

STOCK
COMPANY



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Approval of responsible persons

August 30 2013

Telšiai

Referring to the Article 22 of the Law on Securities of the Republic of Lithuania and rules on preparation and submission of periodic and additional information of the Securities Commission of the Republic of Lithuania, we, Robertas Pažemeckas, Acting General Director of Žemaitijos Pienas, AB, and Natalija Vainikevičiūtė, Finance Director, hereby do confirm that, to the best of our knowledge, the enclosed Non-Audited Interim Consolidated Financial Statement for the period of six months of the year 2013 of the company *Žemaitijos pienas AB* was prepared in compliance with the International Financial Accountability standards applicable in European Union, corresponds to the reality and correctly represents total consolidated assets, liabilities, financial condition, profits and losses of the company and enterprises incorporated in this group, review of business development and practice, stated in the interim six months statement is correct.

Acting General Director



Finance Director

Robertas Pažemeckas

Natalija Vainikevičiūtė

ŽEMAITIJOS PIENAS, AB

Interim consolidated unaudited
financial statement for the period of 6 months, 2013

Interim consolidated unaudited financial statement for the period of 6 months, 2013
(All amounts are indicated in thousands of litas unless provided otherwise)

Balance sheet

ASSETS	The Group	
	30-06-2013	31-12-2012
Fixed assets		
Intangible assets	402	408
Tangible assets	59 315	60 462
Investments for sale	4 137	4 255
Investments into subsidiaries	4	4
Loans granted	6 776	4 901
Own shares	-	-
Deferred profit tax assets	2 149	2 149
Total amount of fixed assets	72 783	72 178
Current assets		
Stock	92 162	97 674
Advance payments	3 090	1 740
Receivables from the buyers	36 859	32 978
Other receivables	4 797	6 842
Deposits	-	-
Cash and cash equivalents	11 232	5 789
Total amount of current assets	148 140	145 023
ASSETS IN TOTAL	220 923	217 201
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	48 375	48 375
Own shares (-)	(4 569)	(3 002)
Required reserve	4 838	4 838
Other reserves	15 764	15 000
Undistributed profit	87 235	82 985
Equity of the shareholders of the parent company	151 643	148 196
Minority interest	2 161	1 947
Equity in total	153 804	150 143
Long-term liabilities		
Support received	3 938	4 389
Loans	-	-
Liabilities arising from the financial lease	796	796
Liabilities arising from the deferred profit tax	1 083	1 083
Other long-term liabilities	1 910	1 910
Total amount of long-term liabilities	7 727	8 178
Short-term liabilities		
Loans	1 548	13 934
Liabilities arising from the financial lease	823	2 457
Trade debts	31 923	27 283
Payable profit tax	1 727	53
Other payable amounts	23 371	15 153
Total amount of short-term liabilities	59 392	58 880
Liabilities in total	67 119	67 058
EQUITY AND LIABILITIES IN TOTAL	220 923	217 201

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Profit (loss) statement

	<u>The Group</u>			
	January - June, 2013	January - June, 2012	April - June, 2013	April - June, 2012
Sales	261 033	242 922	136 072	126 594
Sales cost price	(221 915)	(207 419)	(113 399)	(105 701)
GROSS PROFIT (LOSS)	39 118	35 503	22 673	20 893
<i>Operating expenses</i>	<i>(30 020)</i>	<i>(30 928)</i>	<i>(15 427)</i>	<i>(16 536)</i>
Incl. sales expenses	(19 688)	(20 919)	(10 472)	(11 266)
Incl. general and administrative expenses	(10 332)	(10 009)	(4 955)	(5 270)
Other operating income	1 867	1 340	1 060	638
Other operating expenses	(1 540)	(2 140)	(754)	(1 145)
OPERATING (LOSS) PROFIT	9 425	3 775	7 552	3 850
Difference between the fair value of the net assets, which belong to the Group, and the acquisition price of the business affiliation				
Income from financial operations	245	295	136	143
Expenses of financial operations	(178)	(556)	(88)	(249)
PROFIT (LOSS) BEFORE TAX	9 492	3 514	7 600	3 744
Profit tax benefits (expenses)	(1 949)	(1 724)	(1 674)	(862)
NET PROFIT (LOSS)	7 543	1 790	5 926	2 882

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Statement of changes in equity

Group

	Share capital	Own shares (-)	Required and other reserves	Undistributed profit	Equity of the shareholders of the parent company	Minority interest	In total
31 December 2011	48 375	-	22 835	56 190	127 400	1 947	129 347
Modification of the previous year	-	-	-	-	-	-	-
Liquidation of subsidiaries	-	-	-	-	-	-	-
Dividends, tantiemes, premiums paid	-	-	-	-	-	-	-
Reserves	-	-	(3 000)	3 000	-	-	-
Net profit of the 1st half of a year	-	-	-	1 790	1 790	-	1 790
30 June 2012	48 375	-	19 835	60 980	129 190	1 947	131 137
31 December 2012	48 375	(3 002)	19 838	82 985	148 196	1 947	150 143
Reserves	-	-	764	(764)	-	-	-
Dividends, tantiemes paid	-	-	-	(2 315)	(2 315)	-	(2 315)
Own shares acquired	-	(1 567)	-	-	(1 567)	-	(1 567)
Net profit of the 1st half of a year	-	-	-	7 329	7 329	214	7 543
30 June 2013	48 375	(4 569)	20 602	87 235	151 643	2 161	153 804

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Cash flow statement

	The Group	
	January - June, 2013	January - June, 2012
Net operating cash flows		
Net (loss) profit	7 543	1 790
Modification of the result of the previous year	-	-
Modifications of the net (loss) profit		
Depreciation and amortization	8 429	8 470
Amortization of the support received	(451)	(403)
Loss (profit) from the sale and write-off of fixed assets	(69)	(3)
Profit tax expenses	-	-
Impairment of receivables	-	-
Impairment of fixed assets	-	-
Write-off of the stock to the net realizable value	-	-
Other financial (income) expenses	(131)	254
Expenses arising from the liquidation of subsidiaries	-	-
	15 321	10 108
Changes in the working capital:		
Increase (in stock)	5 512	674
Decrease (increase) in receivables from the buyers	(3 880)	(3 954)
Decrease (increase) in advance payments	(1 387)	(112)
(Increase in) other receivables	1 296	(1 224)
Changes in deposits	-	-
Increase (decrease) in trade debts	4 640	(1 399)
Increase (decrease) in other payable amounts	8 540	(955)
Profit tax paid	-	-
Net operating cash flows	30 042	3 138
Cash flows from investment operations		
Tangible and intangible assets (acquisition)	(7 656)	(5 105)
Revenues from the sale of tangible assets	567	94
Acquisition of own shares	(1 567)	-
Sale of investments for sale	-	10
Repaid granted loans	2 151	2 511
Loans granted	(2 926)	(2 090)
Interest received	210	234
Net cash flows from investment operations	(9 222)	(4 346)
Cash flows from financial operations		
Payment of dividends, tantiemes	(964)	-
Support received	1 484	1 484
Loans received	50 978	13 570
Repaid loans	(63 679)	(16 859)
Payment of the liabilities arising from the financial lease	(1 633)	(1 910)
Interest paid	(79)	(488)
Net cash flows from financial operations	(15 377)	(4 203)
Net increase (decrease) in cash flows	5 443	(5 411)
Cash and cash equivalents in the beginning of the period	5 789	9 556
Cash and cash equivalents at the end of the period	11 232	4 145

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1. GENERAL INFORMATION

Žemaitijos pienas, AB (hereinafter referred to as the Company) is a public limited liability company registered in the Republic of Lithuania. Its registered office is situated at the address Sedos st. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them on the Lithuanian and foreign markets. The Company has a number of wholesale units with warehouses and vehicles in the biggest cities of Lithuania. The Company commenced its operations in the year 1984. The Company's shares are traded on the current list of Vilnius Stock Exchange.

On 30 June 2013, the Company's share capital was 48.375 thousands of litas composed of 48.375.000 ordinary registered shares with a nominal value of 1 litas per share.

All of the shares are issued, subscribed and paid up.

On 31 December 2011, the Company had acquired 10 units its own shares by 3 thousands of litas, on 31 December 2012, the Company had acquired 1.360 thousand units its own shares by 3.002 thousands of litas, and in 30 June 2013 – 2.071 thousands units by 4.569 thousands of litas.

On 30 June 2013, the Group was composed of Žemaitijos pienas, AB and its subsidiaries (hereinafter - the Group):

Subsidiary	Registered office of the Company	Interest of the Group's shares	Consolidated interest	Investments (cost price) in 2013	Net assets 30 June 2013	Main activities
Šilutės Rambynas, ABF	Klaipėdos st. 3, Šilutė, Lithuania	87.82 %	87.82 %	10 878	17 465	Production and sale of cheese
Muižas pienas, SIA	Skaitkalnes st. 1, Rīga, Latvia	32 %	-	4	-	Wholesale and retail
				<u>10 942</u>		

On 30 June 2013, the Group had 1.454 employees (on 30 June 2012 – 1.490 employees).

2. ACCOUNTING PRINCIPLES

The basis for eligibility of the financial statement

This consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU).

The basis for preparation of the financial statement

The submitted financial statement has been prepared on the acquisition cost price basis, except for the revaluation of certain financial instruments at their fair value.

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The financial year of the Group's companies coincides with the calendar year.

The financial statement is submitted in the national currency of Lithuania - the litas (LTL).

Here are the most significant accounting policies:

The principles of consolidation and business affiliation

The consolidated financial statement covers the financial statements of the Company and its controlled subsidiaries at a certain date. The control is deemed to be present when the Company has the power to control the financial and operating policy of another company, wherein it has invested its capital, in order to obtain some benefits thereof.

The acquisition of subsidiaries is accounted for using the purchase method. The acquisition cost price is composed of the fair value of transferred assets, issued equity instruments or assumed liabilities on the day of acquisition as well as expenses related with this acquisition directly. The assets and liabilities of the acquired company, which meet three recognition criteria under IFRS, are assessed at their fair value on the day of acquisition. The primary assessment of the subsidiary's assets and liabilities is modified within twelve months as of acquisition, having received additional data, which helps to assess more accurately the fair value of the assets and liabilities of this subsidiary.

Any positive difference between the acquisition cost price and the fair value of the acquired company's net assets is recognized as goodwill. Any negative difference between the acquisition cost price and the fair value of the acquired company's net assets is recognized as income of that period and is accounted for in the profit (loss) statement.

The interest of the minority shareholders is composed of their portion of the fair values of the assets and liabilities.

The financial results of the subsidiary, which has been acquired (sold) within a year, are included in the consolidated profit (loss) statement from the day of its acquisition until its sale (if any).

The financial statements of the subsidiaries are modified in order to conform to the accounting principles of the Group, should they be different.

All the significant transactions between the Group's companies, balance, income, expenses and undistributed profit (loss) from mutual transactions are eliminated from the consolidated financial statement.

Investments in the subsidiaries

Investments in the subsidiaries are accounted for in the Company's balance sheet at their acquisition cost price. The dividends of the subsidiaries are recognized as income only to the extent they are paid from the post-acquisition profit of the subsidiary. The portion of the

dividends that exceeds such profit is deemed to be the coverage of investment and is recognized as a reduction in the investment cost price.

Intangible assets

Intangible assets are initially recognized at their acquisition value. Intangible assets are recognized if it is probable that the Group and the Company will receive in the future some

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economical benefits related with these assets and if the value of these assets can be measured reliably. The Group and the Company does not have intangible assets of an indefinite useful life; therefore after their primary recognition, intangible assets are accounted for at their acquisition value, less accumulated amortization and impairment loss, if any. Intangible assets are amortized using the straight-line method over the estimated useful life. The amortization expenses of intangible assets are included into the operating expenses.

Software

The acquisition costs of new software are capitalized and recognized as intangible fixed assets if these costs are not a component of hardware. Software and licenses are amortized within a period of 3 years.

The costs, which are incurred in restoring or maintaining of the planned economic benefits from the operation of the existing software systems, are recognized as costs in the period when maintenance and support works are performed.

Tangible assets

Tangible assets are accounted for at their acquisition cost price, less accumulated depreciation and impairment.

The intangible fixed assets, which are being constructed, are accounted for in item 'Incomplete Constructions'. Such assets are accounted for at their acquisition cost price, less estimated impairment loss. The acquisition cost price covers the expenses on design, construction, installation of mechanisms and equipment and other direct expenses.

The depreciation of tangible fixed assets other than the constructions in progress is calculated over the estimated useful lives using the straight-lien method. At the end of each year, the Group and the Company review the useful lives of tangible fixed assets, balance value and depreciation method and recognize the impact of the changes in assessment, if any, prospectively. The estimated useful lives of tangible fixed assets are as follows:

Buildings: 20 - 40 years

Machinery and equipment: 5 years

Vehicles and other equipment: 4 - 10 years

The assets, whose useful lives are longer than one year and the acquisition value is not less than 500 litas, are classified as fixed assets.

The tangible fixed assets, which have been acquired under financial lease contracts, are depreciated over the useful life using the same method for calculating of depreciation as that of the private property.

Profit or loss arising from the sales of fixed assets is calculated as the difference between the sales income and the balance value of these assets and is recognized in the profit (loss) statement of that year.

Repair costs are added to the book value of tangible fixed assets if it is probable that the Group's companies will receive economic benefits from these costs in the future, and if they can be measured reliably. All other repair and service costs are recognized as expenses in the profit (loss) statement at the time they occur.

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Investment assets

The Group company's investment assets are composed of land and buildings, which are leased and earn income thereof, and are not used for the main operations of the Group's companies. Investment assets are accounted for at their acquisition value, less accumulated depreciation and estimated impairment loss.

Depreciation is calculated using the straight-line method over 20 - 40 years of useful life.

Any transfers to/from investment assets are performed only when the purpose of these assets changes.

Impairment of tangible and intangible assets

On each financial reporting date the Group's companies review the balance value of tangible and intangible fixed assets in order to determine whether there are any signs that the value of these assets has reduced. If any such signs exist, the Group's companies measure the recoverable value of these assets in order to evaluate the impairment (if any). When it is impossible to measure the recoverable value of the assets, the Group's companies calculate the recoverable value of the income-generating asset group, which includes these assets. Should it be possible to determine a reliable and consistent allocation basis, the assets of the Group's companies are allocated to separate income-generating asset units or the assets of the Group's companies are allocated to smaller income-generating asset groups, with respect to which it is possible to determine a reliable and consistent allocation basis.

On each financial reporting date and when there are signs of impairment, the Group's companies carry out impairment tests of intangible fixed assets, whose useful life is indefinite, and of intangible fixed assets, which are not yet ready for use.

The recoverable amount is the higher value between the fair value, less sales expenses, and the using value. In assessing of the using value, the expected future cash flows are discounted to the current value using the pre-tax discount rate under current market conditions, existing cash time value and the risks associated with the assets, which has not been taken into account in assessing of the future cash flows.

If the estimated recoverable value of the assets (or income-generating asset group) is lower than the book value of these assets, the book value of these assets is reduced to the recoverable value of these assets (or income-generating asset group). The impairment loss is

recognized immediately in the profit (loss) statement unless these assets have previously been revalued. In that case, the impairment loss is accounted for as the reduction in the revaluation reserve.

Should the value of assets increase after the recognition of the impairment loss, the book value of assets (income-generating asset group) is increased to the newly calculated recoverable value of assets but in the way that the increase would not exceed the book value of these assets (income-generating asset group), if the impairment loss in the previous year had not been recognized. The recovery of the asset impairment is recognized in the profit (loss)

statement immediately unless these assets had been revalued previously. In that case, the recovery of impairment is accounted for as the increase in the revaluation reserve.

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Stock

On the primary recognition, the stock is accounted for at its acquisition/production cost price. In subsequent periods, the stock is accounted for at a lower net probable selling price or acquisition/production cost price. The cost price is established using FIFO method. The cost price of incomplete constructions and production covers the expenses on raw materials, work and other direct expenses as well as the value added expenses related with production. The net probable selling price means the estimated selling price in the ordinary course of business, less estimated production completion and probable selling expenses.

Financial assets

The Group and the Company recognize financial assets in the balance sheet when the Group and the Company become a party to the contract for some financial instrument.

Loans and receivables

Trade amounts, loans and other receivables with fixed or determinable payments, which are not traded on the active market, are classified as 'Loans and receivables'. Loans and receivables are initially recognized at their fair value in the balance sheet. In subsequent periods, those financial assets are accounted for at their amortized cost price using the effective interest rate method, less any recognized impairment loss, which reflects unrecoverable amounts.

The effective interest rate method

The effective interest rate method refers to the method for calculating of the amortized cost price of financial assets and allocation of the interest income during a certain period of time. The effective interest rate means the interest rate that discounts accurately the estimated future cash flows over a certain period of time or over a shorter period of time.

Impairment of financial assets

On each financial reporting date the Group assesses financial assets in order to determine whether there are any signs that the value of these assets has reduced. The value of financial assets reduces in presence of objective factors resulting from one or more events that occurred after the primary recognition of these financial assets, which have affected the calculated future cash flows of these financial assets. The impairment loss resulting of financial assets, which is accounted for at its amortized cost price, is the difference between the book value of financial assets and the current value of the assessed future cash flows calculated using the effective interest rate estimated at the primary recognition.

The book value of all the financial assets is reduced directly by the estimated impairment loss amount, other than receivables from trade, whose book value is reduced via the deferral account. Should it become impossible to recover a trade debt, this amount is written off via the deferral account. The deferral account is reduced by the recovered amounts, which have been written off previously after the balance date. Any changes in the book value of deferrals are recognized in the profit (loss) statement.

Should the amount of the assessed impairment loss decrease after the balance date and this decrease can be objectively related to the events that occurred after the recognition of the assessed impairment loss, then this recognized impairment loss is recovered via the profit (loss) statement in such a way that the investment book value would not exceed the amortized cost price on the day of the assessed impairment loss recovery, if the impairment loss had not been recognized in the previous periods.

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Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand and money in bank accounts, deposits upon demand and other short-term liquid investments (up to three months), which can be easily exchanged for precise cash amounts and which are subject to the risk of negligible changes in their value.

Financial liabilities

Financial liabilities are any contractual liabilities to deliver cash or other financial assets to another entity or to exchange financial instruments with another enterprise under the conditions that are potentially unfavourable or derivative or the contract of a non-derivative instrument, which can be purchased in exchange of some equity instruments of the enterprise itself.

Financial liabilities

Financial liabilities are ascribed to the financial liabilities estimated at their fair value in the profit (loss) statement or other financial liabilities.

Other financial liabilities

Other financial liabilities, including loans, are recognized at their fair value, less transaction costs. In subsequent periods, other financial liabilities are accounted for at their amortized cost price, calculated using the effective interest rate method. Interest expenses are recognized using the effective interest rate method.

The effective interest rate method

The effective interest rate method refers to the method for calculating of the amortized cost price of financial liabilities and allocation of the interest income during a certain period of time. The effective interest rate means the interest rate that discounts the estimated future cash flows accurately over a certain period of time or over a shorter period of time.

The fair value of financial instruments

The fair value reflects the value of financial instruments, at which assets can be sold or liabilities can be covered. In cases where the management believes that the amortized cost price of financial assets and financial liabilities is considerably different from their fair value, the fair value of such financial assets and liabilities is disclosed separately in the comments of the financial statements.

Grants

Grants are accounted for on an accrual basis, i.e. received grants or parts thereof are recognized as having been used over the periods, in which the expenses related with these grants are incurred.

Asset-related grants

Asset-related grants include the grants received in the form of fixed assets or grants for buying of fixed assets. Grants are accounted for at the fair value of the received assets and subsequently recognized as income over the useful life of certain fixed assets.

Income-related grants

Income-related grants include the grants for compensating of the costs and loss of income as well as all other grants, which have not been ascribed to the asset-related grants.

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The grant is recognized when it is actually received or when there is reasonable assurance that it will be received.

Lease

Lease is classified as the financial lease when basically all the risks and benefits related with the title are transferred under the contract of lease. The lease of activities does not fall into the concept of the financial lease.

The Group and Company as a lessor

Any income under the contract of lease of activities are recognized on the straight-line method over the entire leasing period.

The Group and Company as a tenant

The assets under the financial lease contract are recognized as assets at the fair value of the leased assets in the beginning of the lease or the current value of the minimum lease payments, if it is lower. A corresponding liability towards the lessor is reflected in the balance sheet as the liability under the financial lease contract. Financial expenses (interest expenses), i.e. the difference between the total payable amounts and the fair value of the assets acquired, are recognized as expenses in the profit (loss) statement over the leasing period using the constant interest rate.

Payments under the contract of lease of activities are recognized as expenses in the profit (loss) statement on the straight-line method over the entire leasing period.

Recognition of income

Income is evaluated at the fair value of the received or receivable assets for the goods or services, excluding the value added tax, less rebates and concessions. Income is recognized on an accrual basis. Income is accounted for and reflected in the financial statements, regardless of revenues, i.e. when they are earned.

Income from the sale of goods

Income from the sale of goods is recognized when the following conditions are met:

- the Group has transferred to the buyer a significant portion of risk and the benefits of the title to the goods;
- the Group has no managerial rights associated with the title and has no longer control over the goods sold;
- the income amount can be measured reliably;
- it is likely that the Group will receive economic benefits associated with the transaction, and the transaction-related expenses, which have been incurred or shall be incurred in the future, can be measured reliably.

Income from services

Income from services is recognized when the service is provided.

Income from interest is recognized on an accrual basis, taking into account the balance of the debt and the applicable effective interest rate. Income from the interest received is presented in the cash flow statement as cash flows from investment activities.

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Income from dividends is recognized when the shareholders become entitled to receive dividends. Income from the dividends received is presented in the cash flow statement as cash flows from investment activities.

Recognition of expenses

Expenses are recognized in the profit (loss) statement on an accrual basis when incurred.

Foreign currency

Transactions in foreign currencies are converted into the litas according to the official exchange rate established by the Bank of Lithuania on that day, which approximately equals to the market currency exchange rate. Monetary assets and liabilities are converted into the litas at the exchange rate of the reporting day.

The following currency exchange rates were used in preparing of the balance sheet:

<u>30 June 2013</u>	<u>31 December 2012</u>
1 EUR = LTL 3,4528	1 EUR = LTL 3,4528
1 LVL = LTL 4,9185	1 LVL = LTL 4,9520
1 USD = LTL 2,6496	1 USD = LTL 2,6060

The differences in the exchange rates resulting from the transactions in foreign currency are included in the profit (loss) statement at the moment they occur. The profit or loss resulting from the changes in the currency exchange rates on converting of monetary assets and liabilities into the litas are covered in the profit (loss) statement.

Deferrals

Deferrals are recognized when the Group and the Company has a legal obligation or an irrevocable commitment arising from the past committing event and it is likely that the funds will be spent to cover these liabilities, and it is possible to determine the amount of such liabilities.

Taxes

Profit tax expenses consist of the profit tax expenses and the deferred profit tax of the current year.

Profit tax

The taxable profit differs from the profit presented in the gross income statement due the elements of expenses and income that do not reduce or increase the taxable profit. From 1 January 2010, the profit tax rate in Lithuania is valid 15 per cent.

Deferred profit tax

The deferred profit tax is accounted for in the balance sheet. Deferred tax assets and liabilities are recognized for future tax purposes, noting the differences between the book value of assets and liabilities in the financial statement and their respective tax bases. Deferred tax liabilities are recognized with respect to all temporary differences, which will increase the

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taxable profit, and the deferred tax assets are recognized only to the extent that is likely to reduce the future taxable profit. Such assets and liabilities are not recognized if temporary differences are related to goodwill (or negative goodwill), or if the assets or liabilities recognized at the time of a transaction, which is not related with business affiliation, do not affect the taxable or financial profit.

The deferred profit tax assets are reviewed on the financial reporting date and are reduced if it is not probable that the Group will have sufficient taxable profit to realize these assets in the future to the amount, which is expected to reduce the taxable profit in the future.

Deferred tax assets and liabilities are assessed using the tax rate applicable in the year, in which it is expected to cover or pay these temporary differences, for the purpose of the corporate profit tax calculation. Deferred tax assets and liabilities are offset when they relate to the taxes established by the same institutions and when the Group intends to cover the payable taxes at their net value.

Profit tax and deferred profit tax in the reporting period

Expenses or income from the profit tax and deferred profit tax are accounted for in the profit (loss) statement, except when they are related to the items accounted for in the shareholders' equity. Then, deferred taxes are also accounted for in the shareholders' equity.

Segments

A business segment in this financial statement is an integral segment of the Group and the Company engaged in the production of a product or providing of a service or a group of related products or services, whose risk and profit differ from other business segments.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for the contingent liabilities in business affiliates. They are described in the financial statements, except when the probability that the sources, which provide economic benefits, will be lost is very small.

Contingent assets are not recognized in the financial statements but they are described in the financial statements when it is likely that income or economic benefits will be obtained.

Post-balance events

Post-balance events, which provide additional information about the Group's situation on the reporting date (adjusting events), are reflected in the financial statements. Post-balance events, which are not adjusting events, are described in the comments when their impact is significant.

Related parties

The parties related to the Group and Company refer to the shareholders, employees, Board members, their close relatives and companies that control the Company directly or indirectly via an intermediary or are controlled individually or jointly with any another party, which is also recognized as a related party, provided that this relationship allows one party to control the other party or to exercise significant influence over the other party in making financial and management decisions.

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(All amounts are indicated in thousands of litas unless provided otherwise)

3. MAIN ASSESSMENTS USING THE ACCOUNTING POLICY OF THE GROUP AND THE COMPANY AND ASSESSMENT CONTINGENCIES

In preparing of the Group's financial statement, the management has to make certain decisions, assessments and assumptions, which affect the disclosed amounts of income, expenses, assets and liabilities and contingencies on the reporting day. However, the contingency of these assumptions and assessments can affect the results, whereas this may require significant modification of the balance amounts of assets and liabilities in the future.

Solutions

For the purposes of the Group and the Company's accounting policy, the management has adopted the following decisions, except for those assessments, which have the most significant impact on the amounts recognized in the financial statement.

Liabilities under the contract of lease of activities – the Group and the Company as a lessor

The Group and the Company has included the lease of commercial assets into their investment portfolio. In accordance with the contract terms and conditions, the Group and the Company have determined that they shall have all the significant risks and benefits arising from the title to these assets, and therefore account for these contracts as the lease of activities.

Assessments and assumptions

The main future assumptions and other significant sources of assessment contingency, which cause significant risk and can require a significant modification of the balance values of assets or liabilities in another financial year, are discussed hereunder:

Impairment of non-financial assets

The Group and the Company evaluate whether there are any signs on the reporting day that the value of non-financial assets has reduced. The impairment of non-financial assets is assessed when there are signs that the balance amounts cannot be recovered. In calculating of the using value, the management must evaluate probable future monetary revenues from the assets or cash-generating segment and to choose a proper discount rate, calculating the current value of cash revenues.

Impairment of financial assets

On each financial reporting day, the Group and the Company assess financial assets so that to determine whether there are any signs that the value of these assets has reduced. The impairment of financial assets occurs when there are objective factors resulting from one or several events that occurred after the primary recognition of these financial assets, which have affected the assessed future cash flows of these financial assets. The impairment loss of financial assets accounted for at their amortized cost price is the difference between the book value of these financial assets and the current value of the assessed future cash flows, calculated using the efficient interest rate estimated at the primary recognition.

Assets of the deferred profit tax

Assets of the deferred profit tax are recognized with respect to all unused tax losses to the extent it is probable to receive the taxable profit, which shall be used to set-off the losses. Significant management decisions are necessary to define the amounts of the deferred profit

Interim consolidated unaudited financial statement for the period of 6 months, 2013

(All amounts are indicated in thousands of litas unless provided otherwise)

tax assets, which may be recognized on the basis of probable future taxable profit period and amounts and the future tax planning strategies.

4. INFORMATION ABOUT THE SEGMENTS

For managerial purposes the activities of the Group and the Company are organized as a single main segment – the production and sale of dairy products (primary segment). The sales of the Group according to the geographical segments (secondary segment) are provided hereunder:

Sales

	January - June, 2013	January - June, 2012	April - June, 2013	April - June, 2012
Lithuania	152 534	142 180	86 821	71 448
Other Baltic and CIS states	66 337	56 254	31 123	30 072
Other European states	36 829	42 852	13 857	24 255
Other	5 333	1 636	4 271	819
In total	261 033	242 922	136 072	126 594

The income from sales is classified according to the state, where the buyers are registered.

5. LOANS GRANTED

The Group's granted loans consisted of the following:

	30 June 2013	31 December 2012
Loans granted	6 776	4 901
Minus: temporary portion of the loans granted	(2 365)	(3 466)
	4 411	1 435

All the loans have been granted in litas. The repayment term is from 1 to 9 years.

Interim consolidated unaudited financial statement for the period of 6 months, 2013

(All amounts are indicated in thousands of litas unless provided otherwise)

6. STOCK

The Group's stock consisted of the following:

	<u>30 June 2013</u>	<u>31 December 2012</u>
Raw materials	11 977	13 152
Production and incomplete constructions	85 116	89 425
Goods for resale	693	721
	<u>97 786</u>	<u>103 298</u>
Minus: impairment up to the net realizable value	(5 624)	(5 624)
In total	<u><u>92 162</u></u>	<u><u>97 674</u></u>

7. RECEIVABLES FROM THE BUYERS

Receivables of the Group from the buyers consisted of the following:

	<u>30 June 2013</u>	<u>31 December 2012</u>
Receivables from the buyers	31 634	30 368
Receivables from the related parties	6 094	3 479
	<u>37 728</u>	<u>33 847</u>
Minus: impairment	(869)	(869)
In total	<u><u>36 859</u></u>	<u><u>32 978</u></u>

Changes in the impairment of doubtful receivables from the buyers are included in the profit (loss) statement as operating expenses.

Receivables from the buyers are free of interest and their term is usually from 30 to 90 days.

8. OTHER RECEIVABLES

Other receivables of the Group's consisted of the following:

	<u>30 June 2013</u>	<u>31 December 2012</u>
Advance profit tax	-	-
Current portion of long-term loans	2 365	3 466
Input returns tax	-	-
Input VAT	2 355	2 683
Other receivables	77	693
In total	<u><u>4 797</u></u>	<u><u>6 842</u></u>

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(All amounts are indicated in thousands of litas unless provided otherwise)

9. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consisted of the following:

	<u>30 June</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
Cash in the bank	11 150	5 685
Cash on hand	82	104
In total	<u>11 232</u>	<u>5 789</u>

10. EQUITY

On 30 June 2013, the share capital amounted to 48.375.000 ordinary registered shares with a nominal value of 1 litas. On 30 June 2013 and 31 December 2012, all the shares were fully paid.

Required reserve

The required reserve is mandatory under legal acts of the Republic of Lithuania. It is necessary to transfer not less than 5 percent of the net profit each year until the reserve reaches 10 percent of the share capital. The Company's required reserve was fully formed. The required reserve may not be distributed to the shareholders.

Other reserves

Other reserves are formed according to the decision of the annual meeting of shareholders to distribute the profit and the Company's articles of association. These reserves can only be used for the purposes determined by the general meeting of shareholders. Following the valid Law on Companies, the Company's reserves other than required reserves must be restored to the distributable profit and redistributed if they have not been used or they are not planned to be used.

11. LOANS

The Group's loans consisted of the following:

	Starting date of the contract	Repay- ment term	Curren- cy	<u>Balance</u>	
				<u>30 June 2013</u>	<u>31 December 2012</u>
Bank DNB, AB	06, 2006	04, 2013	EUR	-	417
Bank SEB, AB	09, 2011	09, 2013	EUR	-	11 939
Algirdas Pažemeckas	10, 2011	12, 2013	LTL	<u>1 548</u>	<u>1 578</u>
In total				<u>1 548</u>	<u>13 934</u>

Interim consolidated unaudited financial statement for the period of 6 months, 2013

(All amounts are indicated in thousands of litas unless provided otherwise)

Minus: short-term loans	(1 548)	-
Minus: short-term portion of long-term loans	-	(13 934)
Long-term loans in total	-	-

12. LIABILITIES UNDER THE FINANCIAL LEASE CONTRACT

The Group's future minimum payments under the financial lease contracts consisted of the following:

Group	30 June 2013		31 December 2012	
	Minimum payments under the financial lease contract	Current amount of the minimum payments under financial lease contract	Minimum payments of the financial lease contract	Current value of the minimum payments under the financial lease contract
Over one year	831	823	2 484	2 457
Over two-five years	807	796	807	796
Minimum payments under the financial lease contract	1 638	1 619	3291	3 253
Minus: future interest	(19)		(38)	
Current value of the minimum payments under the financial lease contract	1 619		3 253	

On 30 June 2013, all the Group's financial lease contracts were signed in euros.

13. PAYABLE AMOUNTS

Here are the terms of financial liabilities:

- Trade debts are free from interest and are usually repaid within a period of 30 days.
- Other payable amounts are free from interest and have approximately a repayment term of one month.
- Payable interest is usually paid on a monthly basis over the entire financial year.
- The terms of the amounts payable by the related parties are provided for in Clause 19.

	The Group	
	30 June 2013	31 December 2012
Payables suppliers	28 901	25 164
Payable to related parties	2 647	1 787
Prepayments	375	332
In total	31 923	27 283

Interim consolidated unaudited financial statement for the period of 6 months, 2013
(All amounts are indicated in thousands of litas unless provided otherwise)

14. OTHER PAYABLE AMOUNTS

Other payable amounts consisted of the following:

	The Group	
	30 June 2013	31 December 2012
Accumulated expenses	16 324	9 604
Payable salaries	2 479	2 921
Payable social insurance	1 481	1 450
Payable taxes, except for the profit tax	647	658
Advance payments received	-	-
Other short-term liabilities	2 440	519
In total	23 371	15 153

15. SELLING EXPENSES

Selling expenses consisted of the following:

	The Group	
	30 June 2013	30 June 2012
Raw materials	471	526
Liquid and spare parts	2 689	2 641
Depreciation and amortization	713	788
Salaries and social insurance	8 957	8 823
Marketing services	2 742	4 589
Other services	3 966	3 400
Others	150	152
In total	19 688	20 919

Interim consolidated unaudited financial statement for the period of 6 months, 2013
(All amounts are indicated in thousands of litas unless provided otherwise)

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consisted of the following:

	The Group	
	30 June 2013	30 June 2012
Raw materials	161	138
Liquid and spare parts		147
Depreciation and amortization	784	577
Salaries and social insurance	5 731	5 284
Services	3 133	3 444
Activities taxes	377	378
Change in purity value of reserves	-	-
Impairment of the realizable value for doubtful debts	-	-
Others	146	41
In total	10 332	10 009

17. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses consisted of the following:

	The Group	
	30 June 2013	30 June 2012
<i>Other operating income:</i>		
Profit from the sale of raw materials and income from other material values	633	580
Profit from the sale of tangible fixed assets	86	5
Transport services	27	61
Income from lease	135	124
Income from a canteen	500	305
Other	486	265
	1 867	1 340
<i>Other operating expenses:</i>		
Cost price of raw materials	(865)	(1 556)
Salaries and social insurance	-	-
Loss from the sale of tangible assets	-	(18)
Depreciation	(144)	(129)
Cost price of a canteen activity	(451)	(316)
Other services	(80)	(122)
	(1 540)	(2 140)
IN TOTAL other operating activity result	327	(800)

Interim consolidated unaudited financial statement for the period of 6 months, 2013
(All amounts are indicated in thousands of litas unless provided otherwise)

18. INCOME FROM AND EXPENSES OF FINANCIAL AND INVESTMENT OPERATIONS

Income from and expenses of financial and investment operations were as follows:

	The Group	
	30 June 2013	30 June 2012
<i>Income from the financial and investment operations:</i>		
Bank interest income	6	22
Profit generated by the changes in the currency exchange rates	58	85
Profit from investments alienation	-	-
Interest from grants loans	179	156
Other financial income	2	32
	<u>245</u>	<u>295</u>
<i>Expenses of the financial operations:</i>		
Interest expenses	(49)	(429)
(Loss) generated by the changes in the currency exchange rates	(110)	(102)
Other financial expenses	(19)	(25)
	<u>(178)</u>	<u>(556)</u>
IN TOTAL	<u>67</u>	<u>(261)</u>

19. TRANSACTIONS OF THE RELATED PARTIES

The parties are considered related if one party has an opportunity to control another party or may have significant influence over another party in making of financial and operating decisions. The related parties of the Group and the Company are the following:

- Žemaitijos pieno investicija, AB (joint major shareholder);
- Baltijos mineralinių vandenų kompanija, UAB (joint major shareholder);
- Klaipėdos pienas, AB (joint major shareholder);
- Čia Market, UAB (joint major shareholder);
- Muižas piens, SIA (joint major shareholder);
- Džiugas France, S.A.R. (joint major shareholder).

The amounts payable to the related parties are usually paid within a period of 30 days.

The Group's transactions with the related parties and balances of the year were as follows:

Interim consolidated unaudited financial statement for the period of 6 months, 2013

(All amounts are indicated in thousands of litas unless provided otherwise)

	The Group	
	30 June 2013	31 December 2012
1) Sales		
<i>To the Group</i>		
Šilutės Rambynas, ABF	-	-
	-	-
<i>To the related parties</i>		
Baltijos mineralinių vandenu kompanija, UAB	-	-
Klaipėdos pienas, AB	1 107	1 293
Žemaitijos pieno investicija, AB	-	-
Čia Market, UAB	12 146	24 394
Džiugas France, S.A.R.	50	-
Muižas piens, SIA	4 165	9 410
	17 468	35 097
Sales of stock and services		
<i>To the Group</i>		
Šilutės Rambynas, ABF	-	-
	-	-
<i>To the related parties</i>		
Baltijos mineralinių vandenu kompanija, UAB	320	1 529
Klaipėdos pienas, AB	947	1 832
Žemaitijos pieno investicija, AB	68	139
Čia Market, UAB	288	654
Samogitija, UAB	1	6
Džiugas France, S.A.R.	5	-
Muižas piens, SIA	28	90
	1 657	4 250
Sales in total:	19 125	39 347
2) Purchases		
<i>From the Group</i>		
Šilutės Rambynas, ABF	-	-
	-	-
<i>From the related parties</i>		
Klaipėdos pienas, AB	1 493	3 958
Baltijos mineralinių vandenu kompanija, UAB	3 362	2 295
Žemaitijos pieno investicija, AB	1 291	2 565
Čia Market, UAB	347	678
Muižas piens, SIA	20	103
	6 513	9 599
Purchases in total:	6 513	9 599

Interim consolidated unaudited financial statement for the period of 6 months, 2013

(All amounts are indicated in thousands of litas unless provided otherwise)

	The Group	
	30 June 2013	31 December 2012
3) Balance of receivables and financial debts at the end of the period		
<i>The Group</i>		
Šilutės Rambynas, ABF	-	-
	-	-
<i>Related parties</i>		
Baltijos mineralinių vandenių kompanija, UAB	-	-
Čia Market, UAB	3 096	947
Klaipėdos pienas, AB	1 197	71
Žemaitijos pieno investicija, AB	2 473	2 477
Samogitija, UAB	79	78
Džiugas France, S.A.R.	55	-
Muižas piens, SIA	2 186	2 358
	9 086	5 931
	9 086	5 931
4) Balance of the payable amounts at the end of the period		
<i>The Group</i>		
Šilutės Rambynas, ABF	-	-
	-	-
<i>Related parties</i>		
Žemaitijos pieno investicija, AB	-	-
Klaipėdos pienas, AB	441	224
Čia Market, UAB	5	4
Pažemeckas Algirdas	1 548	1 578
Baltijos mineralinių vandenių kompanija, UAB	2 201	751
	4 195	2 557
	4 195	2 557

The balance unpaid at the end of the period is not covered by insurance and it will bear no interest, whereas the settlement shall be in cash. On 30 June 2013 the Group has not accounted for any impairment of the realizable value for doubtful debts related with the amounts, which belong to the related parties. The assessment of these doubtful debts is reviewed each financial year investigating the financial situation of the related party and the market, wherein the party operates.

The Group has concluded a lot of transactions with the related parties (the companies of the group of Žemaitijos pieno investicija, AB), and the Group's profit and sales have been significantly affected by the transactions with the group of Žemaitijos pieno investicija, AB.

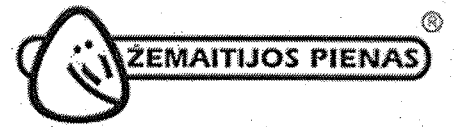
They include long-term lease of assets, sales of raw materials, sale of distribution services to Baltijos mineralinių vandenių kompanija, UAB, and Klaipėdos pienas, AB, and the sale of production to Čia Market, UAB.



**ŽEMAITIJOS PIENAS, AB
INTERIM REPORT FOR THE PERIOD OF SIX
MONTHS OF 2013 AND
INTERIM CONSOLIDATED UNAUDITED
FINANCIAL STATEMENTS FOR THE PERIOD OF
SIX MONTHS OF 2013**

**2013,
Telšiai**

ŽEMAITIJOS PIENAS, AB
Company code: 180240752



AB ŽEMAITIJOS PIENAS
CONSOLIDATED INTERIM REPORT
FOR THE PERIOD OF SIX MONTH OF 2013



ŽEMAITIJOS PIENAS, AB
Company code: 180240752

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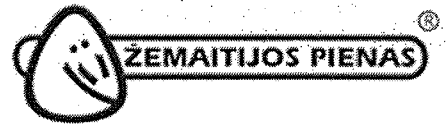
INTERIM REPORT FOR THE PERIOD OF SIX MONTH OF 2013

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ŽEMAITIJOS PIENAS, AB
Company code: 180240752

1. Reporting period covered in the Interim Report

The present Report has been prepared for the first half of 2013 according to the Procedures for Preparation and Furnishing the Periodical and Additional Information and its subsequent amendments, approved under the Resolution No. 1K-3 of the Securities Commission of the Republic of Lithuania of 23 February 2007, with all amendments.

2. General information about the Issuer

Name	Žemaitijos Pienas, AB
Legal – organizational form Incorporated	Joint Stock Company 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
Juridical 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 Group's enterprises and branches

The subsidiaries controlled by the Company:

Šilutės Rambynas, ABF, company code 277141670.

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

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

Juridical address: Klaipėdos Str.3, Šilutė.

Nature of business activity – production of hard cheeses

Related company *SIA Muižas piens*, company code 40003786632.

The company owns 32 % of the authorized capital.

Juridical address – Skaistkalnes 1, Riga, Latvia.



ŽEMAITIJOS PIENAS, AB
Company code: 180240752

Nature of business – retail and wholesale trade

Žemaitijos Pienas, AB has five branches:

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

4. Nature of the Issuer's main business

Main activity of *AB Žemaitijos Pienas* is development, production and sale of dairy products (hard cheese and cheese products, pre-packaged cheese and cheese products, processed cheese 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 the Lithuanian and foreign markets.

Main activity of *Šilutės Rambynas, ABF* is development, production, and sale of hard cheese and cheese products; production and sale of pasteurized cream, pasteurized whey, and concentrated whey.

II. INFORMATION ABOUT THE ISSUER'S SHARE CAPITAL, SECURITIES, SHAREHOLDERS, AND ISSUER'S MANAGEMENT BODIES

5. Information about the agreements made with the agents of public circulation of securities

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

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

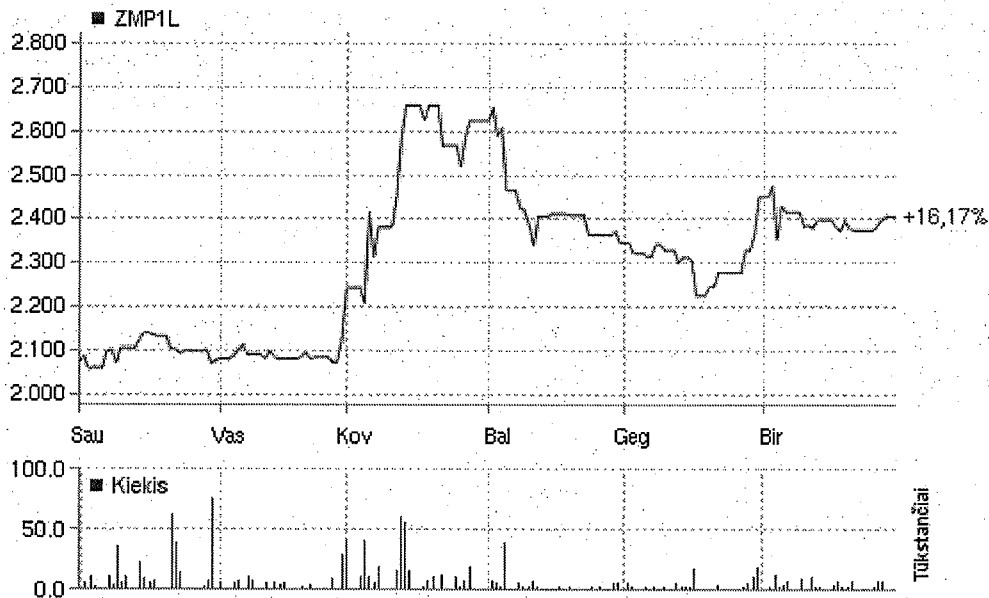
Name of Issuer's securities / Type of securities	Number of securities	Nominal value of securities, LTL	Total nominal value	Percentage in the share capital
Ordinary registered shares	48 375 000	1	48 375 000	100

Only the Company's shares (symbol - ZMP1L) are listed in the additional list of Vilnius NASDAQ OMX Stock Exchange. Securities ISIN code is LT0000121865.

ŽEMAITIJOS PIENAS, AB
Company code: 180240752

Hereunder are presented the transactions (trade) in shares of Žemaitijos Pienas, AB at Vilnius Stock Exchange during January – June 2013. The graphs are taken from the website of AB NASDAQ OMX Vilnius:

http://www.nasdaqomxbaltic.com/market/?instrument=LT0000121865&list=3&date=2012-01-01&pg=details&tab=historical&lang=lt¤cy=0&downloadcsv=0&start_d=1&start_m=1&start_y=2012&end_d=31&end_m=6&end_y=2012



7. Authorized capital

Authorized capital of the Company amounts to LTL 48,375,000. It is divided to 48,375,000 ordinary registered shares. The nominal value of one ordinary registered share is LTL 1 (one).

8. Acquisition of own shares

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

In December 2012, the Company acquired by wire transfer 1,360,000 units of shares for the amount of 2,992,000 LTL at NASDAQ OMX Vilnius stock exchange; during the reporting period, the company purchased an additional 710,611 of its own shares; at the moment the company owns 2,070,621 units of ordinary registered shares; all shares are fully paid for by the Company. During the reporting period, the Company did not transfer any of its own shares.

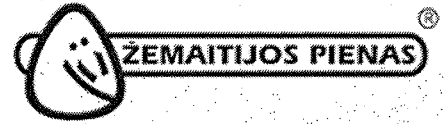
The purpose of acquisition of its own shares was to maintain and enhance the company's share price.

No own shares were acquired or transferred during the reporting period.

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

9. Shareholders and their rights

According to the data of 13 June, 2013, the total number of shareholders was 3,275.



ŽEMAITIJOS PIENAS, AB
Company code: 180240752

Below is a list of shareholders who own more than 5 percent of *Žemaitijos Pienas, AB* share capital and voting rights (the data of 13 May, 2013).

Row No.	Shareholder	Number of shares under ownership	The share of the authorized capital and votes under ownership, %	The share of votes owned together with associated parties, %
1	Pažemeckas Algirdas p.c. 35111120012	21 589 380	44,63	50,88
2	Pažemeckienė Danutė	3 025 820	6,25	50,88
3	<i>AB Klaipėdos pienas</i> , code 240026930, Šilutės Rd. 33, 91107 Klaipėda	2 901 844	6,00	6,00
4	Other shareholders	20 857956	43,12	43,12

All the shares issued provide the owners of the shares with equal rights, laid down in the Law on Companies of the Republic of Lithuania and in the Articles of Association.

There are no restrictions on the transfer of the securities. The shareholders are entitled to proprietary and non-proprietary rights as well as to commitments 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 of shareholders.

The shareholders of the Company are entitled to the following proprietary rights:

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

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

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

10. Risk management

The Company employs risk assessment methodologies aimed at qualified key risk factors, determining risk management priorities, preparation of the risk management plans, and adequate and timely management of risks inherent in the company's activities.

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 *Žemaitijos Pienas, AB* are possible with a potentially negative impact on the Company's cash flows and activity results.

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

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

There is a real risk of not maintaining positive outcome while uncontrolled increase in raw milk price occurs in the market without being able to compensate it by saving, increasing efficiency and sales prices, as well as other actions. Since the main product is hard cheeses, making a large part of the company's turnover, and the price of these cheeses have fallen in the European markets; the overall outcome is intended to be compensated through other categories of products. The company's production capacity in the product categories, which had a positive change in the sales price in the global markets, is very limited; in addition, a sudden refocusing is not always possible due to long-term cooperation agreements with customers, and the desire to maintain the relationship.

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

Each employee of the Company has the right to express his/her opinion, or provide any findings on any issues related to the Company's activity, and/or point out various risk factors that would affect the Company's activity in one way or another. It is enabled by the introduction of advanced LEAN methods, which are expected to help increase the company's competitiveness and efficiency – this is a continuous process, and positive results are expected in the future reporting periods. Adoption and implementation of the advanced methods, as well as staff training is in primary stages.

11. Key performance indicators of the Company

The main indicators for the activity of the Group in the first half of 2013 (thousand LTL): comparing with corresponding period of the previous year.

Financial indicators	Group	
	First half of 2012	First half of 2013
Turnover	242.922	261.033
Gross profit	35.503	39.118

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Profit before taxes, interests, and depreciation	12.472	18.000
Profit before taxes	3.514	9.492
Amount of investments in the long-term assets	5.105	7.656

Comparison of the tonnages and prices (LTL) of the collected raw milk during the first six months of 2012 and 2013:

Raw milk procured (recalculated into base richness)	First half of 2012	First half of 2013
Amount of milk procured, in thousand of tones	158	127
Price for the milk procured, LTL/t	806	879

The distribution of *Žemaitijos Pienas, AB* products sold in the local and international markets during the first six months of the year 2012 and the year 2013 is as follows (in thousands of LTL):

Product group	Turnover, thousand LTL	
	First half of 2012	First half of 2013
Fermented cheeses	104.326	123.313
Fresh dairy products	70.546	75.405
Butter and spreadable fat mixes	22.642	18.701
Dry milk products	16.552	15.637
Ice cream	-	44
Other	28.856	27.933
Export subsidies		0
In total	242.922	261.033

12. Business plans, development and forecasts

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

The main current goals of the Company:

- To procure milk under market conditions, but not for higher prices than raw milk is purchased by other market players in Lithuania;
- To increase sales at favourable for the Company prices;
- To focus on the main product portfolio and to retain at least 20 per cent share of the internal market, and in the export markets to focus on sales of the higher value-added products;
- To strengthen its marketing function and brand name of the company;

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- To reduce production costs and product cost price;
- To abandon economically ineffective production as soon as possible;
- To reduce distribution costs;
- To give incentives for employees only for the final results and achievement of plans set.

The company is aware of the importance of human resources for the company's results, thus it seeks in the near future to particularly focus on team-building, development of competencies and qualifications, specific skills, and review and improvement of motivational systems. The situation on the labour market is seen unfavourable, thus basic conditions are being prepared for attracting best employees and maintaining them in the strategic business areas, markets, and critical positions.

As it is hard to predict the economic situation in the European Union and the State, the Company Group of *Žemaitijos Pienas, AB* refrains from publishing its turnover and profit forecasts for the second half of 2013.

13. Environment protection

The activity of *Žemaitijos Pienas, AB* is conducted in compliance with the 29 December 2006 permit of Integrated Pollution Prevention and Control (IPPC) that was granted the Company for unlimited period of time which due to some changes, however, might be adjusted. 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 the 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 plans to implement the ISO 14000 Environmental Management System.

The company does not have a significant negative impact on the environment. Contaminated wastewater is released for cleaning in the local treatment facilities (Telšiu Vandenyys, UAB). The Company's boiler room uses natural gas, the fuel polluting the atmospheric air at its minimum. The company is not included in the ETS trading system under the National Allocation Plan for 2008-2012. Natural resources are used sparingly. Impact on the environment is controlled by the coordinated monitoring programs.

The company has developed a program for the prevention of possible accidents, plans for their causes and liquidation, cold ammoniac compressor and gas station storage, as from the point of view of hazardous object, hazard identification, risk analysis and evaluation of safety.

All the waste and packages are handled in accordance with environmental requirements. *Žemaitijos Pienas, AB* 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, 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.

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

14. Main events of the reporting period

Products certified in January-June 2013:

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- Certificate issued by the Public Institution *Kulinarijos Paveldo Fondas* (Culinary Heritage Foundation) to the traditional sour-cream butter *Kastinys* produced by *Žemaitijos Pienas, AB* (Certificate No.3P, of 6 January, 2013);
- Hard medium-fat (40% fat in dry mass) smoked cheese *DŽIUGAS* has been certified at Kaliningrad Centre of Standardizing (Certificate No. C-LT- АЯ19.В.53137, 18 June, 2013);
- *Žemaitijos Pienas, AB* processed organic products:
 - Curd cheese, 13 % fat,
 - Semi-fat curd, 9 % fat,
 - Curd cheese with red berries 6.5 % fat,
 - Curd cheese with yellow fruit, 6.5 % fat,
 - Plain curd cheese 9 % fat,
 - Curd cheese with vanilla 7.5 % fat,
 - Yoghurt with apples and cereals, 2.5 % - 3.5 % fat,
 - Yoghurt with wild berries 2.5 % - 3.5 % fat,
 - Yoghurt with strawberries 2.5 % - 3.5 % fat,
 - Yoghurt with strawberries 2.0 % fat,
 - Yoghurt 3.5 % - 4.6 % fat,
 - Raw milk,
 - Milk 2.5 % fat,
 - Hard cheese 40 % fat,
 - Cheese 45 % fat,
 - Fermented milk 2.5 % fat

(Public Institution EKOAGROS LT-EKO-01) (Certificate No. SER-K-13-00033) (22 February 2013):

- Processed organic products of *Žemaitijos Pienas, AB*:
Yoghurt with vanilla

(Public Institution EKOAGROS LT-EKO-01) (Certificate No. SER-K-13-00068) (17 April, 2013).

- Processed organic products of *Žemaitijos Pienas, AB*:
Yoghurt sour cream 10 % fat

(Public Institution EKOAGROS LT-EKO-01) (Certificate No. SER-K-13-00092) (20 May, 2013).

Products awarded in January-June 2013:

- In the International Food Exhibition PRODEKSPO 2013, hard cheese *DŽIUGAS* 40% fat was granted a gold medal (Moscow, 11-15 February 2013);
- On 5 March 2013, an award ceremony for winners of the Most Popular Product 2012 arranged by the Association of Lithuanian Trade Enterprises (LPIA) took place at the Government House of the Republic of Lithuania:
The most popular product of 2012 was nominated glazed curd cheese *MAGIJA*;
The most popular hard ferment cheese of 2012 was nominated *DŽIUGAS MILD*.
- On 7 – 9 May, 2013 in Shanghai, China the SIAL Innovation Grand Prix 2013 went to hard cheese *DŽIUGAS*. Organizers – SIAL The Asian Food Marketplace China 2013.

Audits carried out in January-June 2013:

- On 25 January 2013, auditors of the international certification institution *Bureau Veritas Certification* have carried out an audit of *Žemaitijos Pienas, AB* cheeses and packed cheeses production according to the BRC (Global Food Standard Issue 6 (British Retail Consortium) requirements (Certificate DNKFRC96445F of 26 January, 2013);

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- On 22-25 January, 2013, the auditors of the international certification institution *Bureau Veritas Certification* have carried out an audit of *Žemaitijos Pienas, AB* quality system maintenance according to the requirements of ISO 9001:2008 and FSSC 22000 (ISO 22000:2005 + ISO/TS 22002-1).
- *Žemaitijos Pienas, AB* was audited by the State Food and Veterinary Service (VMVT) of Telšiai County on:
 - 24 January, 2013, Milk-processing Enterprise Inspection Act No. 63GPGĮ-1;
 - 5 February, 2013, Milk-processing Enterprise Inspection Act No. 63GPGĮ-2;
 - 21 March, 2013, Milk-processing Enterprise Inspection Act No. 63GPGĮ-5.
- *Žemaitijos Pienas, AB* was audited by the Public Institution *Ekoagros*:
On 19 February, 2013, Organic products-processing Enterprise Inspection Protocol No. PAG-K-13-00003.

15. Issuer's management bodies

Issuer's bodies are the following: General Meeting of Shareholders; Supervisory Board; Board of Directors; and Chief Executive Officer (General Director), as well as his subordinate – Administration of the Company. Management bodies include Board of Directors and the Head.

Supervisory Board is a collegial management body performing supervisory functions of the Company. The Supervisory Board is headed 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 Head 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 Board of Directors, as well as other local acts of the company.

The General Director 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.

16. Members of the collegial bodies

16.1. Supervisory Board of the Company

Full name	Position	Number of shares under ownership and percentage of the authorized capital, %	Beginning of the cadence	End of the cadence	Start of the service at <i>Zemaitijos Pienas</i>
Romusas Jarulaitis	Chairman of the Supervisory Board, Export Manager	1 105 510 2,29	08/04/2011	07/04/2015	26/01/1988
Robertas Pažemeckas	Member of the Supervisory Board, Acting General Director	-	08/04/2011	07/04/2015	26/08/2002
Algirdas Bladžinauskas	Member of the Supervisory	-	08/04/2011	07/04/2015	20/08/1996

16.2. Board of Directors of the Company

Full name	Position	Number of shares under ownership and percentage of the authorized capital, %	Beginning of the cadence	End of the cadence	Start of the service at <i>Zemaitijos Pienas</i>
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, Transport and Logistics Director	-	01/05/2011	30/04/2015	01/12/2003
Vygantas Sliesoraitis	Member of the Board, Consultant	-	01/05/2011	30/04/2015	05/05/2011

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16.3. Administration of the Company

Full name	Position	Number of shares in possession within the Issuer	Share of the authorized capital in possession, %
Algirdas Pažemeckas	General Director	21 589 380	44,63
Natalija Vainikevičiūtė	Chief Financial Officer	-	-

During the first half of 2013, the company's management bodies (members) were granted the amount of LTL 575,329; the amount was distributed as follows: i) LTL 216,436 to the members of the Supervisory Board, ii) LTL 358,893 to the members of the Board of Directors;

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 the period of the first half of 2013.

17. Issuer's transactions

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.

18. Employees

According to the data of 30 June 2013, the total number of employees in *Žemaitijos Pienas, AB* was 1242, which insignificantly decreased during the year, i.e. there were 1280 employees comparing with the corresponding period of last year.

	30/06/2013	30/06/2012	31/12/2011
Average number of employees	1242	1280	1294

Grouping of the personnel according to the educational background:

Number of employees according to their education	30/06/2013	30/06/2012	31/12/2011
Master degree	35	22	23
Higher education	202	184	190
Higher-vocational education	290	343	308
Vocational education	224	199	275

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Secondary education	427	440	415
Uncompleted secondary education	64	92	83
In total	1242	1280	1294

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

Employee group	30/06/2013		30/06/2012		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	24	7197.4	61	6236	65	6103
Specialists	279	3156.6	244	2692	244	2492
Workers	939	1958.5	975	2042	985	1878
In total:	1242		1280		1294	

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

Employee group	30/06/2012		31/12/2012		30/06/2013	
	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL	Number of employees	Average monthly wage, LTL
Managers	4	5080.44	4	4787.02	4	6165.66
Specialists	53	2402.70	51	2033.94	48	2651.50
Workers	151	1827.17	142	1501.29	137	1946.32
In total:	208	2037.39	197	1705.91	189	2214.71

Žemaitijos Pienas, AB and *Šilutės Rambynas, ABF* employees' rights and obligations are provided for in their job descriptions and other local documents. Employment contracts do not provide for special rights or obligations.

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



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19. Data on publicly announced information

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 the Securities Commission and 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 the transactions made by the management is published through the Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) system (on the website).

20. Articles of Association amendment procedure

In its activity, the company *Žemaitijos Pienas, AB* follows the laws of the Republic of Lithuania, other legal acts regulating activity of legal entities, and the Articles of Association.

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

21. Information about the compliance with the Corporate Governance Code

The company obeys most of the rules of the Corporate Governance Code. The bodies of the company are as follows: the General Meeting of shareholders'; three members of the Supervisory Board, elected for 4 years; 5 members of the Board, which is elected for 4 years by the Supervisory Board; and the General Director. Information on how the Company follows the specific articles of the Corporate Governance Code is provided together with the Annual Report for the year 2012. This information is also provided in the webpage of the company www.zpienas.lt.