accounts	-	-	(7)	(7)
As of 31 December 2012	112	520	928	1.560
- acquisition	22	105	119	246
- sold or written-off assets	(1)	(3)	(29)	(33)
As of 31 December 2013	133	622	1.018	1.773
Accumulated depreciation				
As of 31 December 2011	12	385	548	945
- amortization	36	32	139	207
- amortization of transferred and written-off assets	-	-	-	-
As of 31 December 2012	48	417	687	1.152
- amortization	38	78	159	275
- amortization of transferred and written-off assets	-	(3)	(27)	(30)
As of 31 December 2013	86	492	819	1.397
Net book value:				
As of 31 December 2012	64	103	242	408
As of 31 December 2013	47	130	199	376

Changes in intangible assets of the Company as of 31 December 2013:

The Company	Licences and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2011	107	329	829	1.265
- acquisition	2	92	107	200
- transfers between accounts	-	-	(7)	(7)
As of 31 December 2012	109	421	928	1.458
- acquisition	22	105	119	245
- sold or written-off assets	(1)	-	(28)	(29)
As of 31 December 2013	130	526	1.017	1.673
Accumulated depreciation				
As of 31 December 2011	10	326	548	885
- amortization	36	16	139	191

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- amortization of transferred and written-off assets	-	-	-	-
As of 31 December 2012	46	342	687	1.075
- amortization	38	61	158	257
- amortization of transferred and written-off assets	-	-	(27)	(27)
As of 31 December 2013	84	404	818	1.305
Net book value:				
As of 31 December 2012	63	79	242	383
As of 31 December 2013	47	122	199	368

In 2013 amortization of non-current intangible assets of the Group and the Company amounts to LTL 275 thousand and LTL 257 thousand respectively (In 2012 – LTL 207 thousand and LTL 191 thousand).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2013 amount to LTL 246 thousand and LTL 245 thousand respectively (In 2012 - LTL 209 thousand and LTL 200 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 2013:

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 2011	42.402	142.340	38.059	12.520	2.664	237.985
- acquisition	1.383	4.171	626	953	4.171	11.304
- sold or written-off assets	(117)	(2.497)	(1.455)	(1.500)	(705)	(6.273)
- recalculation of the accounting policy change	-	29	-	794	-	823
- transfers to investing assets	(323)	-	-	-	-	(323)
- transfers between accounts	-	-	-	-	-	-
- Adding value	3	856	47	126	(848)	184
- reclassification	15	3.488	-	-	(3.994)	(491)
As of 31 December 2012	43.363	148.387	37.277	12.893	1.288	243.208
acquisition	25	1.138	1.111	848	11.483	14.605
recalculation of the accounting policy change	-	-	-	(41)	(52)	(93)
sold or written-off assets	(19)	(1.172)	(1.934)	(387)	-	(3.512)
Adding value	1	-	158	2	-	161
reclassification	877	2.318	13	-	(3.208)	-
transfers to investing assets	(857)	-	-	-	-	(857)
transfers between accounts	-	-	-	-	-	-
As of 31 December 2013	43.390	150.671	36.624	13.315	9.510	253.512
Accumulated depreciation	17.513	110.935	26.302	11.363	-	166.113
As of 31 December 2011						
depreciation	2.060	11.447	2.635	659	-	16.801
depreciation of written-off and sold assets	(54)	(1.651)	(1.423)	(1.488)	-	(4.616)
Recalculation of the accounting policy change	-	11	-	259	-	270
transfers to investing assets	(62)	-	-	-	-	(62)
As of 31 December 2012	19.457	120.742	27.514	10.793	-	178.507
- depreciation	1.924	9.398	2.188	1.033	-	14.543
- depreciation of written-off and sold assets	(18)	(1.119)	(1.245)	(361)	-	(2.743)

ŽEMAITIJOS PIENAS AB

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

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recalculation of the accounting policy change	14	9	-	-	-	23
reclassification	-	-	-	-	-	-
- transfers to investing assets	(14)	-	-	-	-	(14)
- transfers between accounts	-	-	-	-	-	-
As of 31 December 2013	21.363	129.030	28.457	11.465	-	190.316
Accumulated impairment losses	196	18	-	36	7	258
As of 31 December 2011						
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(16)	-	-	-	-	(16)
As of 31 December 2012	180	18	-	36	7	242
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(14)	(9)	-	-	-	(23)
As of 31 December 2013	166	9	-	36	7	219
Net book value:						
As of 31 December 2012	23.726	27.627	9.763	2.064	1.281	64.458
As of 31 December 2013	21.861	21.632	8.168	1.814	9.503	62.979

Changes in property, plant and equipment of the Company as of 31 December 2013:

The Company	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 2011	26.760	125.680	27.091	10.201	2.653	192.384
- acquisition	1.383	3.867	597	939	2.542	9.328
recalculation of the accounting policy change	-	25	-	759	-	784
- sold or written-off assets	(56)	(1.150)	(1.376)	(349)	(705)	(3.636)
- adding value	3	856	47	126	(847)	185
- reclassification	-	1.874	-	-	(2.366)	(491)
- transfers between accounts	(323)	-	-	-	-	(323)
As of 31 December 2012	27.768	131.152	26.359	11.676	1.277	198.232
- acquisition	25	1.136	1.111	684	9.456	12.412
recalculation of the accounting policy change	-	-	-	-	-	-
- sold or written-off assets	(2)	(842)	(1.934)	(387)	-	(3.165)
- adding value	1	-	158	2	-	161
- reclassification	862	362	13	-	(1.237)	-
- transfers to accounts investing assets	(857)	-	-	-	-	(857)
- transfers from investing assets	-	-	-	-	-	-
As of 31 December 2013	27.797	131.808	25.707	11.975	9.498	206.784
Accumulated depreciation						
As of 31 December 2011	8.919	101.344	22.236	9.161	-	141.661
- depreciation	1.531	10.400	2.039	600	-	14.570
- depreciation of written-off and sold assets	(21)	(1.117)	(1.366)	(336)	-	(2.840)
-recalculation of the accounting	-	9	-	248	-	257
- transfers to investing assets	(62)	-	-	-	-	(62)
- reclassification	-	-	-	-	-	-
As of 31 December 2012	10.367	110.636	22.909	9.673	-	153.586
- depreciation	1.509	8.231	1.601	966	-	12.307
- depreciation of written-off and sold assets	(1)	(789)	(1.245)	(321)	-	(2.356)
recalculation of the accounting policy change	-	-	-	-	-	-
reclassification	-	-	-	-	-	-
transfers to investing assets	(14)	-	-	-	-	(14)
- transfers from investing assets	-	-	-	-	-	-

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As of 31 December 2013	11.862	118.078	23.265	10.317	-	163.522
Accumulated depreciation						
As of 31 December 2011	6	9	-	36	-	51
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2012	6	9	-	36	-	51
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2013	6	9	-	36	-	51
Net book value						
As of 31 December 2012	17.394	20.507	3.450	1.967	1.277	44.594
As of 31 December 2013	15.930	13.721	2.442	1.622	9.498	43.213

For the year ending at 31 December 2013 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to LTL 14.543 thousand and LTL 12.307 thousand respectively (31 December 2012 – LTL 16.801 thousand and LTL 14.570 thousand).

On 31 August 2012 the minimum value of fixed asset was changed from LTL 3.000 to LTL 500 in accordance with the order of AB "Žemaitijos pienas" General Director. Due to these changes, a part of the write-off low-value assets, totalling LTL 823 thousand in the Group and LTL 784 thousand in the Company, were reinstated to the fixed assets with the calculated depreciation in the amount of LTL 270 thousand in the Group and LTL 257 thousand in the Company. Due to the adjustments above, cash flow report of the Group reflects elimination of non-cash items to the amount of LTL 552 thousand, whereas the cash flow report of the Company reflects elimination of non-cash items to the amount of LTL 527 thousand.

On 31 December 2013, Company's fixed tangible assets, which residual value equalled LTL 8.611 thousand (on 31 December 2012 it equalled LTL 8.897 thousand), were pledged to the banks for the Company's received loans. On 31 December 2012 the subsidiary company ABF "Šilutės Rambynas" also had pledged fixed tangible assets for the Company's received loans, which residual value equalled LTL 37.4 thousand) (see Note 14) On 31 December this Company hadn't pledged fixed tangible assets.

A part of the Group's and the Company's fixed tangible assets, which acquisition value on 31 December 2013 equalled LTL 129.994 thousand and LTL 122.254 thousand respectively, was completely depreciated (31 December 2012 respectively – LTL 104.769 thousand and LTL 97.359 thousand), however still used in the business.

Investments in the the acquiring of non-current tangible and intangible assets made by the Group and the Company in 2013 amounted to LTL 14.979 thousand and LTL 12.821 thousand (in 2012 - LTL 11.285 thousand and LTL 9.302 thousand). All the acquisitions above relate to the geographic segment of Lithuania.

6. INVESTMENT ASSETS

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

Changes in the investment assets as of 31 December 2013:

	<u>The Group</u>	<u>The Company</u>
Acquisition cost		
As of 31 December 2011		9.391
- acquisition	-	-
- transfers from long-term assets	323	323
As of 31 December 2012	323	9.714
- acquisition	-	-
- transfers from long-term assets	727	857
As of 31 December 2013	1.050	10.571

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Accumulated depreciation		
As of 31 December 2011		5.260
- depreciation	2	199
- transfers from long-term assets	62	62
As of 31 December 2012	64	5.521
- depreciation	67	281
- transfers from long-term assets	-	14
As of 31 December 2013	131	5.816
Net book value, LTL thousand:		
As of 31 December 2012	259	4.193
As of 31 December 2013	919	4.755

The fair value of investment assets approximates its book value.

The Company's depreciation of the investment assets for the year 2013 amounted to LTL 281 thousand (2012 – LTL 199 thousand).

The Company's investment assets in 2013 and 2012 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) (LTL thousand)

Loans granted as of 31 December 2013:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Loans granted	9.107	7.736	10.945	10.204
Less: current portion of loans granted	(3.572)	(2.836)	(5.410)	(3.466)
Non- current loans granted	5.535	4.900	5.535	6.738

All granted loans are in LTL. Granted loan's payback periods are between 1 – 9 years.

8. INVENTORIES

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

Inventories as of 31 December 2013:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Raw materials	11.770	13.152	9.567	10.369
Finished goods and work in process	114.632	89.425	103.329	84.768
Goods for resale	652	721	652	721
	127.054	103.298	113.548	95.858

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Less: write off to net realizable value	(14.334)	(5.624)	(13.718)	(5.624)
Total:	112.720	97.674	99.830	90.234

9. TRADE ACCOUNTS RECEIVABLE

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

Trade accounts receivable as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Trade accounts receivable	28.069	30.369	26.462	29.680
Accounts receivable from related parties	2.023	3.479	6.426	3.231
	30.092	33.848	32.888	32.911
Mi Impairment allowance for bad debts	(326)	(864)	(326)	(864)
	(867)	(5)	(867)	(5)
Impairment allowance for bad debts of related parties				
Net trade receivables:	28.899	32.978	31.695	32.042

Changes in impairment loss for bad debts for 2013 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 2013	31 12 2012	31 12 2013	31 12 2012
Balance at beginning of year	869	83	869	83
Impairment allowance for bad debts	324	786	324	786
Balance at end of year	1.193	869	1.193	869

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

 Analysis of trade receivables based on the terms of payment on the 31st December, 2013

Trade accounts receivables which period has passed						
The Group LTL thousand	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days		Total
Trade account receivables	26.465	1.648	786	1.193		30.092
Reduction of value	-	-	-	(1.193)		(1.193)
Trade accounts receivables which period has passed						
The Company LTL thousand	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days		Total
Trade account receivables	29.268	1.641	786	1.193		32.888
Reduction of value	-	-	-	(1.193)		(1.193)

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10. OTHER ACCOUNTS RECEIVABLE

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

Other accounts receivables as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Grants receivable	216	-	-	-
Current portion of long-term loans granted	3.572	2.836	5.410	3.466
VAT receivable	1.421	2.683	844	2.683
Other receivables	81	1.323	69	41
Total:	5.290	6.842	6.323	6.190

11. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Cash at bank	6.712	5.685	4.914	5.328
Cash on hand	246	104	239	99
Total:	6.958	5.789	5.153	5.427

12. CAPITAL AND RESERVES

Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of LTL 1 each, and the total share capital is LTL 48.375.000, fully paid. During the extraordinary shareholder's meeting on 8 February 2008, the decision was made to change the par value of the Company's shares from LTL 10 per share to LTL 1 per share and to replace each share held by shareholders by 10 shares accordingly.

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 2012 the Company acquired 1.360.010 of own shares, which constitutes 2.81% of the total shares. During year ended as of 31 December 2013 the Company acquired additionally 710.611 of own shares and in total on 31 December 2013 Company owned 4.28% of shares in total. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

Legal reserve

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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 LTL 15 million 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 LTL 764 thousand.

13. GOVERNMENTAL GRANTS RECEIVED

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

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

	<u>The Group</u>	<u>The Company</u>
Grants received		
As of 31 December 2011 (balance)	17.409	12.389
- received	3.044	1.483
As of 31 December 2012 (balance)	20.453	13.872
- received	2.403	2.403
As of 31 December 2013 (balance)	22.856	16.275
Accumulated amortisation		
As of 31 December 2011 (balance)	15.162	11.569
- amortization	902	558
As of 31 December 2012 (balance)	16.064	12.127
- amortization	864	515
As of 31 December 2013 (balance)	16.928	12.642
Net book value		
As of 31 December 2012	4.389	1.744
As of 31 December 2013	5.929	3.632

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 LTL 684 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

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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 LTL 10.2 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 (LTL 547 thousands) was received for the first completed stage of this project. In 2012, 20% of the compensated amount (LTL 1.483 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 LTL 11.6 million. The level of the support reaches 50 % of the designated funds. In 2013 the company received LTL 2.403 thousand of the compensated funds by the aid.

On 31 December 2012, the residual value of all of the Company's received grants constituted LTL 3.632 thousand (on 31 December 2012 it constituted LTL 1.744 thousand).

On 5 July 2005, ABF "Šilutės Rambynas" has signed a financing agreement with the Lithuanian Environmental Investment Fund on a support of LTL 300 thousand. The support was intended for ABF "Šilutės Rambynas" boiler house reconstruction, during which the fuel used in the boiler house was to be replaced from fuel oil to liquefied gas. The amount of the support cannot exceed 70% of the total value of the reconstruction project. Boiler house reconstruction was completed in December 2005; therefore grant amount has started to being amortized since 1 January 2006 over the 8 year period. On 24 January, 2006 ABF "Šilutės Rambynas" has signed a financing agreement with the National Paying Agency under the Ministry of Agriculture on a support of LTL 3.395 thousand. The support was intended for ABF "Šilutės Rambynas" milk processing production modernization by acquiring new vehicles and equipment. ABF "Šilutės Rambynas" has acquired new equipment in June and July 2006, therefore grant amount has started to being amortized since the next month after the acquisition of the equipment over a 5 year period. The grant was paid to ABF "Šilutės Rambynas" on 31 January 2007.

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 LTL 1.561 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 LTL 934 thousand of the support amount. LTL 410 thousand of the support amount is for the 2nd stage (the due date of implementation is 31 March 2013), LTL 216 thousand of the support amount is for the 3rd stage (the due date of implementation is 31 March 2014).

On 31 December 2013, the total residue of ABF "Šilutės Rambynas" grants was LTL 2.296 thousand (on 31 December 2012 it was LTL 2.645 thousand).

14. BORROWINGS

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

The Group's borrowing as of 31 December 2013:

ŽEMAITIJOS PIENAS AB

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

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The Group	Contract date	Maturity date	Currency	Balance (LTL thousand)	
				31 12 2013	31 12 2012
AB DnB NORD bankas	2004 05	2014 06	EUR	-	-
AB DnB NORD bankas	2006 06	2013 04	EUR	-	417
AB SEB bankas	2011 09	2013 09	EUR	-	11.939
AB SEB bankas	2011 11	2014 11	LTL	-	-
Algirdas Pažemeckas	2011 10	2014 12	LTL	1.568	1.578
Total:				1.568	13.934
Less: short-term borrowings				-	-
Less: current portion of long-term borrowing				(1.568)	(13.934)
Total long-term borrowings				-	-

The Company's borrowing as of 31 December 2013:

The Company	Contract date	Maturity date	Currency	Balance (LTL thousand)	
				31 12 2013	31 12 2013
AB DnB NORD bankas	2004 05	2014 06	EUR	-	-
AB DnB NORD bankas	2006 06	2013 04	EUR	-	417
AB SEB bankas	2011 09	2013 09	EUR	-	11.939
AB SEB bankas	2011 11	2014 11	LTL	-	-
Algirdas Pažemeckas	2011 10	2014 12	LTL	1.568	1.578
Total:				1.568	13.934
Less: short-term borrowings				-	-
Less: current portion of long-term borrowing				(1.568)	(13.934)
Total long-term borrowings				-	-

Terms of repayment of borrowings to the Group and the Company (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Within one year	1.568	13.934	1.568	13.934

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In the second year	-	-	-	-
In the third year	-	-	-	-
In the fourth and thereafter	-	-	-	-
Total:	1.568	13.934	1.568	13.934

Parts of borrowings of the Group and the Company in national and foreign currencies:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
EUR	-	12.356	-	12.356
LTL	1.568	1.578	1.568	1.578
Total:	1.568	13.934	1.568	13.934

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 (LTL thousand):

	31 12 2013		31 12 2012	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
The Group				
Within one year	433	426	2.484	2.457
In the second to fifth years inclusive	374	370	807	796
Minimum lease payments	807	796	3.291	3.253
Less: future interest	(11)		(38)	
Present value of minimum lease payments	796		3.253	
The Company				
Within one year	433	426	2.237	2.211
In the second to fifth years inclusive	374	370	807	796
Minimum lease payments	807	796	3.044	3.007
Less: future interest	(11)		(37)	
Present value of minimum lease payments	796		3.007	

As of 31 December 2013 and 2012, 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 (LTL thousand):

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	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Within one year	3.751	4.221	3.751	4.221
In the second to fifth years	3.792	4.267	3.792	4.267
After five years	-	-	-	-
Total:	7.543	8.488	7.543	8.488

The currency of the payment of operating lease is Litas (LTL).

17. PAYABLES

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

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Payables to suppliers	29.444	25.164	28.186	23.486
Payables to related parties	1.789	1.787	1.211	1.782
Prepayments	329	332	329	332
Total:	31.562	27.283	29.726	25.600

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 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Accrued expenses	484	3.264	484	3.264
Holiday reserve	7.986	7.969	7.386	7.326
Wages and salaries payable	2.230	2.279	1.951	2.022
Social security payable	1.544	1.450	1.372	1.279
Taxes payable, other than income tax	490	658	419	389
Provisions	1.077	925	27	25
Other current liabilities	1.431	494	1.431	494
Total:	15.242	17.039	13.070	14.799

Provisions are formed for court cases and compensation.

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

19. INFORMATION ON SEGMENTS

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

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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	Turnover, LTL thousand		Variation in % As comparing 2013 with 2012
	Jan-Dec 2013	Jan-Dec 2012	
Fermented cheese	245.096	218.357	12%
Fresh dairy products	147.972	154.419	-4%
Butter and spreadable fat mixes	42.798	43.128	-1%
Dry dairy products	37.078	33.181	12%
Ice cream	72	70	3%
Other	56.169	51.360	9%
Total:	529.185	500.515	5,73%

The Company	Turnover, LTL thousand		Variation in % As comparing 2013 with 2012
	Jan-Dec 2013	Jan-Dec 2012	
Fermented cheese	227.196	208.725	9%
Fresh dairy products	147.972	154.391	-4%
Butter and spreadable fat mixes	42.798	43.128	-1%
Dry dairy products	37.078	33.181	12%
Ice cream	72	70	3%
Other	67.667	50.164	35%
Total:	522.783	489.659	6,76%

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 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Sales, LTL thousand:				
Lithuania	272.304	272.778	277.550	266.014
Other Baltic States and CIS members	141.132	128.260	134.476	125.700
Other Europe countries	110.919	94.746	107.804	94.746
Other	4.830	4.731	2.953	3.199
Total, LTL thousand:	529.185	500.515	522.783	489.659

During the year of 2013 sales income from each customer did not constitute more than 10% of the total income.

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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 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Wages, salaries and social security*	30.115	29.063	29.529	28.562
Services	14.112	13.980	13.495	13.650
Marketing	9.407	13.529	9.407	13.452
Fuel and spare parts	5.674	5.735	5.552	5.615
Depreciation and amortisation	2.921	2.456	2.877	2.413
Change in write off of inventories to net realizable value	9.203	(1.307)	8.587	(1.345)
Materials	1.364	1.929	1.331	1.835
Taxes, other than income tax	749	597	668	597
Other expenses	1.266	1.067	977	898
Total sales and distribution expenses:	74.811	67.050	72.423	65.677

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

21. INCOME AND EXPENSES OF OTHER ACTIVITIES

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

Income and expenses from other activities as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2013	Jan-Dec 2013	Jan-Dec 2013
<i>Other operating income</i>				
Gain on sales of property, plant and equipment and goods for resale sales income	1.207	1.219	1.633	3.641
Rental income	593	1.178	1.341	1.333
Income of the canteen	1.188	574	1.188	574
Other	714	-	993	829
	3.702	2.971	5.155	6.377
<i>Other operating expenses</i>				
Cost of goods for resale sold	(1.162)	(3.532)	(1.095)	(3.171)
Rental income	(501)	(540)	(341)	(264)
Other	(986)	(611)	(986)	(610)
	(2.649)	(4.682)	(2.422)	(4.045)
Net income and expenses of other activities:	1.053	(1.711)	2.733	2.332

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22. FINANCIAL INCOME AND EXPENSES

Note No 22 – Financial income and expenses (In the statement of comprehensive income)

Income and expenses from financial activities as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
<i>Income from financial activity</i>				
Interest income	51	365	51	452
Foreign currency exchange (profit)	160	132	160	132
Other financial incomes	467	89	506	55
	678	586	717	639
<i>Expenses from financial activity</i>				
Foreign currency exchange (loss)	(296)	(186)	(271)	(154)
Interest	(88)	(587)	(87)	(619)
Other financial expenses	(37)	(127)	-	-
	(421)	(900)	(358)	(773)
Net of financial income and expenses:	257	(315)	359	(134)

23. CORPORATE INCOME TAX EXPENSES (BENEFIT)

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

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Profit before tax	27.130	27.195	22.623	25.173
Income tax, applying valid tax rate	5.134	2.938	4.420	2.913
Change in deferred income tax asset	(1.356)	138	(1.268)	138
Change in deferred income tax liability	120	105	-	-
Income tax expenses (benefit) charged to the statement of comprehensive income, LTL thousand	3.898	3.181	3.152	3.051

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Deferred income tax asset				
Tax loss carry forward	-	-	-	-
Inventories	2.150	844	2.058	844
Accrued vacation reserve	1.130	1.122	1.108	1.099
Other accrued expenses	225	183	200	155

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Total deferred income tax asset, LTL thousand	<u>3.505</u>	<u>2.149</u>	<u>3.366</u>	<u>2.098</u>
Deferred income tax liability				
Difference in property, plant and equipment depreciation rates	(1.203)	(1.083)	-	-
Total deferred income tax liability, LTL thousand	<u>(1.203)</u>	<u>(1.083)</u>	<u>-</u>	<u>-</u>
Deferred income tax asset, net LTL thousand	<u>2.302</u>	<u>1.066</u>	<u>3.366</u>	<u>2.098</u>

24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES

During the compilation of the set of consolidated financial statements as of 31 December 2012, liquidation of the subsidiary company ŽUK "Tarpučių pienas", which took place on 31 January 2013, was taken into account and the results were represented in financial statements.

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 shares in issue during the year.

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Net profit (loss) attributable to the equity shareholders in LTL thousand	22.774	23.784	19.471	22.122
Weighted average number of shares (in thousand)	48.375	48.375	48.375	48.375
Basic earnings (loss) per share in LTL	<u>0,47</u>	<u>0,49</u>	<u>0,40</u>	<u>0,46</u>

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. DIVIDENDS PER SHARE

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Dividends	2.315	-	2.315	-
Number of shares (thousand)	48.375	48.375	48.375	48.375
Dividends per share (in LTL)	<u>0,05</u>	<u>0,00</u>	<u>0,05</u>	<u>0,00</u>

27. COMMITMENTS AND CONTINGENCIES

As of 31 December 2013 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

At of 31 December 2013 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.

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

28. 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.

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

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Cash and cash equivalents	6.958	5.789	5.153	5.427
Loans granted	5.535	4.900	5.535	6.738
Trade accounts receivable	28.899	32.978	31.695	32.042
Other accounts receivable	5.290	6.842	6.323	6.190
Term deposits	-	-	-	-
Total financial assets	<u>46.682</u>	<u>50.509</u>	<u>48.706</u>	<u>50.397</u>

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 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.

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

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	-	1.736	12.199	-	-	13.934
Interest bearing finance lease liabilities	-	924	1.533	796	-	3.253
Trade payables and prepayments	-	25.273	223	-	-	25.496
Commitments to related parties	-	1.788	-	-	-	1.788
Balance as of 31 December 2012	-	29.720	13.955	796	-	44.471
Interest bearing loans and borrowings	-	-	1.568	-	-	1.568
Interest bearing finance lease liabilities	-	206	220	370	-	796
Trade payables and prepayments	-	30.119	145	-	-	30.264
Commitments to related parties	-	1.298	-	-	-	1.298
Balance as of 31 December 2013	-	31.623	1.933	370	-	33.926
Changes through 2013	-	1.903	(12.022)	(426)	-	(10.545)
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	-	1.578	12.356	-	-	13.934
Interest bearing finance lease liabilities	-	833	1.378	796	-	3.007
Trade payables and prepayments	-	23.594	223	-	-	23.817
Commitments to related parties	-	1.783	-	-	-	1.783
Balance as of 31 December 2012	-	27.788	13.957	796	-	42.541
Interest bearing loans and borrowings	-	-	1.568	-	-	1.568
Interest bearing finance lease liabilities	-	206	220	370	-	796
Trade payables and prepayments	-	28.285	145	-	-	28.430
Commitments to related parties	-	1.296	-	-	-	1.296
Balance as of 31 December 2013	-	29.787	1.933	370	-	32.090
Changes through 2013	-	1.999	(12.024)	(426)	-	(10.451)

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

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, to which LTL is pegged.

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

	The Group		The Company	
	31 12 2013		31 12 2013	
	Assets	Liabilities	Assets	Liabilities
LTL	39.689	47.706	44.163	42.691
EUR	8.417	5.402	5.798	5.206
USD	21	-	21	-
LVL	3.560	131	3.560	131
Other	13	38	13	38
Total:	51.700	53.277	53.555	48.066

	The Group		The Company	
	31 12 2012		31 12 2012	
	Assets	Liabilities	Assets	Liabilities
LTL	40.346	43.894	40.714	39.213
EUR	10.255	17.869	9.680	17.300
USD	29	-	29	-
LVL	3.767	897	3.767	897
Other	1	9	2	8
Total:	54.398	62.669	54.192	57.418

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and 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 LTL and EUR.

Fair value of financial instruments

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

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

Fair value of assets and liabilities provided in the balance sheet as of the 31st December 2013 does not significantly differ from their carrying amount.

Financial assets and liabilities as of the 31th of December 2013:

The Group	Carrying amount		Fair value	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Financial assets				
Cash	6.958	5.789	6.958	5.789
Term deposits	-	-	-	-
Investments available for sale	-	-	-	-
Loans granted	5.535	4.900	5.535	4.900
Total:	12.493	10.689	12.493	10.689
Financial liabilities				
Interest bearing loans and borrowings:	-	-	-	-
Obligations under finance lease and hired purchase contracts	(796)	(3.253)	(807)	(3.289)
Floating interest rate borrowings	-	(12.356)	-	(12.356)
Fixed interest rate borrowings	(1.568)	(1.578)	(1.568)	(1.578)
Total:	(2.364)	(17.187)	(2.375)	(17.223)
Net total:	10.129	(6.498)	10.118	(6.534)

The Company	Carrying amount		Fair value	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Financial assets				
Cash	5.153	5.427	5.153	5.427
Term deposits	-	-	-	-
Investments available for sale	-	-	-	-
Loans granted	5.535	6.738	5.535	6.738
Total:	10.688	12.165	10.688	12.165
Financial liabilities				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	(796)	(3.007)	(807)	(3.044)
Floating interest rate borrowings	-	(12.356)	-	(12.356)
Fixed interest rate borrowings	(1.568)	(1.578)	(1.568)	(1.578)
Total:	(2.364)	(16.941)	(2.375)	(16.978)
Net total:	8.324	(4.776)	8.313	(4.813)

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.

EXPLANATORY NOTES
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(All amounts in LTL thousands unless otherwise stated)

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 2013.

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 2013	31 12 2012	31 12 2013	31 12 2012
Non-current liabilities (including deferred taxes and grants)	7.539	6.292	4.039	2.564
Current liabilities	51.667	60.766	47.660	56.598
Total liabilities	59.206	67.058	51.698	59.162
Equity attributable to equity holders of the parent	167.121	148.196	160.904	145.316
Debt* to equity ratio	35%	45%	32%	41%

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

No breaches of required ratio occurred during the year ending as of 31 December 2013.

29. 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
Žemaitijos Pieno Investicija AB	Common major shareholder
Šilutės Rambynas ABF	Subsidiary, common major shareholder
Baltijos Mineralinių Vandenių Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder
Čia Market UAB	Common major shareholder
Muižas Piens SIA	Common major shareholder
Samogitija UAB	Common major shareholder

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

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

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
1) Sales				
Sales of goods				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	82.722	69.002
	-	-	82.722	69.002
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	35	-	35	0
Klaipėdos pienas AB	2.048	1.293	792	425
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	21.370	24.394	21.366	23.395
Muizas piens SIA	6.111	9.410	4.779	8.507
	29.564	35.097	26.971	32.328
Sales of inventory and services				
<i>To the Group</i>				
Tarpučių pienas ŽŪK	-	-	-	1
Šilutės Rambynas ABF	-	-	1.327	3.752
	-	-	1.327	3.753
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	516	1.529	516	1.529
Klaipėdos pienas AB	1.422	1.832	1.422	1.832
Žemaitijos pieno investicija AB	146	139	146	139
Samogitija UAB	2	6	2	6
Čia Market UAB	260	654	245	642
Muizas piens SIA	39	90	39	90
	2.385	4.250	2.370	4.239
Total Sales:	31.949	39.347	113.390	109.322

2) Purchases
From the Group

Tarpučių pienas ŽŪK

Šilutės Rambynas ABF

From Related parties

Baltijos mineralinių vandenų kompanija UAB

Čia Market UAB

Klaipėdos pienas AB

Žemaitijos pieno investicija AB

SIA "Muizas piens"

Total Purchases:

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
	-	-	-	133
	-	-	88.532	90.727
	-	-	88.532	90.860
	6.271	2.295	6.271	2.295
	730	678	713	662
	2.715	3.958	2.714	3.952
	2.562	2.565	2.556	2.559
	104	103	104	103
	12.382	9.599	12.358	9.571
	12.382	9.599	100.890	100.431

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FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in LTL thousands unless otherwise stated)

Balances outstanding with related parties

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
3) Accounts receivable and financial debts				
<i>From Group</i>				
Šilutės Rambynas ABF	-	-	6.311	2.468
	-	-	6.311	2.468
<i>From Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB				
Samogitija UAB	70	78	70	78
Čia Market UAB	192	947	192	947
Klaipėdos pienas AB	70	71	-	-
Žemaitijos pieno investicija AB	2.579	2.477	2.579	2.477
Muizas piens SIA	734	2.358	734	2.265
	3.645	5.931	3.575	5.767
Total balances of receivables:	3.645	5.931	9.886	8.235

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
4) Balances of payables				
<i>To Group</i>				
Tarpučių pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	-	-	807
	-	-	-	807
<i>To Related parties</i>				
Pažemeckas Algirdas	1.568	1.578	1.568	1.578
Baltijos mineralinių vandenų kompanija UAB	897	751	897	751
Žemaitijos pieno investicija UAB	315	224	314	223
Klaipėdos pienas AB	-	-	-	-
Čia Market AB	1	4	-	-
Muizas piens SIA	85	-	85	-
	2.866	2.557	2.864	2.552
Total balances of payables:	2.866	2.557	2.864	3.359

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 2013, the Company have calculated LTL 867 thousand of decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (in 2012 – LTL 5 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 AB “Žemaitijos pieno investicija” 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 ABF “Šilutės Rambynas”, sale of distribution services to UAB “Baltijos mineralinių vandenų kompanija” and sales of finished goods to UAB “Čia Market”.

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.

I. GENERAL INFORMATION ABOUT THE ISSUER

1. Reporting period covered by the Report

This consolidated annual report is prepared and submitted for the 2013 financial year.

2. The Issuer and its contact details

Name	AB Žemaitijos Pienas
Legal – organizational form	Joint Stock Company
Incorporated	The Joint Stock Company registered on 23 June, 1993
Company code:	180240752
VAT payer's code:	LT802407515
Authorized capital	LTL 48,375,000, divided into 48,375,000 ordinary registered shares, a par value per share LTL 1
Legal address	Sedos Str. 35, LT-87101 Telšiai
Phone	8 (444) 22201
Fax	8 (444) 74897
E-mail	info@zpienas.lt
Website	www.zpienas.lt

3. Information about the Company's branches and representative offices

On 31 December 2013, Žemaitijos Pienas Company Group consisted of the parent company Žemaitijos Pienas and its subsidiaries. The subsidiaries controlled by the Company were as follows:

ABF Šilutės Rambynas, company code 277141670

Authorized capital – LTL 8,596,650; AB Žemaitijos Pienas owns 87.82% of the authorized capital.

Legal address – Klaipėdos Str.3, Šilutė.

Nature of business activity is production of fermented cheeses.

Associated company SIA Muižas Piens, company code 40003786632

AB Žemaitijos Pienas owns 32 % of the authorized capital.

Legal address – Skaistkalnes 1, Riga, Latvia

Nature of business activity is retail and wholesale trade.

AB Žemaitijos Pienas has 5 branches with warehouses and vehicle fleets in the following Lithuanian cities:

- Vilnius Branch, Algirdo Str.40/13, Vilnius
- Kaunas Branch, Kėdainių Str.8A, Kaunas
- Klaipėda Branch, Šilutės Rd. 33, Klaipėda 33, Klaipėda
- Panevėžys Branch, J. Janonio Str. 9, Panevėžys
- Telšiai Branch, Sedos Str.35, Telšiai

4. Nature of main business activity of the Issuer and its subsidiaries

Main activity of AB Žemaitijos Pienas is development, production, and sale of dairy products (fermented cheeses and cheese products, pre-packed cheeses and cheese products, processed cheeses and cheese products, cream, cream cheese, butter dairy spreads, mixed spreads, dairy fat, pasteurized cream, buttermilk, whey, dry milk products, fresh dairy products (milk, cream, cottage cheese, cottage cheese products, yoghurts, desserts, curd cheeses, glazed curd cheeses, fermented dairy products) in Lithuanian and foreign markets.

Main activity of ABF Šilutės Rambynas is development, production, and sale of fermented cheeses and cheese products, as well as production and sale of pasteurized cream, pasteurized whey, and concentrated whey.

5. Data on securities of the Issuer traded on regulated markets

Ordinary registered shares of AB Žemaitijos Pienas are included in the Vilnius NASDAQ OMX Stock Exchange Baltic additional stock listing since 13 October, 1997.

Type of shares – ordinary registered shares

Number of shares – 48,375,000

Total par value – LTL 48,375,000

Securities ISIN code – LT0000121865

VSE symbol – ZMP1L

6. Information on agreements made with the agents of public circulation of securities

On 16 July 2004, the Company entered into an agreement with AB Šiaulių Bankas, address: Tilžės Str.149, Šiauliai, which determines the transfer of handling of the Company's securities account to Šiaulių Bankas, AB from 23 July, 2004.

7. Data on trading in shares of the Group's enterprises in the regulated markets

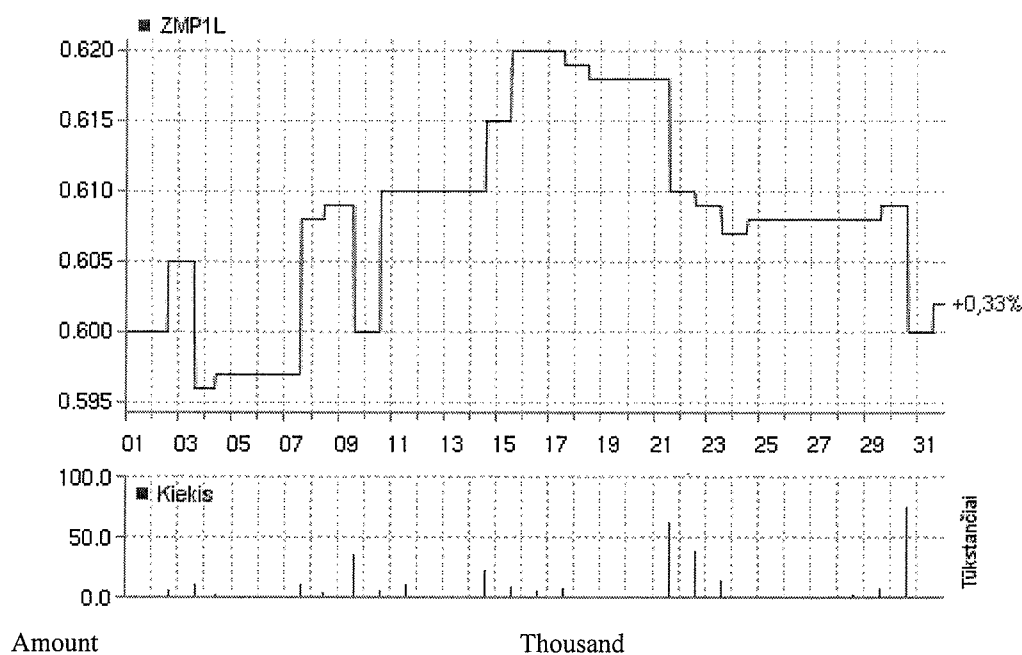
Only securities of AB Žemaitijos Pienas are traded on a regulated market – 48.375.000 ordinary registered shares are included in the Vilnius NASDAQ OMX Stock Exchange Baltic additional stock listing (VSE symbol – ZMP1L). A par value of 1 (one) share is LTL 1. Total par value of shares amounts to LTL 48,375,000.

There were no non-equity securities, the circulation of which is regulated by the Law on Securities of the Republic of Lithuania.

Trading in other stock exchanges or other organized markets are not and have not been carried out.

Hereunder is presented graphic information on the transactions (trade) in shares of AB Žemaitijos Pienas at Vilnius Stock Exchange during January – December, 2013. 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¤cy=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2013&end_d=31&end_m=1&end_y=2013



Below is also presented historical data on trading in securities of AB Žemaitijos Pienas at NASDAQ OMX Vilnius Stock Exchange during 2010–2014:

Securities trading history

Indicator	2010	2011	2012	2013	2014
The opening price	0.301	0.699	0.679	0.600	0.816
The highest price	0.745	0.770	0.735	0.833	0.888
The lowest price	0.295	0.555	0.536	0.596	0.788
The last price	0.699	0.679	0.600	0.774	0.855
Turnover (shares)	7,623,027	4,945,124	1,514,200	2,864,080	280,987
Turnover (million)	EUR 3.40	EUR 3.22	EUR 0.96	EUR 2.09	EUR 0.23
Market capitalization (million)	EUR 33.81	EUR 32.85	EUR 29.03	EUR 37.44	EUR 41.36

8. Capitalization of securities

During 2009–2013, the Company's share capitalization rates in EUR was as follows:

Indicator	2010	2011	2012	2013
Market capitalization (million)	EUR 33.81	EUR 32.85	EUR 29.03	EUR 37.44

Change in AB Žemaitijos Pienas securities capitalization during 2010–2013 (in %) was as follows:

ZMP1L	LTL 29,025,000.00	LTL 100,217,520.00	+245.28%
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9. Authorized capital of the Issuer

On 31 December 2013, authorized capital of AB Žemaitijos Pienas consisted of:

Type of shares	Number of shares (shares)	Par value (LTL)	Total par value (LTL)	Share of the authorized capital, %
Ordinary registered shares	48,375,000	1	48,375,000	100

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

10. An objective review of the Company's financial position, performance, and development

AB Žemaitijos Pienas is a Lithuanian company with old dairy processing traditions, which cherishes classic dairy products recipes and techniques to promote reviving and consumption of products that reflect a long history of culture and culinary heritage.

AB Žemaitijos Pienas was founded in 1924. Telšiai Dairy, launched in that year, was of very high capacity at the time. At the end of 1984, a newly constructed Telšiai Dairy started operating, which continued until Telšiai Cheese Factory was opened and privatized in 1993. AB Žemaitijos Pienas was registered on 23 June 1993 in Telšiai District Administration and re-registered on 16 October, 1998 in the Lithuanian Ministry of Economy.

Consulting with the best European and USA companies, focusing on introducing new technologies, using the most advanced membrane technology of milk purification *Bactocatch* allowed increasing the variety of products offered by the Company and improving their quality.

Impeccable work is the face of the company, which testifies the reliability and solidity of AB Žemaitijos Pienas in anchoring the market of the country by its products and proclaiming the Samogitia region and Lithuania in the world. Currently, the Company employs over 1205 professional and creative employees. Their significant contribution, optimism, and intelligence allow the AB Žemaitijos Pienas to achieve ambitious goals and overcome new challenges in the national and international markets.

Today, the Company produces dairy products over 200 different names; both new and already favoured by the consumers, e.g. a new group of organic dairy products *DOBILAS*. The products bearing *MAGIA* trademark earned the trust of consumers from the moment they were introduced and became strikingly popular. The consumers favour the fermented and processed cheeses, as well as non-ripened peelable cheese sticks *PIK-NIK*, which are one-of-the-kind in Lithuania. On 8 March, a cheerful celebration of the 10th anniversary of manufacturing this exceptional product was organised, where it was remembered that *PIK-NIK* was winning awards at international and national exhibitions almost every year.

The consumers favour milk, kefir, yoghurt, sour cream, cream, cottage cheese and glazed curd cheeses, natural and seasoned butter, as well as many other products. The Company also promotes national culinary heritage. Homemade fresh curd cheese and *Žemaitiškas kastinys* (Samogitian sour cream butter) of ŽEMAITIJOS PIENAS are made only from traditional raw materials and additives according to traditional technology. Therefore, these products of exceptional taste were awarded the certificates of Lithuanian Culinary Heritage Foundation and bear the special mark.

Many years of experience and unique formulas allow offering to the consumers a wide selection of products of excellent taste and high quality.

Consulting with the best European and USA companies, focusing on introducing new technologies, using the most advanced membrane technology of milk purification *Bactocatch* allowed increasing the variety of products and improving their quality. The company manufactures fresh dairy products, butter, fermented and processed cheese, dry milk products.

The products of the Company are favoured by the Lithuanian and foreign consumers – dairy products of AB Žemaitijos Pienas are exported to the European Union and Baltic States, Russia, Belarus, Ukraine, Israel, Croatia, and other countries.

Most of the dairy products produced by AB Žemaitijos Pienas meet not only European, but also global standards and are awarded gold medals and diplomas at various international exhibitions.

Also in 2006 the Laboratory of AB Žemaitijos Pienas was audited by the German Accreditation Council DAP according to the DIN EN ISO/IEC 17025:2000 requirements and its compliance was approved with the accreditation certificate under DAP registration No. DAP-PL-3977.00.

In 2007, the Company started manufacturing organic products. PE EKOAGROS confirmed that AB Žemaitijos Pienas meets requirements of the EU Council Regulation EC No. 889/2008 and Rules for Organic Farming. The manufacturing of organic products (organic cheese, organic milk, organic yoghurts, and etc.) has been certified, as well. The organic product range is continuously expanding: organic hard cheese was certified in 2010; production of organic curd and organic curd cheeses started in 2011, and production of organic fresh cheese and organic sour milk started in 2012.

In May 2008, AB Žemaitijos Pienas under a purchase-sale transaction has acquired 87.82 % (754,938 units) ordinary registered shares of ABF Šilutės Rambynas previously owned by AB Žemaitijos. The transaction amounted to LTL 10.878 million, i. e. LTL 14.41 per share.

AB Žemaitijos Pienas and AB-F Šilutės Rambynas pay great attention to product safety and quality, as well as to customer satisfaction. Therefore in 2008, they began to develop a common integrated Food Safety and Quality Management System (in accordance with the requirements of ISO 22000:2005 and ISO 9001: 2008).

In 2009, Žemaitijos Pienas group of companies has developed the Integrated Food Safety and Quality Management System (IFSQMS) meeting requirements of the international standards ISO 9001 and ISO 22000, which on 30 April 2009 was certified by the management system certification and technical assessment company Bureau Veritas Lit.

Certification areas were development, production, and sale of dairy products. The ISO 9001 Management System Certificate shows that the Company has implemented a quality management system to ensure the effective management of the Company based on the worldwide recognised values and goals. The ISO 22000 Food Safety Management System Certificate indicates that the Company ensures food safety throughout the entire production and supply chain up to consumption. Companies with ISO 22000 certification must pay special attention to production process and implementation of the good production and environment practice, good hygiene practice, and good manufacturing practice in order to ensure a safe and high quality end product.

AB Žemaitijos Pienas decided to pursue even higher assessment, i.e. an assessment in accordance with the requirements of BRC (British Retail Consortium) Global Food Standard Issue 5.

IFSQMS was supplemented with high requirements of BRC standard. In beginning of 2010, the auditors from the International Certification Institution Bureau Veritas Certification assessed the compliance of cheese-butter-packaged and processed cheese production with BRC standard and issued a certificate.

The BRC (British Retail Consortium) Global Standard for Food Safety is used worldwide as a business (retailers and processors) assessment system, ensuring the production of safe food products and the selection of reliable suppliers. The BRC Global Standard for Food Safety is one of the operational tools most frequently used for supplier approval. Shortly after certification of AB Žemaitijos Pienas, requirements for assessment under the BRC met AB Klaipėdos Pienas, and at the end of the year – AB-F Šilutės Rambynas.

In 2010, the Laboratory of AB Žemaitijos Pienas was re-registered to UAB *Nepriklausoma tyrimų laboratorija* (Independent Testing Laboratory), which was audited by the German accreditation body DAKKS in accordance with DIN EN ISO / IEC 17025:2005 requirements and granted an accreditation certificate

In the beginning of 2012 seeking to demonstrate its confidence in the quality and food safety systems, our Company chose the so-called non-notified audit under Issue 6 of the BRC Global Standard for Food Safety. This enables the certification body to carry out a non-notified independent assessment of Company's manufacturing conditions and procedures. Such so-called certificate with “+” sign does not have any Lithuanian food manufacturing company certified in accordance with the requirements of BRC.

In April 2012, Bureau Veritas carried out an audit and granted the first ISO 22000 certificate in Lithuania to the food producer – AB Žemaitijos Pienas.

FSSC scheme covers the international ISO 22000 Food Safety Standard, the necessary programs, and additional FSSC requirements provided for in ISO/TS 22002-1 standard. FSSC scheme is fully recognized by Global Food Safety Initiative (GFSI).

In 2013, AB Žemaitijos Pienas became the first food product manufacturing company in the Baltic States that has been awarded BRC certification of A+ grade. This particularly high and globally recognized certification indicates that food safety and quality audits in this one of the largest and most advanced milk processing companies in Lithuania are conducted without prior notice. Currently, 29 Lithuanian food companies have the valid BRC certification, but all the certificates were issued in the usual manner, i. e. when audits were conducted with prior agreement. AB Žemaitijos Pienas became the first company not only in Lithuania, but also in the Baltic States, that has been awarded even higher level of BRC certification with “+” sign. In March of this year, the “+” sign had only 48 food manufacturing companies (out of 15,718 certified companies recorded in the global BRC database).

On 10 January 2013, **the European Commission recognised *Žemaitiškas kاستinis* (Samogitian sour cream butter) as a Traditional Speciality Guaranteed. This is the fifth Lithuanian product, which has acquired the name of a product protected in the European Union.** Recognition at EU level allows to label this product with a special EU mark with the indication “Traditional Speciality Guaranteed”. This indicates that the name of this product is protected from any direct or indirect commercial use, imitation or evocation, as well as other activities that could mislead consumers.

11. Description of principal risks and uncertainties facing the Company

The Company is engaged in the activity of milk processing. The main factors creating the risk for the Company business are potential changes in the market of raw material and product sales. Also some political, legal, social and technological changes directly or indirectly related to the activity of AB Žemaitijos Pienas are possible with a potentially negative impact on the Company's cash flows and activity results.

Since a large part of production is exported, but the Company on the level of Europe or other states is not a big market player, who would be able to dictate the market price of cheese, changes in commodity prices of dry milk and cheese products, intervention balances and other aspects of global trade could have a significant impact on performance. The political-legal and commercial aspects of trade in the Russian market have a significant impact on the Company's actual results for the year 2013.

The main raw material used by 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, transportation, and product distribution) represents a labour-intensive activity. Increasing wages for employees could have negative effects on the Company's growth potential and activity results.

Fluctuating prices of fuel also could have material negative effects on the Company performance results both in the process of collection of raw material and product distribution.

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 status. The fresh milk products segment is mainly affected by Lithuanian market, and the cheese segment – by export markets.

Very significant impact on the efficiency of milk production and use of equipment has raw milk seasonality, which is predominant in Lithuania. As the seasonality of raw materials in terms of quantities retained trend of previous years, there were justified expectations regarding seasonality trends of the raw material price, but in 2013 price of raw material fluctuated slightly, and the constant rise in the price of raw materials was observed to such an extent that was unable to offset using the pricing decisions and changes.

12. Analysis of financial and non-financial performance results, as well as environmental and personnel-related issues

12.1. Financial performance analysis

Below are presented key financial indicators reflecting Group's and the Company's activities in 2012–2013 (in thousand LTL):

85Financial indicators	According to International Accounting Standards			
	2013		2012	
	Group	Company	Group	Company
Turnover	529.185	522.783	500.515	489.659
Gross profit	100.631	91.954	96.271	88.652
Profit before taxes, interests, and depreciation	42.260	35.555	45.064	41.010
Profit before taxes	27.130	22.624	27.195	25.173
Amount of investments in the long-term assets	14.979	12.821	11.285	9.302

Comparison of raw milk procurement tonnage and price in 2013, 2012, and 2011:

Procured raw milk (recalculated into base richness)	2013	2012	2011
Volume of milk procured, in thousand of tones	332	334	345
Price for the milk procured, LTL/t	937	769	850

In 2013 the Company procured 276 thousand tons of natural milk, in 2012 – 276 thousand tons, and in 2011 – 285 thousand tons.

Below is presented distribution of **AB Žemaitijos Pienas** products sold in Lithuanian and export markets during the the year 2012 and the year 2013 is as follows (thousand LTL):

CONSOLIDATED ANNUAL REPORT**FOR ONE YEAR, ENDING WITH 31 DECEMBER 2013**

Product group	Turnover, in thousand LTL		Change, when compared 2013 to 2012 %
	2013	2012	
Fermented cheeses	227.196	208.725	9%
Fresh dairy products	147.972	154.391	-4%
Butter and spreadable fat mixes	42.798	43.128	-1%
Dry milk products	37.078	33.181	12%
Ice cream	72	70	2%
Other	67.667	50.164	35%
In total	522.783	489.659	6.936%

Group's sales by geographical segment (secondary segment) during 2013 and 2012 (in thousand LTL):

Sales by geographic segments	2013	2012
Lithuania	272.304	272.778
Other Baltic States and CIS countries	141.132	128.260
Other European countries	110.919	94.746
Other	4.830	4.731
Total	529.185	500.515

12.2. Environment protection

AB Žemaitijos Pienas, as a dairy product manufacturing and marketing company, according to the specific criteria is assigned to the Equipment group specified in Annex 1 to the environmental permit Integrated Pollution Prevention and Control (IPPC) rules. The activity of AB Žemaitijos Pienas is conducted in compliance with the unlimited permit of IPPC issued on 29 December 2006, which could be corrected according to any changes. The Company continuously seeks to reduce and prevent any negative impact resulting from its activity on environment as well as implement innovative technologies, but it is continuously concerned with and involved in improvement of its environmental protection status, keeps tracking its performance indicators. We are always ready to solve arising environmental issues in together with the society.

In 2008, the Company implemented an Integrated Quality Management and Food Safety Management System, basically in line with the requirements of ISO 9001:2008 and ISO 22000:2005 standards, and currently plans to implement the ISO 14000 Environmental Management System.

The Company does not have a significant negative impact on the environment. Contaminated waste water is released for cleaning in the city treatment facilities, which in 2010 were fully reconstructed implementing the Venta–Lielupė River Basin Investment Program Project, amounting to LTL 44.43 million. After reconstruction of Telšiai City waste water treatment facilities, nitrogen and phosphorus now is also removed from waste waters. In 2014, UAB *Telšių vandenys*, in order to comply with EU directives for waste water treatment, is launching a project “Construction of Telšiai Sludge Treatment Plants”, total value of which exceeds LTL 24.4 million.

At present, the Company's boiler room uses natural gas. During 2013–2014 the Company implements a boiler modernization project “Construction of 10 MW Steam Boilers Using Fuel Wood in

Telšiai” changing the type of fuel used from gas to renewable energy. The Company is not included in the ETS trading system under the National Allocation Plan for 2013-2020.

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

AB Žemaitijos Pienas has developed a scenario of possible accidents, plans for their causes and liquidation, as well as hazard identification, risk analysis and evaluation of safety of a cold ammoniac compressor and gas station storage from the point of view of hazardous object.

All the waste and packages are handled in accordance with environmental requirements. AB Žemaitijos Pienas carries out segregation of the secondary raw materials out of the overall waste flow and systematically sends these waste to waste recycling and collecting facilities. In the territory of the Company, hazardous and non-hazardous waste is stored and handled in a way that does not negatively impact the environment; the storage areas are marked accordingly. The waste is timely transported to waste disposing companies.

The Company continuously carries out investment projects that implement new modern technologies, which allow more efficient use of energy resources.

On 12 June 2012, AB Žemaitijos Pienas presented to the Lithuanian Environmental Investment Fund (LEIF) a project information form for an investment project “AB Žemaitijos Pienas Acid Whey Processing Line Installation, Reducing the Amount of Waste”.

12.3. The Human Resources Policy

In carrying out its human resources policy, the Company aims to create and develop long-term relationships with its employees. The employees are given all the opportunities to improve their skills and enhance knowledge in workshops and otherwise. The following types of training programmes are available for personnel: training for production workers, production machinery operators, production operators, production locksmiths-operators, production foreman, and sales staff.

Vocational training during the reporting period

Item No.	Work / training title	Average number of trained employees	Notes
1.	New employees trained in accordance with an introduction training program	263	
2.	Production workers, certified and trained in accordance with a continuing education program	11	
3.	Production workers, trained (training continues) in accordance with a continuing education program	20	
4.	Company's specialists trained other employees during internal staff training sessions	27	
5.	Employees, trained during internal staff training sessions (purchased service)	152	
6.	Certified new craftsmen and foremen	-	
7.	Employees trained on health and safety issues	263	
8.	Employees trained to work with new equipment	21	
9.	Employees, who participated in external training (courses, seminars, conferences)	104	

10.	Developed training programs	-	
	In total	861	

Also high attention is paid to foreign language learning. The employees attended courses organized by the Company, as well as use various other forms of training and development, including deepening their foreign language skills abroad.

12.4. Employees

According to the data of 31 December 2013, the total number of employees in AB Žemaitijos Pienas was 1205, which insignificantly decreased compared with 31 December 2012, i.e. number of employees compared to the corresponding period of the previous year fell by 1.94 percent.

Average change in AB Žemaitijos Pienas employees during the last financial year:

	31/12/2013	31/12/2012
Average number of employees	1205	1231

Grouping of the personnel according to the educational background:

Employee group	31/12/2013	31/12/2012
Master degree	22	20
Higher education	196	180
Higher-vocational education	306	344
Vocational education	242	203
Secondary education	404	403
Uncompleted secondary education	35	81
In total:	1205	1231

Number of AB Žemaitijos Pienas employees and their average monthly salaries for respective groups are as follows:

Employee group	31/12/2013		31/12/2012		31/12/2011	
	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL
Managers	22	7100	54	6961	65	6103
Specialists	304	3310	256	3206	244	2492
Workers	881	2080	921	2016	985	1878
In total:	1205		1231		1294	

Employees' rights and obligations are provided for in their job descriptions. Employment contracts do not provide for special rights or obligations.

According to the data of 31 December 2013, the total number of employees in Šilutės Rambynas, ABF was 176 employees, i. e. compared with 31 December, 2012 the number of employees during the reporting period fell by 4.86 % or 9 employees.

Average change in ABF Šilutės Rambynas employees during the last financial year:

	31/12/2013	31/12/2012	19-11-2012 06 31
Average number of employees	176	185	207

Grouping of the personnel of Šilutės Rambynas, ABF according to the educational background:

Number of employees according to their education	31/12/2013	31/12/2012	30/06/2012
Master degree	7	5	3
Higher education	20	22	23
Higher-vocational education	25	28	30
Vocational education	71	75	77
Secondary education	35	36	49
Uncompleted secondary education	18	19	25
In total:	176	185	207

Average monthly salaries according to respective groups of employees of Šilutės Rambynas, ABF is as follows:

Employee group	31/12/2013		31/12/2012		30/06/2012	
	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL
Managers	6	5983.25	6	6023.85	4	5080.44
Specialists	69	2698.13	49	2653.36	49	2403.69
Workers	101	1823.30	130	2049.45	154	1875.81
In total:	176		185		207	

Employment contracts do not provide for special rights or obligations. Neither Žemaitijos Pienas, nor Šilutės Rambynas, ABF have concluded and implemented any collective agreement.

13. Additional notes on the data provided for in the Annual Financial Statements

Data provided for in the Annual Financial Statements and Explanatory Notes are adequate, comprehensive, and informative, i.e. no additional explanation is needed.

14. Data on acquisition of the Issuer's own shares

During the financial year of 2011, AB Žemaitijos Pienas acquired 10 units of AB Žemaitijos Pienas ordinary registered shares of LTL 1 (one) par value for LTL 18.00; the shares have been acquired through the Stock Exchange NASDAQ OMX Vilnius.

In December 2012, the Company acquired by order 1,360,010 units of own shares for the amount of LTL 2,992,000 at NASDAQ OMX Vilnius Stock Exchange; at the moment the company owns 2,070,621 units, i. e. 4.28 % of ordinary registered shares. All the shares are fully paid for by the Company.

During the year 2013, the Company bought 710. 611 shares.

During the reporting period, the Company did not transfer any of its own shares.

It should be noted that none of the subsidiary companies have acquired the Company's shares.

15. Significant events since the end of the previous financial year

In 2013 received awards:

- A winner at the Most Popular Good 2012 award ceremony, arranged by the Association of Lithuanian Trade Enterprises on 5 March 2013: *MAGIJA* was nominated as the most popular glazed curd cheese of 2012 (a diploma granted to AB Žemaitijos Pienas).
- A winner at the Most Popular Good 2012 award ceremony, arranged by the Association of Lithuanian Trade Enterprises on 5 March 2013: hard cheese *Džiugas Mild* was nominated as the most popular hard cheese of 2012 (a diploma granted to AB Žemaitijos Pienas).
- At the International Food Exhibition PRODEKSPO 2013, hard cheese *DŽIUGAS* 40% fat in dry matted was granted a gold medal (Moscow, 11-15 February 2013);
- Hard cheese *DŽIUGAS* produced by AB Žemaitijos Pienas was awarded two stars out of three in the Superior Taste Award competition organised by the International Taste and Quality Institute (iTQi) in Brussels on 8 May, 2013. ★ ★
- GRAND PRIX award to *DŽIUGAS* hard cheese, 40 percent fat in d. m., produced by AB Žemaitijos Pienas went at the International Food Exhibition SIAL CHINA 2013 (Shanghai, China, in 7–9 May, 2013).
- Cheese Awards Nantwich International Exhibition (the 116th Cheese Exhibition held in Nantwich, UK) 2013, EST.1897:
 - In the “Processed Cheese” category gold award was given to AB Žemaitijos Pienas for natural sliced processed cheese *Mildutė*.
 - 24-month-ripened hard cheese *Džiugas*, crumbled, in 100 g package, was best assessed in category “The most Practical Package”.
 - 24-month-ripened hard cheese *Džiugas* was awarded a silver medal in the Continent-Region Cheese Category.

- Natural sliced processed cheese *Mildutė* with Provence herbs won a silver medal as processed cheese with additives.
- Natural sliced processed cheese with black pepper won a silver medal as processed cheese with additives.
- Special Bradbury Trading Network Award in the category of cheese produced in the UK went to 12-month-ripened hard cheese Džiugas.
- At the International Food and Beverage Exhibition World Food 2013 – Product of the Year, 12, 18, 24, 36-month-ripened hard cheese Džiugas was awarded a gold medal (Moscow, September, 2013).
- AB Žemaitijos Pienas was granted a certificate for participation in the exhibition Riga Food 2013 (4–7 September, 2013).
- At the 5th Lithuanian Producers Exhibition “Choose the Lithuanian Product” *Dobilas* organic yoghurt with vanilla won a medal. (Kaunas, 04/10/2013).
- At Anuga Dairy Taste 13 Nomination “The Most Innovative Product” a winner was a souvenir box containing 12, 18, 24-month-ripened hard cheese Džiugas with honey and a clay bowl (Cologne, 04/10/2013).
- *Dobilas* natural organic yoghurt produced by AB Žemaitijos Pienas. Lithuanian Confederation of Industrialists. Lithuanian Product of the Year 2013 (Gold Medal) (20/12/2012).
- *Magija* glazed curd cheese with cocoa and chocolate-flavoured chips, produced by AB Žemaitijos Pienas. Lithuanian Confederation of Industrialists. Lithuanian Product of the Year 2013 (Gold Medal) (20/12/2013).
- Yoghurt sour cream *Žemaitijos*, 10 % fat, produced by AB Žemaitijos Pienas. Lithuanian Confederation of Industrialists. Lithuanian Product of the Year 2013 (Gold Medal) (20/12/2013).
- *Dobilas* organic curd cheese with vanilla, AB Žemaitijos Pienas Lithuanian Confederation of Industrialists. Lithuanian Product of the Year 2013 (silver medal) (20/12/2013).

IN 2013 RECEIVED ACKNOWLEDGEMENTS

- GRATITUDE of Special Coffee Association to AB Žemaitijos Pienas for their help in organizing the Coffee Culture Days 2013 (17/02/2013).
- GRATITUDE of Sporting Events Association to AB Žemaitijos Pienas for their help in organizing the General Financing Trakai Half-marathon (12/05/2013).
- GRATITUDE of MTB Cycling Club to AB Žemaitijos Pienas and *PIK NIK* peelable cheese sticks for their assistance in the preparation the amateur mountain bike race MTB Amateur Cup 2013 (Vilnius, 09/06/2013).
- GRATITUDE of Lithuanian Society of the Friends of the Bath to staff of AB Žemaitijos Pienas for their help and support in organizing the first festival Žemaitijos Bath Day 2013 (Kūlio dauba, Telšiai Region, 22/09/2013).

- GRATITUDE of the Ministry of Economy of the Republic of Lithuania to AB Žemaitijos Pienas for support and sincere cooperation in organizing the 12th European Tourism Forum (Vilnius 22/10/2013).
- GRATITUDE of Telšiai Germantas Primary School to AB Žemaitijos Pienas for support and cooperation in the project “I Grow Healthy and Smart” (22/11/2013).

16. Business plans and forecasts of the Company

In a long-term perspective, AB Žemaitijos Pienas expects to become a technically and technologically modern, reliable and stable growth company. The Company seeks to build a profitable market for its production in European Union and the Baltic States with a focus on products with high added value, own brands and remaining marketing effect, to retain the highest level of product quality, to fully exploit available production capacities, and to systematically accumulate intellectual capital.

The main current goals of the Company are as follows:

- to procure milk under market conditions, but not for higher prices than raw milk is purchased by other market players in Lithuania;
- to reduce production and products costs ensuring a stable and growing quality of the products at the same time; so the main directions for production and products costs are negotiations with major suppliers and increasing production efficiency;
- to abandon economically ineffective production as soon as possible;
- all products under production are to be kept in the warehouses meeting the highest technological standards;
- to increase sales at favourable for the Company prices; to focus on the main basket of the strongest products with own brands and to maintain domestic market share amounting to at least 20 %. In the export markets to focus on sales of higher value-added products to the end consumer;
- to strengthen marketing function and name of the Company by investing in brand-building, brand dissemination, and strengthening of customer loyalty;
- to reduce distribution costs, for example, by shortening the distribution channels, i. e. reduction number of participants in distribution channels;
- to give incentives for employees only for the final results and achievement of plans set.;
- to continuously improve and renew equipment used for technological processes and vehicle fleet, striving to the higher quality of work and products, cost reduction and efficiency.

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

AB Žemaitijos pienas continuously makes investments and looks for ways to ensure steady revenue growth and improved operating efficiency. The Company also pays great attention to development of new product collaborating with scientists.

The Company focuses on high quality of its products and added value to consumers, so it continuously collaborates with various institutes, Lithuanian and foreign experts, carries out product laboratory researches, develops recipes, and enhances the uniqueness of the products. The research is continuous and mainly oriented to development of the current product range.

To achieve the highest standards of performance, cutting-edge operation and innovative methods of treatment in both the technology and the management of the business and the individual corporate governance and business processes, the Company's specialists constantly raise their qualifications attending various foreign internships, exhibitions, and collaborating with the largest suppliers, performing

horizontal integration of good manufacturing practice methods not only in their own production and logistic processes, but starting the improvement initiatives from industrial processes and products of the suppliers.

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

Financial instruments, reflected in AB Žemaitijos Pienas assets in accordance with the IAS, are associated companies. The Company's management considers that in view of the performance results of the companies, their trends, and market perspectives, there is no risk of shares depreciation. AB Žemaitijos Pienas adheres to a conservative policy of use of financial instruments, so credit risk, cash flow risk, and liquidity risk are not material or irrelevant. Hedges are not used, long-term financing instruments are used to a limited extent only, except for financial leasing, agreements of which are entered under exceptionally favourable conditions.

The main risk of the Company – liquidity of receivables – AB Žemaitijos Pienas manages through trade credit insurance or other forms of insurance almost for total export turnover.

An Audit Committee is formed and operates in AB Žemaitijos Pienas, which assesses the main risks, provides proposals to management and controls implementation, thereby increasing reliability of the Company's assets and liabilities.

Information about the Issuer's financial risks is laid down in the Explanatory Notes to the Annual Financial Statements.

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

19. Issuer's share capital structure

Share capital registered in the Register of Legal Entities amounts to LTL 48,375,000. It is divided into 48,375,000 ordinary registered shares; a par value per share is LTL 1.

On 31 December 2013, authorized capital of AB Žemaitijos Pienas consisted of:

Type of shares	Number of shares (shares)	Par value (LTL)	Total par value (LTL)	Share of the authorized capital, %
Ordinary registered shares	48,375,000	1	48,375,000	100

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

20. All restrictions on transfer of securities

The securities are not subject to any transfer (disposition) restrictions.

21. Shareholders

On 31 December 2013, the Company had 3,198 shareholders. All the shares issued provide their owners with equal rights, laid down in the Law on Companies of the Republic of Lithuania and in the Articles of Association of the Company.

Below is a list of shareholders, who own or control more than 5 percent of AB Žemaitijos Pienas share capital and voting rights:

No.		2013		2012	
		Number of shares	Part in ownership, %	Number of shares	Part in ownership, %
1	Pažemeckas Algirdas	21,589,380	44.63%	21,589,380	44.63%
2	SKANDINAVISKA ENSKILDA BANKEN CLIENTS Code 50203290810, SERGELS TORG 2 10640 STOCKHOLM, SWEDEN	-	0.00%	3,643,525	7.53%
3	SEB SA OMNIBUS Luxembourg	3,413,962	7.06%	-	0.00%
4	Klaipėdos Pienas, AB Company code: 240026930 Šilutės Rd. 33, 91107 Klaipėda	2,901,844	6.00%	3,601,844	7.45%
5	Pažemeckienė Danutė	3,025,820	6.25%	3,025,820	6.25%
6	AB Žemaitijos Pienas	2,070,621	4.28%	1,360,010	2.81%
7	Other minority shareholders	15,373,373	31.78%	15,154,421	31.33%
	Total	48,375,000		48,375,000	

The securities are not subject to any transfer restrictions. The shareholders are entitled to property and non-property rights as well as to obligations defined in the Law on 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.

22. Rights of shareholders

The shareholders have the property and non-property rights established by the laws and other legal acts.

The shareholders of the Company shall have the following property rights: to receive a share of Company's profit (dividend); to receive a share of the Company assets in case of its liquidation; to 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 case, when a shareholder is a natural person, – to devise all or part of the shares for a single or several individuals; to sell or otherwise transfer all or part of the shares to other individuals, according to the procedures and terms provided in the Law, as well as other property rights, which are possible under the law.

The shareholders of the Company shall have the following non-property rights: to participate in the Meetings of Shareholders; to vote in the Meetings of Shareholders, according to the voting rights determined by the number of shares in possession; to receive non-confidential information on economic activity of the Company; to elect and be elected to the management and supervisory bodies of the Company; to take any position in the Company, if the Law on Companies or the Articles of Association does not provide otherwise; to give specific suggestions with respect to the improvement of financial, economic, organizational, etc. activity of the Company; to appeal against the decisions or actions made in the General Meetings, by the Supervisory Council, Management Board or the Manager of the Company, which are against the Laws of the Republic of Lithuania, the Articles of the 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-property rights provided in the Law of the Republic of Lithuania.

To the knowledge of the Issuer's representatives, there are no agreements between the shareholders, which can lead to restrictions of securities transfer and/or voting rights, or acquired other special rights.

A person acquires all the rights and obligations granted by the acquired share of the Company's capital and/or voting rights: in case of capital increase – from the date of registration of amendment of the Company's Articles of Association relating to increase of the share capital and/or an the voting rights, in other cases – from occurrence of property rights to the Company's share capital and/or voting rights.

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

There are no shareholders with special control rights in the Company.

24. All restrictions on voting rights

There are no shareholders in the Company subject to restriction of their right to vote and/or subject to other restrictions or systems, according to which the rights granted by the securities would be separated from holding of the securities.

25. All agreements between shareholders on which the Issuer is aware and which may limit the transfer of securities and/or voting rights

The Issuer is not aware on any agreements between shareholders, which may limit the transfer of securities and/or voting rights

26. Procedures of amendment of the Articles of Association

In its activity, AB Žemaitijos Pienas follows the laws of the Republic of Lithuania, Decrees of the Government, other normative documents regulating activity of legal entities, Law on Securities Markets, and the Articles of Association of the Company.

The Articles of Association of AB Žemaitijos Pienas may be amended in strict compliance with the procedure defined in the legal acts of the Republic of Lithuania.

27. Issuer's management bodies

The Issuer's management bodies are the following: the General Meeting of Shareholders, the Supervisory Board, the Board of Directors, and the Chief Executive Officer (General Director); the Company also has an Audit Committee. The management bodies include the Board of Directors and the Chief Executive Officer.

The Supervisory Board is a collegial management body performing supervisory functions of the Company. The Supervisory Board is run by its Chairman. The Supervisory Board 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 Board of Directors of the Company is a collegial management body representing the shareholders of the Company during the period between the meetings and making the decision on the most important issues of the Company in the area of economic activity. The procedure of work of the Board of Directors is established in the Regulation of the Work of the Board of Directors. The Board of Directors consists of 5 members. The members of the Board of Directors are elected by the Supervisory Board for the period of maximum four years. The number of cadences is unlimited. The Board of Directors is headed by its Chairman, which is elected by the Board of Directors out of its members. The members of the Board act jointly in the Company, and their positions are not specialized.

The Manager of the Company, i.e., the Chief Executive Officer of the Company is General Director. In his activity, the General Director follows the Articles of Association, resolutions of the General Meeting, decisions made by the Board of Directors, as well as other local acts of the Company; he has no special rights in the Company.

The Manager 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. The General Director of the Company is directly accountable to and regularly reports to the Board of Directors.

The General Meeting of Shareholders does not have any special rights.

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

The management bodies are not entitled to any exclusive or/and special rights for determining the regulation on issuing or buying of securities of the Issuer; in this area they are entitled only to the rights provided by the legislation.

General Meeting of Shareholders and its rights

The General Meeting of Shareholders is entitled to amend the Articles of Association of the company; to elect and remove the members of the Supervisory Board; to select and remove the firm of auditors; to approve the set of annual financial statements and annual report submitted by the Board of Directors; to take a decision on increase of the authorised capital; to determine the type, class and the minimum price of the shares issued by the Company; to take a decision on reduction of the authorised capital; to take a decision on issuance of convertible bonds; to take a decision to change one type or class of shares of the Company to another, to approve the procedures for share exchange; take a decision for the company to purchase own shares; to take a decision on transformation or on liquidation, or cancellation of the liquidation of the Company; to take a decision on the reorganisation of the Company and approve the terms of reorganisation (in cases prescribed by law, a decision on the reorganization of the Company by incorporation may be taken by the Board of the Directors); to decide on the distribution of profits; to take a decision on the formation of reserves, except for revaluation reserve. Shareholders of the Company do not have any special rights and obligations in the Company.

28. Issuer's management and supervisory bodies

Issuer's management bodies are the Board of Directors (collegial) and the Manager (sole –General Director). The Supervisory Board is a collegial supervision body performing supervisory functions of the

Company, which also has an Audit Committee. The management bodies include the Board of Directors and the Manager.

The Supervisory Board is a collegial supervision body performing supervisory functions of the Company. The Supervisory Board is run by its Chairman. The Supervisory Board of the Company consists of three (3) members, who 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 Supervisory Board's powers and responsibilities are to elect members of the Board of Directors and remove them from office. If the Company is operating at a loss, the Supervisory Board must consider the suitability of the Board members for their office. The Supervisory Board shall also supervise the activities of the Board and the Manager of the Company; submit its proposals and comments to the General Meeting of Shareholders on the Company's business strategy, annual financial statements, draft of the profit distribution and the report on the activities of the Company, as well as the activities of the Board and the Manager of the Company; set (approve) the monthly/quarterly limits of production to be supplied for the free tasting to the customers for the market research and/or development and approve them at the end of the quarter; submit its proposals to the Board and the Manager of the Company and revoke their decisions, which are not in conformity with laws and regulations, the Articles of Association of Company, or the decisions of General Meeting of Shareholders; address other issues assigned within its power by the Articles of Association of the Company, as well as by the decisions of the General Meeting regarding supervision of the activities of the Company and its managing bodies, fix the salary of the Manager if the Company, if he is a member of the Board on the request of the Board of Directors and the decide on termination of the employment agreement of a member of the Supervisory Board employed by the Company.

The Board of Directors of the Company is a collegial management body representing the shareholders of the Company during the period between the meetings and making the decision on the most important issues of the Company in the area of economic activity. The procedure of work of the Board of Directors is established in the Regulation of the Work of the Board of Directors. The Board of Directors consists of five (5) members (in accordance with the Articles of Association); currently the Board of Directors *de facto* consists of four (4) members. The Board shall be elected by the Supervisory Board for a term, which may not exceed 4 years; no special rules for the election or removal of members of the Board are provided. The number of cadences is unlimited. The Board of Directors is headed by its Chairman, which is elected by the Board of Directors out of its members.

The Board shall consider and approve the implementation of the operating strategy of the Company, the Company's management structure and staff positions; positions, to which the employees are recruited by the way of competition with the approval of the Supervisory Board; the statutes of the Company's branches and representative offices, job description and salary of the General Director and his deputies; it also establishes and approves the range and amounts of products for each month which shall be supplied to the customers free of charge for tasting in order to investigate and/or expand the market.

The Board shall elect and remove from office the Manager of the Company. The Board shall approve the deputies proposed by the Manager and candidates to the positions to which employees are recruited by competitions.

The Board shall analyse and assess the material provided by the General Director regarding implementation of the Company's business strategy, organization of its activities, and the financial status of the Company; the results of business activities, income and expenditure estimates, the stocktaking and other accounting data of changes in the assets; sources for accumulation of finances and methods of use; Company's transactions.

The Board shall analyse and assess a set of the company's annual financial statements and a draft of profit appropriation submitted by the General Director and after approval of these projects shall submit them to the General Meeting of Shareholders. The Board shall determine the methods used by the Company to calculate the depreciation of tangible assets and the amortisation of intangible assets.

The Board shall timely organise General Meetings of Shareholders, ensure drawing up of the lists of the owners of registered shares, create agendas for General Meetings of Shareholders, and submit to the shareholders of the Company the annual financial statements, project of profit distribution, annual report of the Company and other relevant information on the items of the agenda.

The Board, without the approval of the General Meeting shall adopt decisions on the following issues: decisions for the Company to become an incorporator or a member of other legal entities; decisions on the opening of branches and representative offices of the Company; decisions on the investment, disposal or lease of the fixed assets the book value whereof exceeds 1/20 of the authorised capital of the company; decisions on the pledge or mortgage of the fixed assets the book value whereof exceeds 1/20 of the authorised capital of the company; decisions on offering of surety or guarantee for the discharge of obligations of third parties the amount whereof exceeds 1/20 of the authorised capital of the Company; decisions on the acquisition of the fixed assets the price whereof exceeds 1/20 of the authorised capital of the Company; decisions and projects on restructuring and reorganisation of the Company in the cases laid down by the Law on Restructuring of Enterprises; accession of the Company to associations, concerns, and/or consortia and resignation from them; allocation of funds for charity, health, culture, science, physical education and sports, as well as for natural disasters and emergency liquidation, determine the maximum amount of funds used by the Manager; other decisions assigned to the scope of powers of the Board by the Articles of Association or the decisions of the General Meeting of Shareholders.

The Manager of the Company is General Director. In his activity, the General Director follows the Articles of Association, decisions of the General Meeting, decisions made by the Management Board, and Administration Work Regulations.

The Manager 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. General Director of the Company is directly accountable to and regularly reports to the Board of Directors.

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 election, appointment and dismissal of the members of the management bodies.

The Manager and Administration: the Manager of the Company is the General Director, who in his activity follows the Articles of Association, decisions of the General Meeting, decisions made by the Management Board, and Administration Work Regulations. The General Director shall be elected and removed from office by the Board of the Company. For election of the General Director a competition may be organized. The contract with the General Director of the company shall be signed by the Chairman of the Board. If the General Director of the Company is the Chairman of the Board, the employment contract with him shall be signed by the member of the Board authorised by the Board. The General Director of the Company shall participate in the Board meetings in an advisory capacity, if he is not a Board member.

The Manager (General Director) shall organise daily activities of the Company, within his competence shall enter into transactions on behalf of the Company and represent it in relations with third parties and before a court or an arbitration. The General Director becomes entitled to represent the Company from the day specified in his Employment Agreement; he opens and closes Company's accounts with banking institutions, prepares and submits to the Board for approval the management structure of the Company, job descriptions, salary and promotion systems, prepares a draft of a share

subscription agreement, hires and dismisses employees, concludes and terminates employment agreements therewith, assesses their performance results, imposes disciplinary sanctions and provides incentives to employees, including the material sanctions and incentives, determines internal work procedures, approves regulations of the sub-divisions of the Company and Administration Working Regulations, issues authorizations to carry out the functions that are within his competence; in cases stipulated by the Law on Companies convenes a General Meeting, organizes, prepares drafts of the necessary documents for the General Meeting of Shareholders, ensures protection of the Company's property and trade secrets, and performs other functions stipulated laws, Articles of Association, manages the Company's assets, including monetary funds.

The General Director of the Company is directly accountable to and regularly reports to the Board of Directors.

Structure of the Supervisory Board:

Full 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 Žemaitijos Pienas
Romusas Jarulaitis	Chairman of the Supervisory Board	1,105,510 2.29	08/04/2011	07/04/2015	26/01/1988
Robertas Pažemeckas	Member of the Supervisory, Acting General Director	-	08/04/2011	07/04/2015	26/08/2002
Algirdas Bladžinauskas	Member of the Supervisory Board	-	08/04/2011	07/04/2015	20/08/1996

Structure of the Board of Directors:

Full 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 Žemaitijos Pienas
Algirdas Pažemeckas	Chairman of the Board, Consultant	21,589,380 44.63	01/05/2011	30/04/2015	26/12/1986
Marius Dromantas	Member of the Board, Director of Logistics	-	01/05/2011	30/04/2015	01/12/2003
Vygantas Sliesoraitis	Member of the Board	-	28/04/2011	28/04/2015	11/05/2011

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Administration:

Full name	Position	Number of shares in possession within the Issuer	Share of the authorized capital in possession, %
Robertas Pažemeckas	Acting General Director	-----	-----
Natalija Vainikevičiūtė	Chief Financial Officer	-	-

During the reporting period, to the Company's manager and CFO were calculated and paid amounts related to their employment only; these individuals were not given guarantees or sureties, transfers of assets or other property rights.

During the year 2013, no monetary amounts were calculated or paid to the members of management bodies for their activities in the Board of Directors and the Supervisory Board.

During the year 2013, neither the Company's management bodies (the Board of Directors, the Supervisory Board, the General Director) nor the Chief Financial Officer were granted by the Issuer any bonuses, dividends or other payments from the Issuer's operating profits. These individuals do not have significant material obligations towards the Issuer, and the Issuer has not significant material obligations for the mentioned individuals.

No guarantees or sureties nor/or other obligation collateral means on the management or supervisory bodies regarding assurance of completion of these individuals' obligations have been given on behalf of the Issuer during 2013; also, the Issuer did not give loans to these individuals.

Company's Audit Committee

The Company's Audit Committee, consisting of three persons Angelė Taraškevičienė (the Chairman), Stanislava Vaičienė, and Daiva Katarskienė (members) operates in AB Žemaitijos Pienas.

Full name	Workplaces, position authorization	Number of shares in possession within the Issuer	Beginning of cadence in Committee	End of cadence in the Committee
Angelė Taraškevičienė	The Head of UAB Vertybių Auditas	-----	26/04/2013	Until withdrawn from the position by the Company's management body that elected the member
Stanislava Vaičienė	AB Žemaitijos Pienas Accountant	-----	26/04/2013	Until withdrawn from the position by the Company's management body that elected the member
Daiva Katarskienė	Accountant-bookkeeper of AB Žemaitijos Pienas	-----	26/04/2013	Until withdrawn from the position by the Company's management body that elected the member

The main function of the Audit Committee is to be an advisory body to the Company's Supervisory Board, and its main task is to increase the efficiency of the Supervisory Board's work in the field of the company's financial supervision, to help ensure that decisions are fair and based on due consideration.

The Audit Committee, when performing its functions provides recommendations to the Board of Directors in relation to the selection of external audit firm, its appointment, reappointment and removal, monitors the external audit process and assesses how the external auditor and the audit firm shall comply with the principles of independence and objectivity, monitors the Company's financial reporting process, carries out other functions provided for by other laws of the Republic Lithuania and recommendations specified in the Code of Management of the Companies listed at the Vilnius Stock Exchange.

It should be noted that the Company has not formed any other committees.

III. OTHER INFORMATION RELATED TO THE ISSUER

29. All material agreements to which the Issuer is a party and which would take effect, change or terminate upon a change in control of the Issuer, as well as their effects, except in cases where due to the nature of the agreements their disclosure would cause great harm to the Issuer

The Issuer did not enter into any agreements, to which the Issuer is a party and which would take effect, change or terminate upon a change in control of the Issuer.

30. All agreements between the Issuer and members of its bodies and employees providing for the compensations for the members of the management bodies or for the employees in case they are dismissed, or fired without any justified reason, or their service is terminated due to changes in the control of the Issuer

The Issuer has not come into any agreements providing for the compensations for the members of the management bodies or for the employees 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.

31. Issuer's transactions

No significant transactions or transactions atypical to the Issuer's regular activity have been made on behalf of the Issuer with related parties or other entities during the year 2013.

The Issuer has not come into any transactions, where significant changes related to the Issuer would occur, and/or negative consequences would arise due to the occurred changes related to the Issuer's control mechanism.

The Issuer has not come into any agreements providing for the compensations for the members of the management bodies or for the employees 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.

To the best of the Issuer's knowledge no agreements have been concluded, which could lead to a conflict of interest between the Company and its managers, between managers and its shareholders or between the individual managers.

32. Information about the compliance with the Corporate Governance Code

AB Žemaitijos Pienas meets the requirements specified in the Corporate Governance Code of the Companies listed at the Vilnius Stock Exchange. Information regarding compliance with this document is provided in a separate Annex, which forms an integral part to this Consolidated Annual Report.

33. Data on publicly announced information

During the reporting period – the year 2013 – the Company announced a significant part of the material events related to the AB Žemaitijos Pienas.

Notifications					
Date	Market	Company	Subject	Language	
30/11/2013 07:30:55	VLN	Žemaitijos Pienas	<u>Preliminary Results of AB Žemaitijos Pienas for 9 Months of 2013</u> Attachments: 	EN/LT	
09/10/2013 12:45:06	VLN	Žemaitijos Pienas	<u>On sale of goods on the Russian market</u>	EN/LT	
20/09/2013 15:36:20	VLN	Žemaitijos Pienas	<u>Shareholders' resolution: "On Selection of an Audit Firm to Conduct an Annual Audit and Express an Audit Opinion"</u>	EN/LT	
30/08/2013 15:10:31	VLN	Žemaitijos Pienas	<u>Results of Results of Žemaitijos Pienas Group for the 1st half-year of 2013</u> Attachments:   	EN/LT	
14/08/2013 10:32:50	VLN	Žemaitijos Pienas	<u>Regarding Convocation of the Extraordinary General Meeting of Shareholders and Proposed Draft Resolutions</u> Attachments: 	EN/LT	
31/05/2013 15:39:04	VLN	Žemaitijos Pienas	<u>Preliminary Results of AB Žemaitijos Pienas for 3 Months of 2013</u> Attachments: 	EN/LT	
23/05/2013 09:51:19	VLN	Žemaitijos Pienas	<u>Information on Dividend Payment Procedures</u>	EN/LT	
26/04/2013 17:33:01	VLN	Žemaitijos Pienas	<u>AB Žemaitijos Pienas Annual Information for the Year 2012</u> Attachments:    	EN/LT	
26/04/2013 17:32:45	VLN	Žemaitijos Pienas	<u>Resolutions of General Meeting of AB Žemaitijos Pienas, held on 26/04/2013</u> Attachments:    	EN/LT	
08/04/2013 08:48:21	VLN	Žemaitijos Pienas	<u>Amendment to Agenda of the Ordinary General Meeting of Shareholders</u>	EN/LT	
05/04/2013 12:12:20	VLN	Žemaitijos Pienas	<u>Draft Resolutions of the General Meeting of Shareholders</u> Attachments:    	EN/LT	
04/04/2013 17:46:21	VLN	Žemaitijos Pienas	<u>On acquisition of own shares and number of votes attached to the shares</u>	EN/LT	
29/03/2013 09:09:55	VLN	Žemaitijos Pienas	<u>Convocation of the Ordinary General Meeting of Shareholders</u>	EN/LT	
22/03/2013 09:37:24	VLN	Žemaitijos Pienas	<u>CORRECTION: On Purchase (Acquisition) of Own Shares</u>	EN/LT	
22/03/2013 08:16:23	VLN	Žemaitijos Pienas	<u>On Purchase (Acquisition) of Own Shares</u>	EN/LT	
28/02/2013 16:35:57	VLN	Žemaitijos Pienas	<u>Unaudited Preliminary Results of Žemaitijos Pienas Group for the year 2012</u> Attachments: 	EN/LT	
13/02/2013 14:02:14	VLN	Žemaitijos Pienas	<u>AB Žemaitijos Pienas Information</u>	EN/LT	

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=2012&end_d=31&end_m=6&end_y=2012&keyword=&pg=news&lang=lt¹

Information about material events after the reporting period² :

¹ At this address you can find more detailed information and content of the published reports.

² 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=19&end_m=2&end_y=2014&keyword=&pg=news&lang=lt

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Date	Market	Company	Subject	Language
10/02/2014 13:23:01	VLN	Žemaitijos Pienas	<u>On the Company's Board Members</u>	EN/Lt
07/02/2014 16:27:34	VLN	Žemaitijos Pienas	<u>Draft Resolutions for the Extraordinary General Meeting of Shareholders of AB Žemaitijos Pienas</u>	EN/Lt
24/01/2014 11:19:26	VLN	Žemaitijos Pienas	<u>Draft Resolutions for the Extraordinary General Meeting of Shareholders of AB Žemaitijos Pienas (AMENDED / UPDATED)</u>	EN/Lt
17/01/2014 13:34:17	VLN	Žemaitijos Pienas	<u>Draft Resolutions for the Extraordinary General Meeting of Shareholders of of AB Žemaitijos Pienas</u>	EN/Lt
09/01/2014 10:44:33	VLN	Žemaitijos Pienas	<u>Convocation of the Extraordinary General Meeting of Shareholders (supplemented)</u>	EN/LT
08/01/2014 10:31:18	VLN	Žemaitijos Pienas	<u>Regarding Convocation of the General Meeting of Shareholders</u>	EN/Lt

Following the procedure laid down in the Articles of Association of the Company and regulations of the Republic of Lithuania, Žemaitijos Pienas AB has informed Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) about all the material events. The notifications have been published in the Central Regulated Information Base and on the website of the Company www.zpienas.lt. The notifications about the General Meetings have been additionally published in the newspaper *Valstiečių laikraštis*. Information on transactions of management members has been announced on the website of Vilnius Stock Exchange.

IV. FURTHER INFORMATION**34. Significant events since the end of the financial year**

Unaudited preliminary results of Žemaitijos Pienas Group for the year 2013 on 28 February 2014, were as follows:

In 2013, consolidated turnover (excluding audit) of AB “Žemaitijos pienas” group amounts to 541,9 mln. Lt (156,9 mln. EUR) that, if to be compared with the year 2012, has increased by 8,28 %.

Net profit (as without audit) of AB “Žemaitijos pienas” group in the year 2013, makes 4,3 % of the turnover.

35. Data on audit

Audit of consolidated Balance Sheets on 31 December 2013 and related consolidated Cash Flow Statements, Income Statements and Statements of Changes in Equity for the year ended on 31 December 2013 has been carried out by UAB *Grant Thornton Rimess*. The Auditor's Report was signed on 15 March 2014.

Additional information that should be disclosed under the laws governing corporate activities, other legal acts or the Articles of Association of the Company and which is not disclosed in this Annual Report and the Annual Financial Statements – none.

V. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Disclosure of ŽEMAITIJOS PIENAS, AB concerning the Compliance with the Corporate Governance Code for the Companies listed on the Vilnius Stock Exchange in 2013

Public Limited Liability Company ŽEMAITIJOS PIENAS (hereinafter – the Company), in accordance with Paragraph 3 of Article 21 of the Law on Securities of the Republic of Lithuania, and Item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, discloses its compliance with the Corporate Governance Code for the Companies listed on the NASDAQ OMX Vilnius, and its specific provisions. In the event of non-compliance with the above-mentioned Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/RECOMMENDATIONS	YES /NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	Main development directions and strategies of the Company are publicized in the Annual and Interim Reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company follows its strategic plan, i.e. it aims to be profitable on the basis of the development and strengthening of technically sophisticated company with the goal of multiplying shareholders' equity.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's Supervisory Board, Management Board and General Director are in close cooperation in order to maximize the benefit for the Company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and management bodies ensure that the rights and obligations of its shareholders, employees and suppliers of raw materials are respected. Employees are given the opportunity to improve their qualification attending the training courses and seminars in Lithuania and abroad; milk producers are given various incentives. A significant part of the employees and milk producers are shareholders of the Company.
Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a General Meeting of Shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company's management bodies include the shareholders, the Management Board and the General Director; the Company's supervisory bodies include the Supervisory Board and the Audit Committee.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the present recommendation are fulfilled by collegial supervisory and management bodies – the Supervisory Board and the Management Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the Supervisory Board and the Management Board are formed in the Company.
2.4. The collegial supervisory body to be elected by the General Meeting of Shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ³	Yes	There are two collegial bodies – the Company's Supervisory Board and the Management Board, who are subject to the provisions defined in Principles III and IV.
2.5. Company's management and supervisory bodies should comprise such number of management board (executive directors) and supervisory (nonexecutive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ⁴	Yes	The Company's Supervisory Board includes 3 (three) members. The Management Board of the Company includes "de jure" 5 (five) members, and "de facto" 4 (three) members. The Company believes that such number of members is sufficient for effective operations of the Company.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	In accordance with the Articles of Association of the Company, the Management Board and the Supervisory Board are elected for a two-year term, not limiting number of the terms. Dismissal or resignation from the members of the Management Board and the Supervisory Board are regulated by the laws of the Republic of Lithuania.
2.7. Chairman of the collegial body elected by the general meeting of shareholders may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the General Meeting of Shareholders. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure	Yes	The Company's General Director and chairman of the Board are two separate persons. The Company's General Director is not the chairman of the Supervisory Board.

³ Provisions of Principles III and IV are more applicable to those instances when the General Meeting of Shareholders elects the supervisory board, i.e. body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory body but rather the management board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees) should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No. 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1. of the Code concerning recommendation to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.6 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

impartiality of the supervision.		
Principle III: The order of the formation of a collegial body to be elected by a General Meeting of Shareholders.		
The order of the formation a collegial body to be elected by a General Meeting of Shareholders should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.⁵		
3.1. The mechanism of the formation of a collegial body to be elected by a General Meeting of Shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	<p>The Company's collegial supervisory body - the Supervisory Board is elected by a shareholders' meeting. The Company discloses information about the candidates to the collegial body.</p> <p>The minority shareholders are not restricted to represent their interests and to have their own representative in the collegial body.</p>
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the General Meeting of Shareholders so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about members of the collegial supervisory body (their names and surnames, information about their education, qualification, professional background, participation in activities of other companies, and other relevant professional obligations) is provided in the Annual Report.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members, which are relevant to their service on the collegial body.	Yes	Prior to the next election of the members of the Supervisory Board, the information about the candidates is provided for together with the meeting materials.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	Members of the Company's collegial bodies have extensive experience in corporate governance, diversity of knowledge and experience to complete their tasks properly

<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>New members of the Board are informed about their duties, corporate organization and activities during the Board meetings and individually upon the need and request by the Board members.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient⁶ number of independent⁷ members.</p>	<p>Yes</p>	<p>In spite of the fact that the largest shareholder has a majority of votes at the Meeting of Shareholders and other shareholders have less than 10 per cent of votes, the Management Board of Žemaitijos Pienas, AB consists of members of the Board, who ensure, if possible, proper resolution of conflicts of interest.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he/she is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when a member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension 	<p>No</p>	<p>According to the recommendations, the current members of the Management Board of the Company are not completely independent.</p>

⁶-The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a large number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

⁷ It is notable that on some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholders or a few major shareholders. But even a member of the collegial body is elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>plans (inclusive of deferred compensations);</p> <ol style="list-style-type: none"> 4) He/she is not a controlling shareholder or representative of such shareholder ("control" as defined in the Council Directive 83/349/EEC Article 1 Part); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier, or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. <p>3.8. The determination of what constitutes independence is in general an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		<p>The Company has not established additional criteria for independence of the members of the collegial bodies.</p>
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3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Members of the Supervisory Board do not meet the full criteria of independence set out in the Code.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The Company had been unable to implement the independence of the members of the Supervisory Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds ⁸ . The General Meeting of Shareholders should approve the amount of such remuneration.	No	Members of the Supervisory Board and the Management Board are not subject for remuneration for their work at the Supervisory Board and the Management Board (but the Company's Articles of Association provides for such possibility).
<i>Principle IV: The duties and liabilities of a collegial body elected by the General Meeting of Shareholders</i> The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the General Meeting of Shareholders, and the powers granted to the collegial body should ensure effective monitoring⁹ of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the General Meeting of Shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ¹⁰	Yes	The Company's Management Board approves and presents to the General Meeting of Shareholders the feedback and proposals regarding Annual Financial Statements of the Company, draft of profit distribution, the Company's Annual Report. Also, the Board considers the Company's performance during the year, and performs other functions within the competence of the board.

⁶ It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No. 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other form, besides bonuses, although this possibility is not expressly stated either.

⁹ See Footnote 3.

¹⁰ See Footnote 3. In the event the collegial body elected by the general shareholder's meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should: (a) under all circumstances maintain independence of their analysis, decision-making and actions; (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions.</p> <p>Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>Members of the Supervisory Board and the Board follow the interests of the Company and its shareholders in carrying out their duties; there were no cases where it would be reason to believe otherwise.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his/her (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half¹¹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Members of the collegial bodies perform their functions properly: they actively participate in the meetings of the collegial bodies, and give sufficient time to perform their duties as members of the collegial body. There was quorum during all meetings of the collegial bodies, which led to making constructive decisions.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>No conflicts arose between shareholders and collegial bodies. Shareholders are informed about the affairs of the Company as stipulated by law, i.e. as stipulated in the Law on Companies and the Company's Articles of Association.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The Company's management bodies conclude transactions according to the legal acts and provisions of the Company's Articles of Association.</p>

¹¹ It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or ¾ of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

<p>4.6. The collegial body should be independent in adopting decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.¹² Members of the collegial body should act and adopt decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive officer or collegial management organs of the company concerned.</p>	<p>No</p>	<p>Members of the Supervisory Board and the majority of the Board members are employees of the Company, thus they are not independent of the Company's management bodies. The Company's Supervisory Board and the Board represent the interests of shareholders when taking decisions.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees.¹³ Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Yes/No</p>	<p>The Company has not established the Nomination and Remuneration committees set out in the recommendations 4.12 - 4.13, as the Company believes that the Management Board, when carrying out its functions, partially performs the functions of the Nomination Committee and the Remuneration Committee. Moreover, these functions are correctly implemented by the specialized departments operating in the Company, e.g. Personnel and Law, etc.</p> <p>During the Extraordinary General Meeting of Shareholders, which took place on 12 December, 2013, the Audit Committee was established, accordingly the Committee members, one of them being independent, and the Committee's Regulations were approved in accordance with the provisions of the Law on Audit of the Republic of Lithuania and the requirements approved by the Resolution No. 1K-18 of the Securities Commission.</p> <p>During the shareholders' meeting, which took place on 12 December 2013, members of the Audit Committee, one of them being independent, were re-approved.</p>

¹² In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

¹³ The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No. 82-3233) determines that an Audit Committee shall be formed in each public interest entity (including but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>No</p>	<p>The Audit Committee follows the regulations of the Audit Committee, monitors the preparation of financial statements and the conduct of the audit. The collegial bodies remain fully responsible for the decisions taken within their competence, and make final decisions.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes</p>	<p>The Audit Committee consists of three members, one of them being an independent member.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes</p>	<p>Regulations of the Audit Committee were approved by the General Meeting of Shareholders. This Committee shall inform the General Meeting of Shareholders about its activities and results.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>Employees of the Company who are responsible for the discussed area participate in the Audit committee meetings and provide all necessary information.</p>

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should as follows:</p> <p>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</p> <p>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	No	Nomination Committee has not been formed in the Company (see explanation 4.7.).
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be as follows:</p> <p>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</p> <p>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</p>	No	The Remuneration Committee has not been formed in the Company (see explanation 4.7.).

<p>3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</p> <p>4) Periodically review the remuneration policy of executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to share options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular share options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and present at the Annual General Meeting for this purpose.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should as follows:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the General Meeting of Shareholders) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. <p>4.14.2. All members of the committee should be provided with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore</p>	<p>Yes</p>	<p>The Company basically follows this recommendation. The main objective of the Audit Committee is to oversee audit of the Company's financial statements and procedures for submitting the accounting and financial reporting to stakeholders. The main function of the Audit Committee is to systematically and comprehensively assess and promote the effectiveness of the improvement of the organization's risk management, control and supervision processes, and to submit findings to the General Meeting of Shareholders, the Supervisory Board and the Board regarding the implementation of goals and objectives, risk management procedures and functioning of the internal control.</p>
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<p>centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be provided with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be provided with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely provided with information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-year statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	<p>No</p>	<p>In the Company there was no practice of the performance evaluation of Supervisory Board and Management Board.</p>

Principle V: The working procedure of the company's collegial bodies

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active cooperation between the company's bodies.

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Supervisory Board meetings are chaired by the Chairman of the Supervisory Board or other authorized member of the Supervisory Board. The Company's Management Board meetings are chaired by the Chairman of the Board or other authorized member of the Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. ¹⁴	Yes	The meetings of the Management Board are convoked following the schedule (once a month), preliminary agreed and approved by the Board; extraordinary meetings are also convoked. The meetings of the supervisory board are convoked at least once every six months.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	All materials related to the agenda are submitted to each member of the collegial bodies by email in advance. The meeting agenda may be supplemented during the meeting only in cases when all members are present at the meeting, when an important issue is discussed, and when all members of the body agree on immediate solution of the issue.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's management board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The meetings of Supervisory Board are open and may be attended by the members of the Management Board.

¹⁴ The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's share capital consists of ordinary shares, giving their holders equal property and non-property rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The company provides investors with information about the rights attached to the shares of the new issue or those issued earlier.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the General Meeting of Shareholders ¹⁵ . All shareholders should be provided with equal opportunity to familiarize themselves with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Approval of the General Meeting of Shareholders is obtained for especially important transactions, the criteria of which are determined by the Law on Companies of the Republic of Lithuania, other legal acts and the Articles of Association of the Company.
6.4. Procedures of convening and conducting a General Meeting of Shareholders should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The General Meeting of Shareholders is convened in accordance with the requirements of the Law on Companies of the Republic of Lithuania, as well and regulations of the Articles of Association of the Company. Each shareholder is informed about the venue, date and time of the General Meeting of Shareholders. Prior to the Meeting, the shareholders have a right to get acquainted with meeting materials, as required by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company, no later than the time determined by the legal acts.
6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents related to the General Meeting of Shareholders, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company not only in Lithuanian language, but also in English and/or other foreign languages in advance. It is recommended that the minutes of the General Meeting of Shareholders after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company in Lithuanian and English language, and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	According to the procedure established by the Law on Companies of the Republic of Lithuania, no later than 21 days before the General Meeting of Shareholders, documents prepared to the General Meeting of Shareholders or their drafts are published in VSE website and on the company's website, which allows shareholders to access information publicly.

¹⁵ The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No. 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.6. Shareholders should be provided with the opportunity to vote in the General Meeting of Shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the Company may exercise their right to vote in the General Meeting of Shareholders in person or by a proxy upon issuance of proper proxy or having concluded an agreement on transfer of voting right in the manner compliant with the legal regulations; also the shareholder is entitled to vote by completing a general voting ballot in the manner provided by the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Implementation of the referred measures would entail disproportionate cost compared to the expected benefits; on the other hand, the Company allows the shareholders to express their opinion without direct participation in the meetings using certain technologies.
<p><i>Principle VII: The avoidance of conflicts of interest and their disclosure</i></p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company follows these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the General Meeting of Shareholders or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	

7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The Company follows these recommendations. A member of the collegial management body abstains from voting when decisions concerning transactions or other issues of personal or business interests are voted on.
<i>Principle VIII: Company's remuneration policy</i> Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should not be only a part of the company's annual accounts – the remuneration statement should also be published on the company's website.	No	The Company does not publicly announce its remuneration policy, as it is not required by the legal acts. However, information on remuneration by certain categories is announced in the half-year and annual financial statements.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The Company does not publicly announce its remuneration policy, as it is not required by the legal acts.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on determent periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.13 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the	No	For the above-listed reasons, the remuneration policy, pursuant to which the remuneration statement would be prepared, is not approved in the Company.

<p>company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, <i>inter alia</i>, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	No	<p>General information about the benefits and loans provided to the members of the Company's Supervisory Board and the Board is publicly announced in the half-year and annual report.</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of share options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 	No	<p>The Company does not publicly announce its remuneration policy, as it is not required by the legal acts. However, information on average remuneration of the Company's certain category employees are announced in the half-year and annual reports.</p>

<p>4) All changes in the terms and conditions of exercising share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of the directors during the relevant financial year.</p> <p>8.5.4. The statement should also include amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to not pay variable components of remuneration when performance criteria are not met.</p>	Yes	The Company's remuneration policy follows the principle of remuneration consisting of a fixed component and a variable component.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	Yes	The Company's variable remuneration component is calculated according to predetermined performance criteria.
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to determination should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Yes	The Company's variable remuneration component is calculated according to predetermined performance criteria.
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	No	
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	No	
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>	Yes	In case the employment contract is terminated due to inadequate performance, termination payment is not paid, or is reduced by an appropriate proportion.
<p>8.12. The information on preparatory and decision-making process, during which a policy of remuneration of directors is being established, should also be disclosed. The information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of Annual General Meeting of Shareholders.</p>	No	

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

<p>8.20. The following issues should be subject to shareholders' approval at Annual General Meeting:</p> <ol style="list-style-type: none"> 1) Granting of remuneration based on share-based schemes, including share options, to the directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which the options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>The Annual General Meeting of Shareholders should also set the deadline, within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>		
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		
<p>8.22. Points 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the Annual General Meeting of Shareholders.</p>		
<p>8.23. Prior to the Annual General Meeting of Shareholders that is intended to consider decision stipulated in the item 8.19, the shareholders must be provided with an opportunity to familiarize themselves with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. The notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. The shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p><i>Principle IX: The role of stakeholders in corporate governance</i></p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial</p>		

sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework ensures that the rights of stakeholders that are protected by laws are not breached. The majority of the shareholders consist of the Company's employees and the milk processors.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure		
The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons who own or control of a block of shares in the company; 4) Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and related persons, as well as transactions concluded outside the course of the company’s regular operations; 7) Material issues regarding employees and other stakeholders; 8) Company’s management structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company is a parent company should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the	Yes	Information about the Company, referred to in these Recommendations, is disclosed in annual and interim reports of the Company, notices of the Company and the Company's financial statements. This information is announced through the Stock Exchange information disclosure system. After the disclosure of material events, the information is published additionally on the media providing more comments.

<p>members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 is under disclosure. It is also recommended that information about the amount of remuneration and other income received from the company should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the relationships between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	Yes	<p>The Company submits information through the Vilnius Stock Exchange information disclosure system both in Lithuanian and English languages simultaneously, as far as possible. The Stock Exchange publishes the received information on its webpage and the trading system, thus ensuring dissemination of the information simultaneously to everyone. In addition, the Company aims to publish the information before or after the Vilnius Stock Exchange trading session and to submit simultaneously to all markets that sell the Company's securities. The Company follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient (or in cases set by law – free) access to information relevant to users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	Yes	<p>The Company's annual and interim reports are publicly available on the Company's webpage, thus ensuring fair and cost-efficient access to relevant information. Website: www.zpienas.lt</p>
<p>10.7. It is recommended that the company's annual report, set of financial statements, and other periodical reports prepared by the company should be published on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	Yes	<p>The Company's website contains the Company's annual and interim reports, key performance indicators, audited financial statements, reports on material events and information about changes in the price of the Company's shares on the Stock Exchange in both Lithuanian and English.</p>
<p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		

11.1. An audit of company's set of annual financial statements, interim financial statements, and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion.	Yes	An independent firm of auditors conducts an audit of the Company's financial statements and the annual report.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the General Meeting of Shareholders.	Yes	The General Meeting of Shareholders entrusts the Management Board to select an audit firm.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company (if any). This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the General Meeting of Shareholders.	Not applicable	The audit firm has not received from the Company any income for non-audit services.