



Confirmation of responsible persons

Telšiai, August of 2016

Hereby we, undersigned, Robertas Pažemeckas, General Director of SC "Žemaitijos pienas" and Dalia Geciene, Chief accountant, shall confirm, that according to our information, interim unaudited consolidated financial statements of the first 6 months of 2016, concluded according to International Accounting Standards, shall correspond to reality and correctly indicate property, obligations, financial status, profit or losses and cash flows of group of companies as well as business development and activity review is correctly indicated in consolidated interim report.

General Director

Robertas Pažemeckas

Chief Accountant

Dalia Geciene

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INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF AB ŽEMAITIJOS PIENAS****Report on the financial statements**

We have audited the interim separate financial statements presented in the accompanying set of interim separate and consolidated financial statements as of 30 June 2016 of AB Žemaitijos pienas (hereinafter – the Company). The audited interim separate financial statements comprise the separate statement of financial position as at 30 June 2016, and the separate statement of comprehensive income, the separate statement of changes in equity, the separate statement of cash flows for the interim 6 month period then ended, and the explanatory notes with a summary of significant accounting policies and other explanatory information (hereinafter – the interim separate financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these interim separate 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 interim separate 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 interim separate financial statements present fairly, in all material respects, the financial position of AB Žemaitijos pienas as at 30 June 2016, and its financial performance and its cash flows for the interim 6 month period 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.



Emphasis of Matter

We draw an attention to the fact that the interim consolidated financial statements presented in the accompanying Company's set of interim separate and consolidated financial statements as of 30 June 2016, were not audited, therefore we do not express an opinion on them. Also, we do not express an opinion on the information provided in the explanatory notes regarding sums of the interim consolidated financial statements. Our opinion on the interim separate financial statements is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We have read the accompanying interim report as of 30 June 2016 of AB Žemaitijos pienas and have not identified any material inconsistencies between the financial information included in it and the interim separate financial statements of AB Žemaitijos pienas for the interim period ended at 30 June 2016.

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

8 August 2016
Klaipėda

Grant Thornton Baltic UAB
Audit company's certificate No. 001445

Grant Thornton Baltic UAB

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ŽEMAITIJOS PIENAS, AB
SET OF INTERIME CONSOLIDATED
AND
INTERIME SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD OF 6 MONTHS AS AT 30 JUNE 2016

STATEMENTS OF FINANCIAL POSITION

ASSETS	The Group		The Company	
	30-06-2016	31-12-2015	30-06-2016	31-12-2015
Fixed assets				
Intangible assets	163	124	162	124
Tangible assets	25.462	25.601	22.852	23.033
Investments for sale	134	147	1.126	1.160
Investments into subsidiaries	1	1	3.152	3.152
Loans granted	1.270	877	1.270	877
Other fin. assets	27	27	27	27
Deferred profit tax assets	3.019	3.047	2.669	2.696
Total amount of fixed assets	30.076	29.824	31.258	31.069
Current assets				
Stock	25.493	26.091	23.416	23.987
Advance payments	431	360	382	345
Receivables from the buyers	13.563	12.628	12.911	12.089
Other receivables	679	1.111	641	1.060
Cash and cash equivalents	15.118	10.223	11.839	4.827
Total amount of current assets	55.284	50.414	49.189	42.308
ASSETS IN TOTAL	85.360	80.238	80.447	73.377
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	14.029	14.029	14.029	14.029
Own shares (-)	(1.323)	(1.323)	(1.323)	(1.323)
Required reserve	1.401	1.401	1.401	1.401
Other reserves	4.566	4.566	4.566	4.566
Undistributed profit	41.655	38.070	37.832	34.085
Equity of the shareholders of the parent company	60.328	56.742	56.504	52.757
Minority interest	967	990	-	-
Equity in total	61.295	57.732	56.504	52.757
Long-term liabilities				
Support received	1.354	1.595	1.188	1.397
Loans	-	-	-	-
Liabilities arising from the financial lease	-	-	-	-
Liabilities arising from the deferred profit tax	-	-	-	-
Other long-term liabilities	2	2	2	2
Total amount of long-term liabilities	1.356	1.597	1.190	1.399
Short-term liabilities				
Loans	-	-	-	-
Liabilities arising from the financial lease	9	32	9	32
Trade debts	14.387	12.566	17.682	13.759
Payable profit tax	0	622	0	159
Other payable amounts	8.312	7.689	5.062	5.271
Total amount of short-term liabilities	22.709	20.909	22.753	19.221
Liabilities in total	24.065	22.506	23.943	20.620
EQUITY AND LIABILITIES IN TOTAL	85.360	80.238	80.447	73.377

20-07-2016

General Director
Chief Accountant

Robertas Pažemeckas
Dalia Geciėnė



STATEMENTS OF COMPREHENSIVE INCOME

The Group

	Jan-Jun 2016	Jan-Jun 2015	April-Jun 2016	April-Jun 2015
Sales	67.131	72.539	33.644	38.932
Cost of sales	(50.813)	(58.433)	(25.473)	(31.132)
GROSS PROFIT	16.318	14.106	8.171	7.799
Operating expenses	(12.121)	(11.880)	(7.148)	(7.116)
Other operating income and expenses	105	163	64	75
(LOSS) PROFIT FROM OPERATIONS	4.302	2.389	1.087	758
Finance costs	(1)	(1)	(0)	(0)
Other financial income and expenses	58	49	69	(6)
(LOSS) PROFIT BEFORE TAX	4.359	2.437	1.156	752
Income tax (benefit) expense	(796)	(1.017)	(412)	(644)
TOTAL INCOME FOR THE PERIOD	3.563	1.420	744	108
ATTRIBUTABLE TO:				
Equity holders of the Company	3.585	1.211	817	119
Minority interest	(22)	209	(73)	(11)
	3.563	1.420	744	108
Basic and diluted earnings per share (EUR)	0,07	0,03	0,02	0,002

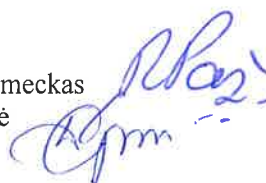
The Company

	Jan-Jun 2016	Jan - Jun 2015	April-Jun 2016	April-Jun 2015
Sales	66.158	70.165	33.557	37.939
Cost of sales	(51.191)	(58.947)	(25.926)	(34.818)
GROSS PROFIT	14.967	11.218	7.631	3.121
Operating expenses	(10.967)	(10.985)	(6.198)	(6.552)
Other operating income and expenses	312	323	167	153
(LOSS) PROFIT FROM OPERATIONS	4.312	556	1.600	(3.278)
Finance costs	(1)	(1)	(0)	(0)
Other financial income and expenses	62	58	72	(0)
(LOSS) PROFIT BEFORE TAX	4.373	613	1.672	(3.278)
Income tax (benefit) expense	(626)	(912)	(299)	(591)
TOTAL INCOME FOR THE PERIOD	3.747	(299)	1.373	(3.869)
ATTRIBUTABLE TO:				
Equity holders of the Company	3.747	(299)	1.373	(3.869)
Minority interest	-	-	-	-
	3.747	(299)	1.373	(3.869)
Basic and diluted earnings per share (EUR)	0,08	(0.006)	0,03	(0,08)

20-07-2016

General Director
Chief Accountant

Robertas Pažemeckas
Dalia Gecienė





STATEMENT OF CHANGES IN EQUITY

The Group	Share capital	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Equity	Minority interest	Total
Balance as of									
31 December 2014	14.010	(1.323)	1.401	4.345	221	32.417	51.071	654	51.725
Dividends	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-	-	-
The result of the conversion to the euro	19	-	-	-	-	-	19	-	19
Net profit	-	-	-	-	-	1.211	1.211	209	1.420
Balance as of									
30 June 2015	14.029	(1.323)	1.401	4.345	221	33.627	52.299	864	53.163
Balance as of									
31 December 2015	14.029	(1.323)	1.401	4.345	221	38.070	56.742	990	57.732
Dividends	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-	-	-
The share capital increase	-	-	-	-	-	-	-	-	-
The result of the conversion to the euro	-	-	-	-	-	-	-	-	-
Net profit	-	-	-	-	-	3.585	3.585	(22)	3.563
Balance as of									
30 June 2016	14.029	(1.323)	1.401	4.345	221	41.655	60.328	967	61.295

20-07-2016

General Director

Robertas Pažemeckas

Chief Accountant

Dalia Gecienė



STATEMENT OF CHANGES IN EQUITY

The Company	Share capital	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Total
Balance as of							
31 December 2014	14.010	(1.323)	1.401	4.344	221	30.848	49.501
Dividends	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-
The share capital increase in conversion to the euro	19	-	-	-	-	-	19
Net profit	-	-	-	-	-	(299)	(299)
Balance as of							
30 June 2015	14.029	(1.323)	1.401	4.344	221	30.549	49.221
Balance as of							
31 December 2015	14.029	(1.323)	1.401	4.344	221	34.085	52.757
Dividends	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-
The share capital increase in conversion to the euro	-	-	-	-	-	-	-
Net profit	-	-	-	-	-	3.747	3.747
Balance as of							
30 June 2016	14.029	(1.323)	1.401	4.344	221	37.832	56.504

20-07-2016

General Director

Robertas Pažemeckas

Chief Accountant

Dalia Gecienė

CASH FLOW STATEMENTS

	The Group		The Company	
	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Cash flow from operating activities				
Profit (loss) for the period	3.563	1.420	3.747	(299)
Adjustments:				
Depreciation and amortization	2.224	2.124	1.992	1.746
Amortization of grants received	(241)	(288)	(209)	(209)
Gain (loss) on disposal of non-current assets	(11)	(10)	(11)	(10)
Corporate income tax expenses	27	-	27	-
Impairment of accounts receivable	-	-	-	-
Impairment of property, plant and equipment				
Impairment of inventories to net realizable value				
Net financial expenses (income)	(61)	(69)	(61)	(57)
Elimination of non-cash items	(180)	-	(180)	-
Loss from liquidation of subsidiaries				
Net cash flows from ordinary activities before changes in working capital	5.321	3.177	5.305	1.171
Changes in working capital:				
(Increase) decrease in inventories	598	1.712	571	1.634
(Increase) decrease in trade receivables	(935)	(2.096)	(822)	(1.961)
(Increase) decrease in prepayments	(72)	334	(36)	322
(Increase) decrease in other receivables	197	(250)	181	(148)
(Decrease) increase in trade payables	1.821	6.598	3.923	6.264
(Decrease) increase other accounts payable	623	1.383	(210)	1.207
Corporate income tax paid	(622)	56	(159)	27
Net cash flows from operating activities	6.931	10.914	8.753	8.516
Cash flows from (to) investing activities				
Acquisition of intangible assets and property, plant and equipment	(2.123)	(6.207)	(1.828)	(5.910)
Proceeds on sale of property, plant and equipment	26	12	26	12
Acquisition of subsidiaries	-	-	-	-
Sale of investments available for sale	-	-	-	-
Repayment of loans granted	554	364	554	364
Loans granted	(531)	(262)	(531)	(262)
Interest received	56	71	56	71
Net cash flows (to) investing activities	(2.018)	(6.022)	(1.723)	(5.725)

Cash flow statements- continue

	The Group		The Company	
	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Cash flows from (to) financing activities				
Acquisition of own shares	-	-	-	-
The share capital increase in conversion to the euro	-	19	-	19
Dividends, bonus paid	-	-	-	-
Grants received	-	27	-	27
Loans received	-	-	-	-
Repayment of loans	-	-	-	-
Financial lease payments	(22)	(43)	(22)	(43)
Interest paid	(1)	(1)	(1)	(1)
Other financial (income) and expenses	5	(1)	5	(9)
Net cash flows from financial activities	(18)	1	(18)	(7)
Net increase (decrease) in cash and cash equivalents	4.895	4.893	7.012	2.784
Cash and cash equivalents at the beginning of the year	10.223	7.018	4.827	6.224
Cash and cash equivalents at the end of the year	15.118	11.911	11.839	9.008

20-07-2016

General Director

Robertas Pažemeckas

Chief Accountant

Dalia Gecienė




EXPLANATORY NOTES

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.

On the grounds of the Law on Expressing the Share Capital of Public and Private Limited Liability Companies of the Republic of Lithuania and the Nominal Value of Securities in Euro and Changes to Articles of Association, as the Republic of Lithuania joined the Euro zone from January 1st, 2015, according to the Board decision of Central Securities Depository of Lithuania, PLC in 04/11/2014, on January 1st, 2015, "Žemaitijos pienas", PLC issued shares nominal value has been changed from LTL to 0.29 Euro. The change of shares nominal value from 1 LTL to 0.29 Euro has also been approved at the company's shareholders meeting in 24/04/2015. Having changed the shares nominal values, the share capital of the company has changed as well, i.e. total nominal value of issued shares has become - 14 028 750 Euros.

On 30 June 2015 and 2016 the Company's share capital was 14 029 thousand of EUR composed of 48.375.000 ordinary registered shares with a nominal value of 0,29 EUR per share.

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

Subsidiaries did not hold any shares of the Company as of 30 June 2016 and 2015.

The Company's shares are traded on the Baltic Additional trade list of the Vilnius Stock Exchange.

On 30 June 2015 and 2016 the Company had acquired its own shares – 2.071 thousand units by 1.323 thousand of EUR.

On 30 June 2016, 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 2016	Net assets 30 June 2016	Main activities
Šilutės Rambynas, ABF	Klaipėdos st. 3, Šilutė, Lithuania	87.82 %	87.82 %	3 150	7 941	Production and sale of cheese
Muižas pienas, SIA	Skaitekaines st. 1, Rīga, Latvia	32 %	-	1	-	Wholesale and retail
				3 151		

On 30 June 2016, the Company had 1.202 employees, and the Group had 1.393 employees (on 30 June 2015 – 1.435 employees in the Group).



The main financial indicators of the performances :

	<i>The Group</i>		<i>The Company</i>	
	<i>01-06 2016</i>	<i>01-06 2015</i>	<i>01-06 2016</i>	<i>01-06 2015</i>
<i>Sales, Eur thousand</i>	<i>67.131</i>	<i>72.539</i>	<i>66.158</i>	<i>70.165</i>
<i>Gross profit, Eur thousand</i>	<i>16.318</i>	<i>14.106</i>	<i>14.967</i>	<i>11.218</i>
<i>EBITDA, Eur thousand</i>	<i>6.343</i>	<i>4.274</i>	<i>6.156</i>	<i>2.151</i>
<i>The total liquidity at the end of period</i>	<i>2,43</i>	<i>2,12</i>	<i>2,16</i>	<i>1,98</i>
<i>The book value of shares at the end of period</i>	<i>1,27</i>	<i>1,1</i>	<i>1,17</i>	<i>1,02</i>

2. ACCOUNTING PRINCIPLES

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

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.

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

Since January 1st, 2015, financial accountability is presented in Lithuanian national currency - Euro.

Interim financial statements are subject to the same accounting policies and methods as the annual financial statements for the 31 December 2015.

Here are the most significant accounting policies:

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 3, 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 statement of comprehensive income.



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 statement of comprehensive income 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 are accounted for in the Company's report of the financial situation 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 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 economic 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.

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 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 144,81 Euro, 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 statement of comprehensive income of the period.

Repair costs are added to the book value of tangible fixed assets if it is probable that the Company, 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 statement of comprehensive income at the time they occur.

The Group's companies 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.

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.

The Group and the Company recognize financial assets in the statement of financial position when the Group and the Company become a party to the contract for some financial instrument.

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 statement of financial position. 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.

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 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 are ascribed to the financial liabilities estimated at their fair value through the statement of comprehensive income, or 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 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 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 explanatory notes of the financial statements.

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.

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.

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

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 report of the financial situation 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 statement of comprehensive income over the leasing period using the constant interest rate.

Payments under the contract of lease of activities are recognized as expenses in the statement of comprehensive income on the straight-line method over the entire leasing period.

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 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.

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.

Expenses are recognized in the statement of comprehensive income on an accrual basis when incurred.

Since January 1st, 2015, transactions in foreign currency are converted to Euros in the official rate, set by the European Central Bank on that day, which is approximately the same as market rate. Monetary assets and liabilities are converted to Euros in the exchange rate on the financial statements issuance day.

The following currency exchange rates were used in preparing of the report of the statement of financial position of the period:



30 June 2016

30 June 2015

1 USD = EUR 0,90171

1 USD = EUR 0,8982

The differences in the exchange rates resulting from the transactions in foreign currency are included in the statement of comprehensive income 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 euros are covered in the statement of comprehensive income.

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.

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

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.

The deferred profit tax is accounted for in the statement of financial position. 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 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.

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.

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

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.

3. 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).

Set of interim consolidated and interim separate financial statements for the period of 6 months, 2016
(All amounts are indicated in thousands of EUR unless provided otherwise)

The Group	Turnover, EUR thousand		Variation in % as comparing 01-06 2016 with 01-06 2015
	Jan-Jun 2016	Jan-Jun 2015	
Fermented cheese	18.926	26.476	-28,52%
Fresh dairy products	34.198	27.116	26,12%
Butter and spreadable fat mixes	4.648	3.793	22,54%
Dry dairy products	5.021	5.177	-3,01%
Ice cream	10	36	-72,22%
Other	4.328	9.941	-56,46%
Total:	67.131	72.539	-7,46%

The Company	Turnover, EUR thousand		Variation in % As comparing 01-06 2016 with 01-06 2015
	Jan-Jun 2016	Jan-Jun 2015	
Fermented cheese	18.110	24.854	-27,13%
Fresh dairy products	32.974	22.995	43,39%
Butter and spreadable fat mixes	4.648	3.793	22,54%
Dry dairy products	5.021	5.177	-3,01%
Ice cream	10	36	-72,22%
Other	5.395	13.310	-59,47%
Total:	66.158	70.165	-5,71%

The sales of the Group and the Company according to the geographical segments (secondary segment) are provided hereunder:

The Group	Jan-Jun 2016	Jan-Jun 2015	Apr-Jun 2016	Apr-Jun 2015
Sales, EUR thousand				
Lithuania	38.625	37.227	19.761	19.204
Other Baltic and CIS states	11.366	9.674	6.240	6.459
Other European states	13.588	21.158	5.943	10.287
Other	3.552	4.480	1.700	2.982
In total	67.131	72.539	33.644	38.932

The Company	Jan-Jun 2016	Jan-Jun 2015	Apr-Jun 2016	Apr-Jun 2015
Sales, EUR thousand				
Lithuania	39.916	40.524	20.099	21.078
Other Baltic States and CIS members	10.489	8.453	5.881	5.871
Other Europe countries	12.378	17.069	5.939	8.237



Other	3.375	4.119	1.638	2.753
Total, EUR thousand:	66.158	70.165	33.557	37.939

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

4. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Changes in intangible assets of the Group as of 30 June 2016:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2015	39	237	394	670
- acquisition	41	5	42	88
- transfers between accounts	-	-	-	-
As of 30 June 2016	80	242	436	758
Accumulated depreciation				
As of 31 December 2015	37	183	325	545
- amortization	5	15	30	50
- amortization of transferred and written-off assets	-	-	-	-
As of 30 June 2016	41	198	356	595
Net book value:				
As of 31 December 2015	2	53	69	124
As of 30 June 2016	39	43	80	163

Changes in intangible assets of the Company as of 30 June 2016

The Company	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2015	39	224	394	657
-acquisition	41	5	42	88
-sold or written-off assets	-	-	-	-
-transfers between accounts	-	-	-	-
As of 30 June 2016	80	229	436	745
Accumulated depreciation				
As of 31 December 2015	37	171	325	533
-amortization	5	15	30	50
-amortization of transferred and written-off assets	-	-	-	-
As of 30 June 2016	41	186	356	583
Net book value:				

As of 31 December 2015	2	53	69	124
As of 30 June 2016	39	43	80	162

In the period January-June 2016 amortization of non-current intangible assets of the Group and the Company amounts to EUR 50 thousand and EUR 50 thousand respectively.

Investments in the purchase of non-current intangible assets made by the Group and the Company in the period January-June 2016 amount to EUR 88 thousand and EUR 88 thousand respectively.

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 30 June 2016

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Acquisition cost						
As of 31 December 2015	13.700	50.340	11.236	4.433	10.506	90.215
-acquisition	222	1.326	403	168	330	2.449
-sold or written-off assets	(17)	(66)	(86)	(63)	(868)	(1.100)
-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
-adding value	-	436	-	19	-	455
-reclassification	-	90	-	-	(90)	-
As of 30 June 2016	13.905	52.126	11.553	4.557	9.879	92.019
Accumulated depreciation						
As of 31 December 2015	7.628	42.765	10.403	3.776	-	64.572
-depreciation	322	1.474	199	166	-	2.161
-depreciation of written-off and sold assets	(17)	(60)	(84)	(58)	-	(219)
-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-transfers between accounts	-	-	-	-	-	-
As of 30 June 2016	7.933	44.179	10.518	3.883	-	66.514
Accumulated impairment losses						
As of 31 December 2015	40	1	-	1	2	44
-impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
As of 30 June 2016	40	1	-	1	2	44
Net book value:						
As of 31 December 2015	6.031	7.574	834	658	10.504	25.601
As of 30 June 2016	5.932	7.946	1.035	673	9.876	25.461



Changes in property, plant and equipment of the Company as of 30 June 2016:

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 2015	8.767	44.570	8.185	4.010	10.504	76.036
-acquisition	222	1.306	321	146	159	2.154
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(17)	(66)	(58)	(63)	(868)	(1.072)
-adding value	-	436	-	19	-	455
-reclassification	-	-	-	-	-	-
-transfers to accounts investing assets	-	-	-	-	-	-
As of 30 June 2016	8.972	46.246	8.448	4.112	9.795	77.573
Accumulated depreciation						
As of 31 December 2015	4.399	37.810	7.373	3.418	-	53.001
-depreciation	253	1.306	195	153	-	1.907
-depreciation of written-off and sold assets	(17)	(60)	(56)	(58)	-	(191)
-recalculation of the accounting	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
As of 30 June 2016	4.635	39.056	7.512	3.513	-	54.717
Accumulated impairment losses						
As of 31 December 2015	1	1	-	1	-	3
-impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
As of 30 June 2016	1	1	-	1	-	3
Net book value						
As of 31 December 2015	4.367	6.759	813	590	10.504	23.033
As of 30 June 2016	4.335	7.189	935	598	9.795	22.852

For the period ending at 30 June 2016 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to EUR 2.161 thousand and EUR 1.907 thousand respectively.

On 30 June 2016, Company's and subsidiary ABF "Šilutės Rambynas" fixed tangible assets, whose residual value in total equalled EUR 1.155 thousand (on 31 December 2015 it equalled EUR 1.185 thousand.), were pledged to the banks for the Company's received loans.

A part of the Group's and the Company's fixed tangible assets, which acquisition value on 30 June 2016 equalled EUR 46.783 thousand and EUR 38.737 thousand respectively, was completely depreciated (31 December 2015 respectively – EUR 47.005 thousand and EUR 39.065 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 January-June 2016 amounted to EUR 2.123 thousand and EUR 1.828 thousand All the acquisitions above relate to the geographic segment of Lithuania.

5. INVESTMENT PROPERTY

Changes in the investment assets as of 30 June 2016:

	<u>The Group</u>	<u>The Company</u>
Acquisition cost		
As of 31 December 2015	214	2.972
- acquisition	-	-
- transfers from long-term assets	-	-
As of 30 June 2016	<u>214</u>	<u>2.972</u>
Accumulated depreciation		
As of 31 December 2015	67	1.811
- depreciation	13	35
- transfers from long-term assets	-	-
As of 30 June 2016	<u>80</u>	<u>1.846</u>
Net book value, Eur thousand:		
As of 31 December 2015	<u>147</u>	<u>1.160</u>
As of 30 June 2016	<u>134</u>	<u>1.126</u>

The fair value of investment assets approximates its book value.

The Group's and Company's depreciation of the investment assets in the period January-June 2016 amounted to EUR 13 thousand and EUR 35 thousand respectively.

The Company's investment assets in 2016 and 2015 represents rented assets to ABF Šilutės Rambynas and UAB Čia Market.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

6. DEFERRED INCOME TAX ASSET

	<u>The Group</u>		<u>The Company</u>	
	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>
Deferred income tax asset				
Accounts receivable	603	630	603	630
Inventories	702	702	655	655
Accrued vacation reserve	303	303	292	292
Other accrued expenses	1.411	1.412	1.119	1.119
Total deferred income tax asset, EUR thousand	<u>3.019</u>	<u>3.047</u>	<u>2.669</u>	<u>2.696</u>
Deferred income tax liability				
Difference in property, plant and equipment depreciation rates	-	-	-	-

Total deferred income tax liability, EUR thousand	-	-	-	-
Deferred income tax asset, net EUR thousand	3.019	3.047	2.669	2.696

7. LOANS GRANTED

The Group's and the Company's granted loans consisted of the following:

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Loans granted	1.686	1.528	1.686	1.528
Less: current portion of loans granted	(416)	(651)	(416)	(651)
Non- current loans granted	1.270	877	1.270	877

The repayment term is from 1 to 9 years. As 30June of 2016 impairment of loans was reduced by EUR 180 thousand.

8. STOCK

The Group's and the Company's stock consisted of the following:

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Raw materials	3.183	3.419	2.512	2.661
Finished goods and work in process	26.578	27.107	25.004	25.451
Goods for resale	266	241	266	241
	30.027	30.767	27.782	28.353
Less: write off to net realizable value	(4.534)	(4.676)	(4.366)	(4.366)
Total:	25.493	26.091	23.416	23.987

9. RECEIVABLES FROM THE BUYERS

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

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Trade accounts receivable	11.574	11.107	11.034	10.577
Accounts receivable from related parties	2.562	2.094	2.450	2.085
	14.136	13.201	13.484	12.662
Impairment allowance for bad debts	(386)	(386)	(386)	(386)
Impairment allowance for bad debts of related parties	(187)	(187)	(187)	(187)
Net trade receivables:	13.563	12.628	12.911	12.089

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. The accounts receivable from the customer are recognized as impairment allowance for bad debts and are accounted in operating expense in the total income statement.

10. OTHER RECEIVABLES

Other receivables of the Group and the Company consisted of the following:

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Grants receivable	-	-	-	-
Current portion of long-term loans granted	416	651	416	651
VAT receivable	189	426	189	376
Other receivables	74	34	36	33
Total:	679	1.111	641	1.060

11. CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Cash at bank	15.067	10.181	11.788	4.785
Cash on hand	51	42	51	42
Total:	15.118	10.223	11.839	4.827

12. EQUITY

As the Republic of Lithuania joined the Euro zone from January 1st, 2015, according to the Board decision of Central Securities Depository of Lithuania, PLC in 04/11/2014, on January 1st, 2015, AB "Žemaitijos pienas" PLC issued shares nominal value has been changed from 1 LTL to 0.29 Euro. Having changed the shares nominal values, the share capital of the company has changed as well, i.e. total nominal value of issued shares has become - 14 028 750 Euros. The change in share capital, resulting due to rounding the shares nominal values in Euros by accuracy of Euro cents, is not considered to be an increase of the share capital and is registered in the accounting as the company's inputs of the financial year, which includes Euro adoption date (if the change is positive).

On 30 June 2016 and 31 December 2015 the share capital amounted to 48.375.000 ordinary registered shares with a nominal value of 0.29 Eur.

On 30 June 2016 and 31 December 2015, all the shares were fully paid.

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 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.

13. LOANS

On 31 December 2015 and on 30 June 2016 the Group had no loans.

14. LIABILITIES UNDER THE FINANCIAL LEASE CONTRACT

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

	30 June 2016		31 December 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
The Group				
Within one year	9	9	32	32
In the second to fifth years inclusive	-	-	-	-
Minimum lease payments	9	9	32	32
Less: future interest	(0)		(0)	
Present value of minimum lease payments	9		32	
	30 June 2016		31 December 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
The Company				
Within one year	9	9	32	32
In the second to fifth years inclusive	-	-	-	-
Minimum lease payments	9	9	32	32
Less: future interest	(0)		(0)	
Present value of minimum lease payments	9		32	

On 30 June 2016, all the Group's and the Company's existing financial lease contracts were signed in euros.

15. 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 Group		The Company	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Payables to suppliers	13.408	12.007	12.770	11.443
Payables to related parties	824	268	4.757	2.054
Prepayments	155	291	155	262
Total:	14.387	12.566	17.682	13.759

16. OTHER PAYABLE AMOUNTS

Other payable amounts consisted of the following:

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
Accrued expenses	3.970	3.122	1.204	1.204
Holiday reserve	2.222	2.222	1.944	1.944
Wages and salaries payable	925	813	813	708
Social security payable	578	850	515	773
Taxes payable, other than income tax	213	197	182	159
Provisions	-	-	-	-
Other current liabilities	404	485	404	483
Total:	8.312	7.689	5.062	5.271

Outstanding balances at the end are unsecured and interest free for them.

17. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Company are:

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

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

Company	Relationship
Šilutės Rambynas ABF	Subsidiary, common major shareholder
Žemaitijos Pieno Investicija AB	Common major shareholder
Baltijos Mineralinių Vandenių Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder

Set of interim consolidated and interim separate financial statements for the period of 6 months, 2016
(All amounts are indicated in thousands of EUR unless provided otherwise)

Čia Market UAB	Common major shareholder
Muizas Piens SIA	Common major shareholder
Samogitija UAB	Common major shareholder
S.A.R.Dziugas France	Common major shareholder
Dziugas PL.Sp.z.o.o.	Common major shareholder
Dziugas UK Ltd	Common major shareholder
Dziugas USA LLC	Common major shareholder

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

	<u>The Group</u>		<u>The Company</u>	
	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>
1) Sales				
Sales of goods				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	7.440	9.583
	<u>-</u>	<u>-</u>	<u>7.440</u>	<u>9.583</u>
<i>To Related parties</i>				
Baltijos mineralinių vandenu kompanija UAB	116	5	116	5
Klaipėdos pienas AB	224	151	91	46
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	3.400	2.976	3.400	2.976
Muizas piens SIA	583	102	583	101
	<u>4.323</u>	<u>3.234</u>	<u>4.190</u>	<u>3.128</u>
Sales of inventory and services				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	338	203
	<u>-</u>	<u>-</u>	<u>338</u>	<u>203</u>
<i>To Related parties</i>				
Baltijos mineralinių vandenu kompanija UAB	0	98	0	98
Klaipėdos pienas AB	57	63	57	61
Žemaitijos pieno investicija AB	22	23	22	23
Samogitija UAB	0	0	0	0
Čia Market UAB	44	32	42	30
Muizas piens SIA	3	3	3	3
Dziugas PL Sp. Z.o.o.	-	1	-	1
	<u>126</u>	<u>220</u>	<u>124</u>	<u>216</u>
Total Sales:	<u>4.449</u>	<u>3.454</u>	<u>12.092</u>	<u>13.131</u>

	<u>The Group</u>		<u>The Company</u>	
	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>	<u>Jan-Jun 2016</u>	<u>Jan-Jun 2015</u>
2) Purchases				
<i>From the Group</i>				
Šilutės Rambynas ABF	-	-	9.552	10.328
	<u>-</u>	<u>-</u>	<u>9.552</u>	<u>10.328</u>
<i>From Related parties</i>				

ŽEMAITIJOS PIENAS, AB

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


Set of interim consolidated and interim separate financial statements for the period of 6 months, 2016

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

Baltijos mineralinių vandenų kompanija UAB	1.077	776	1.076	775
Samogitija UAB	55	-	55	-
Klaipėdos pienas AB	190	79	189	78
Žemaitijos pieno investicija AB	414	380	413	379
Čia Market UAB	944	86	941	83
Muizas piens SIA	65	962	65	962
Dziugas PL Sp. Z.o.o.	33	45	33	45
	<u>2.778</u>	<u>2.328</u>	<u>2.773</u>	<u>2.323</u>
Total Purchases:	<u>2.778</u>	<u>2.328</u>	<u>12.325</u>	<u>12.651</u>

Balances outstanding with related parties

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
3) Accounts receivable and financial debts				
<i>From Group</i>				
Šilutės Rambynas ABF	-	-	-	-
<i>From Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	-	-	-
Samogitija UAB	16	20	16	20
Žemaitijos pieno investicija UAB	111	12	-	12
Klaipėdos pienas AB	-	41	-	33
Čia Market AB	2.271	1.670	2.269	1.669
Muizas piens SIA	29	217	29	217
Dziugas France S.A.R.	-	-	-	-
Dziugas USA LLC	-	20	-	20
	<u>2.427</u>	<u>1.980</u>	<u>2.314</u>	<u>1.971</u>
Total balances of payables:	<u>2.427</u>	<u>1.980</u>	<u>2.314</u>	<u>1.971</u>

	The Group		The Company	
	30 06 2016	31 12 2015	30 06 2016	31 12 2015
4) Balances of payables				
<i>To Group</i>				
Tarpučių pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	-	3.933	1.786
	-	-	<u>3.933</u>	<u>1.786</u>
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	623	254	623	254
Žemaitijos pieno investicija UAB	185	-	185	-
Klaipėdos pienas AB	-	-	-	-
Čia Market AB	-	-	-	-
Muizas piens SIA	13	10	13	10
Dziugas PL.Sp.z.o.o.	2	4	2	4

Set of interim consolidated and interim separate financial statements for the period of 6 months, 2016
(All amounts are indicated in thousands of EUR unless provided otherwise)

UAB Samogitija	1	-	1	-
	-	-	-	-
	<u>824</u>	<u>268</u>	<u>824</u>	<u>268</u>
Total balances of payables:	<u>824</u>	<u>268</u>	<u>4.757</u>	<u>2.054</u>

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 June 2016, the Company have calculated EUR 3.619 thousand of decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (in 2015 – EUR 3.799 thousand). Evaluation of these doubtful accounts is being reviewed every financial year, by checking the financial state of the related party and the market, in which the related party is operating. The Group has many transactions with the related parties (the companies in “Žemaitijos pieno investicija” AB group), and Group's profit as well as sales are strongly influenced by the transactions with AB “Žemaitijos pieno investicija” group. It includes rent of fixed assets, raw material sales as well as full buy up of cheeses from “Šilutės Rambynas” ABF, sales of distribution services to “Baltijos mineralinių vandenių kompanija” UAB and sales of finished goods to “Čia Market” UAB, sales of raw materials, production and various services to “Klaipedos pienas” AB

18. 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.

20-07-2016

General director

Robertas Pažemeckas



Chief accountant

Dalia Gecienė





**AB “ŽEMAITIJOS PIENAS” HALF YEAR REPORT
OF 2016
AND
HALF YEAR SET
INTERIM CONSOLIDATED
AND
INTERIM SEPARATED FINANCIAL STATEMENTS
OF 2016**

**2016
Telšiai**

AB "ŽEMAITIJOS PIENAS"
Company number 180240752



AB "ŽEMAITIJOS PIENAS"
INTERIM CONSOLIDATED REPORT
30 JUNE 2016



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

CONTENTS

Interim half year report of 2016	2-21
I. GENERAL PROVISIONS	2-3
1. Reporting period, for which the interim report is prepared	3
2. Main data on the issuer	3
3. Information on companies of the Group and branches	3
4. Nature of main activity	4
II. INFORMATION ON THE ISSUER'S AUTHORISED CAPITAL, SECURITIES, SHAREHOLDERS AND MANAGEMENT BODIES	
5. Information on agreements with intermediaries of securities in public circulation	4
6. Data on trading shares of companies from the Group in regulated markets	4
7. Authorised capital	6
8. Procurement of own shares	6
9. Shareholders	6
10. Risk management	8
11. Information on activity results	9
12. Activity plans and forecasts	10
13. Environmental protection	11
14. Main events during the reporting period	12
15. Issuer's bodies	16
16. Members of the company's collegial bodies	17
17. Transactions with associated parties	18
18. Employees	18
19. Data on publicly disclosed information	20
20. Procedure of amending the Articles of Association	20
21. Information on following the Corporate Governance Code	21
22. Set interim consolidated and interim separated financial statements of half year 2016	22



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

1. Reporting period, for which the interim report is prepared

The report is prepared for the first half of January-June 2016 in accordance to the terms, requirements and procedure established by legal acts.

2. Main data on the issuer

Name	AB "Žemaitijos pienas"
Legal – organizational form Registered	Joint stock company Registered as a Joint Stock Company on June 23, 1993
Company number	180240752
VAT number	LT802407515
Authorised capital	14,028,750 EUR, divided into 48,375,000 ordinary registered shares at a nominal value of 0.29 EUR
Office address	Sedos str. 35, Telšiai, LT-87101
Phone No.	+ 370-444-22201
Fax	+ 370-444-74897
E-mail	info@zpienas.lt
Website	www.zpienas.lt

3. Information on the Company's subsidiaries (associate companies) and branches

Subsidiaries controlled by the company:

ABF "Šilutės Rambynas", company number 277141670.

Date and place of registration: 09/12/1992 Šilutė distr. mun., Šilutė, Klaipėdos str. 3.

Authorised capital – 2,493,028.50 EUR, AB "Žemaitijos pienas" owns 87.82% of the authorised capital.

Office address – Klaipėdos str. 3, Šilutė.

Nature of activity – production of fermented cheese.

Associated company SIA "Muižas piens", company number 40003786632.

The company owns 32%.

Office address – Rīga, Tēraudlietuves iela 22, LV-1026

Nature of activity – retail, wholesale.



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

Branches of AB "Žemaitijos pienas":

- Vilnius branch, address: Algirdo str. 40/13, Vilnius
- Kaunas branch, address: Kėdainių str. 8A, Kaunas
- Klaipėda branch, address: Šilutės str. 33, Klaipėda
- Panevėžys branch, address: J. Janonio str. 9, Panevėžys

4. Nature of main activity

The main activity of AB "Žemaitijos pienas" is creation, production and selling of dairy products (fermented cheese and cheese products, prepacked cheese and cheese products, melted cheese and cheese products, creams, curd creams, butter dairy spreads, mixed spreads, milk fat, pasteurized cream, buttermilk, whey, dry dairy products, fresh dairy products (milk, cream, curd, curd products, yoghurts, deserts, curd cheese deserts, glazed curd cheese deserts, fermented dairy products)) (EVRK 155000) in Lithuanian and foreign markets.

Main activity of AB-F "Šilutės Rambynas" – production and selling of fermented cheese and cheese products, production and selling of pasteurized cream, pasteurized buttermilk, concentrated whey.

II. INFORMATION ON THE ISSUER'S AUTHORISED CAPITAL, SECURITIES, SHAREHOLDERS AND MANAGEMENT BODIES

5. Information on agreements with intermediaries of securities in public circulation

On July 16, 2004 the company concluded an agreement with AB "Šiaulių bankas", address: Tilžės str. 149, Šiauliai, under which starting from July 23, 2004 AB "Šiaulių bankas" was entrusted to manage the securities issued by the company.

6. Data on trading the Company's shares in regulated markets

ISIN number	LT0000121865
Acronym	ZMP1L
List/segment	BALTIC SECONDARY LIST
Nominal value	0.29 EUR
Name of the issuer's securities	Ordinary registered shares
Amount issued (pcs.)	48,375,000

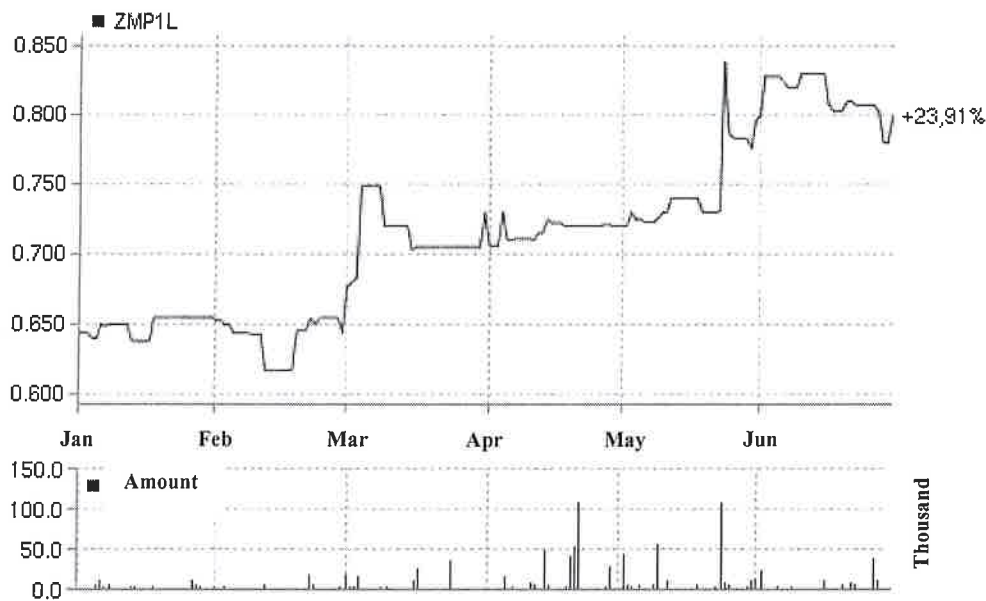
AB “ŽEMAITIJOS PIENAS”
Company number 180240752

Listed emission (pcs.)	48,375,000
Listing start date	13/10/1997
Total number of voting rights granted by the shares (pcs.)	46,304,379
Amount of shares controlled by the Company	2,070,621 pcs.

Only shares issued by the company are quoted in the additional list of “NASDAQ OMX Vilnius” stock exchange (symbol – ZMP1L). The ISIN number of securities – LT0000121865.

Information on the transactions of AB “Žemaitijos pienas” shares completed in the Vilnius stock exchange within the first half year of 2016 and price dynamics are presented below.

Period of trading securities January – June of 2016¹:



Historical data of trading securities²:

¹

<http://www.nasdaqomxbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt¤cy=0&downloadcsv=0&date=&start=2015.01.01&end=2015.06.30>

²

<http://www.nasdaqomxbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt¤cy=0&downloadcsv=0&date=&start=2015.01.01&end=2015.06.30>

AB “ŽEMAITIJOS PIENAS”
Company number 180240752

Indicator	2012	2013	2014	2015	2016
Opening price	0.679	0.600	0.816	0.703	0.640
Maximum price	0.735	0.833	0.888	0.730	0.658
Minimum price	0.536	0.596	0.690	0.610	0.617
Final price	0.600	0.774	0.703	0.644	0.645
Turnover in pcs.	1 514 200	2 864 080	1 799 959	639 686	86 660
Turnover in millions	0.96 EUR	2.09 EUR	1.43 EUR	0.42 EUR	0.06 EUR
Capitalization in millions	29.03 EUR	37.44 EUR	34.01 EUR	31.15 EUR	31.20 EUR

It should be noted that the issuer’s securities were not traded in other exchanges and other organized regulated markets.

7. Authorised capital

On June 30, 2016 the authorised capital of AB “Žemaitijos pienas” was comprised of:

Type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Part of the authorised capital (%)
Ordinary registered shares	48,375,000	0.29	14,028,750	100

All shares are paid in full and no security ownership transfer restrictions apply to them.

8. Procurement of own shares

10 units (with a total value of 18,000 Litass (Eur 5,21) of AB “Žemaitijos pienas” ordinary nominal shares with a value of 1 (one) Litas each were purchased during the fiscal year of 2011 within the official offer submarket of AB “Žemaitijos pienas” operating in the “NASDAQ OMX Vilnius” stock exchange.

In December, 2012 the Company purchased 1,360,010 shares for an amount of 2,992,000 LTL (Eur 866,543) in the “NASDAQ OMX Vilnius” exchange, all shares are paid in full by the Company, currently the Company owns 2,070,621 of its own shares, the Company has not purchased any own shares within the period from 2013 to 06/2016. Currently the company owns 2,070,621 of its own shares, which accounts for 4.28% of all AB “Žemaitijos pienas” shares. The company has not transferred ownership of any own shares within the reporting period.

9. Shareholders and shareholder rights

According to the date of June 30, 2016, the Company’s shares were owned by 3040 shareholders.

The following persons own more than 5% of the authorised capital and votes in AB “Žemaitijos pienas” by property right (data of June 30, 2016):

AB „ŽEMAITIJOS PIENAS“
Company number 180240752

Ser. No.	Shareholder	Number of shares owned by property right	Part of authorised capital and votes owned by property right, %	Part of votes controlled with associated persons ³ , %
1	Pažemeckas Algirdas personal code *****	21,589,380	44.63	50.88
2	SEB SA OMNIBUS ⁴ (funds/inst. clients), Luxemburg	3,413,962	7.06	7.06
3.	Pažemeckienė Danutė personal code *****	3,025,820	6.25	50.88
4	AB „Klaipėdos pienas“, company number 240026930, Šilutės str. 33, 91107 Klaipėda	2,901,844	6.00	6.00
5.	AB „Žemaitijos pienas“ (own shares purchased)	2,070,621	4.28	4.28
6.	Other shareholders	15,373,373	31.78	31.78
	TOTAL	48,375,000	100	

All issued shares grant shareholders equal rights, established in the Law on Companies of the Republic of Lithuania, other legal acts and the Articles of Association.

No restrictions or other limitations apply to transferring securities. Shareholders exercise their property and non-property rights and have the obligations established in the Law on Companies of the Republic of Lithuania, other legal acts and the Articles of Association.

Restrictions of voting rights. All shares of the company granting voting rights are of equal nominal value, every share grants one vote to a shareholder in the General Meeting of Shareholders.

The shareholders of the company have the following property rights:

to receive a part of the company's profit (dividend); to receive a part of the company's assets in case of liquidation; to receive shares for free if the company's authorised capital is increased from the funds of the company, except cases established by law; if the shareholder is a natural person – to devise and bequest all or part of his/her shares to one or several persons; to sell or otherwise transfer all or part of the shares to other persons in accordance to the procedure established by law;

³ Data on the part of the capital owned with associated persons may be inaccurate, because the link between individuals is hard to establish;

⁴ We do not have a legal entity code or registered office address;

AB “ŽEMAITIJOS PIENAS”
Company number 180240752

The shareholders of the company have the following non-property rights:

to participate in meetings; to vote in meetings according by using their rights granted by the shares; to receive non-confidential information on the company’s economic activity; to elect and be elected into the company’s management and control bodies, to have any position in the company, if not provided otherwise in the Law on Companies of the Republic of Lithuania of the company’s Articles of Association; to provide specific proposals on how to improve the company’s financial, economic, organizational, etc. activity, to appeal to court the decisions or actions of shareholder meetings, the Supervisory Council, the Board or the Chief Executive Officer of the company infringing the laws of the Republic of Lithuania, the Articles of Association, or property and non-property rights of shareholders. One or several shareholders have the right to demand compensation of losses without separate authorisation; other non-property rights established by law.

A person acquires all rights and obligations associated with the part of the acquired company’s authorised capital and/or voting rights: in case of increasing the authorised capital – from the date of registering changes associated with increasing the authorised capital and/or voting rights in the company’s Articles of Association, in other cases – from the date of receiving property rights in the part of the company’s authorised capital and/or voting rights.

10. Risk management

The company uses risk assessment methodologies for qualifying main risk factors, establishing risk management priorities, preparing risk management plans and properly and timely managing the risk specific to the activity of the company.

The company is engaged in milk processing, therefore the main risk factors or possible factors creating risk for business are possible changes in the raw milk and dairy product markets, as well as possible political, legal, social and technological changes, which are directly or indirectly associated with the business of AB “Žemaitijos pienas” and could have a negative impact on the company’s money flows and activity results.

The company’s main raw material is milk, therefore the supply of raw milk in the European Union has a high impact on the company’s financial situation, and especially big changes in the raw milk procurement segment were influenced by removing quotas for milk producers. A sharp decrease in dairy product prices in the global market in 2015-2016 also affected the financial situation of the company.

Furthermore the business of the company (especially collection and transportation of milk) is a labour-intensive activity. Fuel prices, increase in employee salaries, poor situation in dairy product markets may have a negative effect the Company’s growth potential and activity results.

The company specializes in production of fresh dairy products and cheese, the majority of its income comes from selling these products. Due to this reason, changes in demand and prices of fresh dairy products may have an effect on the company’s income, profit and the general financial situation. Competition in local or international dairy product markets may have a negative effect on the price of products.

Every employee of the company has the right to voice his/her opinion or present findings regarding any matters associated with the company’s activity and/or to indicate various risk factors, which could affect the company’s activity in one way or another. This has been made possible by using advanced “Lean” methods, which are supposed to help improve the company’s competitiveness and effectiveness of activities – it is a continuous process, so positive results are also expected during consecutive reporting periods. Assimilation and implementation of advanced methods and employee training are in initial stages.

AB "ŽEMAITIJOS PIENAS"
Company number 180240752

The Company prohibits the risks for the insolvency of clients, avoiding paying and/or other factors, which could cause losses for the company, also various contractual terms are established to maximize ensuring that clients shall pay for the goods sold; various measures of ensuring fulfilment of obligations are applied.

11. Essential data on the company's activity results

Main indicators reflecting the Company's activity during the 1st half of 2016 thous. Eur, by comparing it to the corresponding period of the previous year:

Financial indicators	The Company	
	1 st half of 2016	1 st half of 2015
Turnover	66,158	70,165
Total profit	14,967	11,218
Profit before taxes, interest and amortization	6,156	2,151
Profit before taxes	4,359	613
Amount of investments in fixed assets	1,828	5,910

Main indicators reflecting the Group's activity during the 1st half of 2016 thous. Eur, by comparing it to the corresponding period of the previous year:

Financial indicators	The Group	
	1 st half of 2016	1 st half of 2015
Turnover	67,131	72,539
Total profit	16,318	14,106
Profit before taxes, interest and amortization	6,343	4,274
Profit before taxes	4,359	2,437
Amount of investments in fixed assets	2,123	6,207

Comparison of raw milk amounts procured (tones) and prices (Eur) during 1st half year of 2016 and first half year of 2015:

Procurement of raw milk	1 st half of 2016	1 st half of 2015
Amount of natural milk purchased, thous. tones	137.8	137.5
Price of procured milk, Eur/t	176.1	204.3

AB "ŽEMAITIJOS PIENAS"
Company number 180240752

The distribution of products sold by the Group of AB "Žemaitijos pienas" in Lithuania and produced for export during 1st half year of 2016 and first half year of 2015 by type of product was the following, thous. Eur:

Name of product group	Group's turnover, thous. Eur	
	1 st half of 2016	1 st half of 2015
Fermented cheeses	18,926	26,476
Fresh dairy products	34,198	27,116
Butter and blended fat spreads	4,648	3,793
Dry dairy products	5,021	5,177
Ice cream	10	36
Other	4,328	9,941
Total	67,131	72,539

The distribution of products sold by the Company of AB "Žemaitijos pienas" in Lithuania and produced for export during 1st half year of 2016 and first half year of 2015 by type of product was the following, thous. Eur:

Name of product group	Company's turnover, thous. Eur	
	1 st half of 2016	1 st half of 2015
Fermented cheeses	18,110	24,854
Fresh dairy products	32,974	22,995
Butter and blended fat spreads	4,648	3,793
Dry dairy products	5,021	5,177
Ice cream	10	36
Other	5,395	13,310
Total	66,158	70,165

12. Activity plans, development and forecasts

The long-term goals of AB "Žemaitijos pienas" – to become a strong technically modern, reliable company, attractive to investors; to create a profitable market for our products in the European Union and the Baltic States; to maintain the level of product quality; to fully utilize our current production capacity; to systematically collect intellectual capital.

Main current objective of the company:

- to procure milk under market conditions, but not at higher prices than other market participants are purchasing raw milk in Lithuania;

AB "ŽEMAITIJOS PIENAS"
Company number 180240752

- to increase sales at prices favourable for the company. To concentrate on the main portfolio of strongest products and maintain an internal market share of at least 20%. To focus on sales of higher added-value products in export markets;
- to improve marketing functions and the name of the company;
- to reduce production costs and the cost of products;
- to discontinue unprofitable production as fast as possible;
- to reduce distribution costs;
- to motivate employees only for the final result and following undertaken plans.

The company understands the importance of human resources on the results of the company, therefore special focus on team-building, improvement of competencies and qualification are planned for the near future, as well as forming specific skills, reviewing and improving motivational systems. The situation of the labour market is considered unfavourable; therefore conditions for attracting and retaining the best people in strategic business areas, markets and critical positions are being prepared.

Due to the complicated situation in the dairy sector, the "Žemaitijos pienas" group refrains from publishing turnover and profit forecasts for upcoming reporting periods.

13. Environmental protection

According to the established criteria, AB "Žemaitijos pienas", a company producing and selling dairy products, is classified in the group of facilities indicated in annex 1 of the IPPC (Integrated Pollution Prevention and Control) rules. An integrated pollution prevention and control certificate was issued to the company on 29/12/2006, the expiration date of which is unlimited, but can be corrected due to changes. The company does not have a negative effect on the environment, for the reduction of which any emergency measures should be taken, but the company continually monitors its activity indicators, plans and allocates investments, which would allow reducing production, activity and energy costs and would fully improve the environmental impact of the company. We are always ready to tackle environmental problems together with the public.

The company is continually improving the Integrated Quality and Food Safety Management System, corresponding to the requirements international BRC, ISO 9001, ISO 22000, FSSC (ISO 22000, ISO/TS 22002-1) and IFS standards, is planning to implement the ISO 14000 Environmental Management System.

The company does not have a big negative effect on the environment. AB "Žemaitijos pienas" transfers contaminated wastewater to be treated by the local water treatment plant, which were fully reconstructed in 2010, by implementing the Venta – Lielupė river basin investment programme project for 44.43 million Litas (Eur 12,87 million). After reconstruction of the Telšiai water treatment plant the water is cleaned of Nitrogen and Phosphorus. In order to correspond to the requirements of ED directives for wastewater treatment, UAB "Telšių vandenys" started to implement the "Telšių dumblo apdorojimo įrenginių statyba" (*Construction of Telšiai mud processing equipment*) project with a value of more than 24.4 million Litas (Eur 7,07 million).

The company is not included in the National allocation plan for emission allowances for the period of 2013-2020.

Natural resources are used efficiently. Environmental impact is controlled according to coordinated monitoring programmes. The company continually updates its vehicle fleet in order to reduce air pollution. The company uses best available production technique in order to ensure pollution reduction from stationary sources of pollution.

The company presents annual reports on the amounts of water used and sewage produced on the AIVIKS data base, as well as levels of emitted air pollution, amounts of chemical and



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

preparations used, information on levels of fluorinated gasses and ozone-depleting substances, and the company's environmental monitoring reports.

The company has scenarios for possible accidents, cause and response plans, danger identification of the ammonia cooling compression room and petrol station storage assessments in terms of safety.

Waste is treated according to environmental requirements, annual reports on accumulated waste and volumes are presented by using the electronic data collection system. Hazardous and non-hazardous materials are managed in the territory in a way which doesn't cause a negative impact on the environment, sorted, storage locations are marked accordingly. Waste is timely removed by waste removal companies. AB "Žemaitijos pienas" is performing sorting of secondary raw materials from common waste and systematically transfers them to collectors and recyclers. AB "Žemaitijos pienas" contributes to conservation and preservation of the environment. The specialists from Public institution "Pakuočių tvarkymo organizacija" (Packaging Management Organization) have given two seminars to employees of the company, taught the basics of correct sorting at work and at home, trash bins for recycling were delivered. In this way employees can also contribute to maintaining nature cleaner and more beautiful.

Packages are an important part of AB "Žemaitijos pienas" production process. Products are packaged into glass, PET, plastic, paper, composite, wooden and other types of packages. The company signed an agreement for managing packaging waste with Public Institution "Pakuočių tvarkymo organizacija" which is responsible for collection and recycling of packages.

The company continually implements investment projects for implementing new modern technologies, enabling more efficient use of energy resources, reducing air pollution, applies other means of environmental protection:

- On June 12, 2012 AB "Žemaitijos pienas" presented project information form for investment project "AB "Žemaitijos pienas" rūgščių išrūgų perdirbimo linijos įrengimas, sumažinant atliekų kiekį" (*Installation of an acid whey processing line in AB "Žemaitijos pienas" for reducing the amount of waste*) to the Lithuanian Environmental Investment Fund (LEIF). The 1st stage of the project was completed in 2014 and the first part of the subsidy was received, and the 2nd stage – in 2015 and the second part of the subsidy from the LEIF fund was received.

- The boiler room modernization project "10 MW garo katilus naudojančios medienos kuro statyba Telšių mieste" (*Construction of 10 MW steam boiler using wood fuel in Telšiai*) was completed in 2014 by replacing the type of fuel used from gas to renewable energy. A new biofuel boiler started to be used after reconstruction of the boiler station and natural gas will be used as reserve fuel.

No significant events in the environmental protection area took place in the first half of 2016.

14. Objective condition of the company, overview of performance and development of activity

AB "Žemaitijos pienas" is a Lithuanian company with old dairy processing traditions, cherishing classic dairy product recipes and technologies, promoting the renewed use of products with heritage, culture and century-old history.

AB "Žemaitijos pienas" was founded in 1924. Then the Telšiai dairy factory was launched, the capacity of which was considered really big at that time. In the end of 1984 the Telšiai dairy factory started operation in new facilities, which operated until opening the largest cheese factory in the Baltic States and privatizing it in 1993. AB "Žemaitijos pienas" was registered on



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

June 23, 1993 at the Telšiai district board, reregistered on October 16, 1998 in the Ministry of Economy of the Republic of Lithuania.

The company expanded the variety and improved the quality of products by consulting with the best European and US companies by focusing on implementing new technologies, using the world's most advanced milk membrane treatment technology "Bactocath". Impeccable work is the company's business card, which is the indisputable evidence of the reliability and solidity of AB "Žemaitijos pienas" by establishing its products in the local market, as well as driving highlight to Samogitia and Lithuania all over the world. Currently more than 1300 professionals and creative employees are working in the company, their input, optimism and wisdom allows the company to achieve ambitious goals and overcome new challenges in local and international markets.

Many years of work experience and unique recipes allow providing a wide range of products of great taste and quality to the customer. Currently the company is producing over 200 new and already appreciated dairy products – a group of ecological dairy products "DOBILAS". Since their introduction "MAGIJA" products have earned the confidence of consumers and gained astounding popularity. Customers grew fond of fermented and melted cheese, the only Lithuanian unripened pealable cheese strings "PIK-NIK". The festive 10-year anniversary of producing this exceptional product was celebrated on the 8th of March, where it was recalled that almost every year "PIK-NIK" received awards in various national and international exhibitions.

The company produces milk, kefir, yoghurt, sour cream, cream, glazed curd cheese deserts, natural butter and butter enhanced with various additives, as well as a lot of other products favoured by consumers. Our country's culinary heritage is also upheld. "ŽEMAITIJOS PIENAS" homemade curd cheese and the Samogitian sour cream butter are only produced using traditional raw materials and additives and traditional technologies, therefore these products of exceptional taste have certificates from the Lithuanian Culinary Heritage Fund and are marked with the special mark of the Fund.

Many years of work experience and unique recipes let us provide a wide range of products of great taste and quality to the customer.

The company expanded the variety of products and improved their quality by consulting with the best European and American companies, by focusing on implementing new technologies, by using the world's most advanced milk membrane treatment technology "Bactocath". The company produces: fresh dairy products, butter, fermented and melted cheese, dry dairy products.

Products of the company are appreciated by many consumers in Lithuania and abroad. AB "Žemaitijos pienas" exports products to the European Union, the Baltic States, Russia, Belarus, Ukraine, Israel, Croatia and other countries.

Many AB "Žemaitijos pienas" products comply not only with European but also with worldwide standards; they received gold medals and diplomas in international exhibitions.

In 2006 the Lithuanian State Food and Veterinary Service, by Order Nr. B1-800 of the Director of the Service "On veterinary approval of animal origin food management entities" of 13/12/2006 superseded Order No. 4-104 "On assigning veterinary approval numbers" of 20/07/1995 and approved the conformity of AB "Žemaitijos pienas" dairy product production process to the requirements of new EU hygiene regulations and assigned veterinary approval number 78-01 P.

Also in 2006 the German accreditation institution DAR audited the conformity of AB "Žemaitijos pienas" laboratory to the requirements of DIN EN ISO/IEC 17025:2000 and approved the conformity with an accreditation certificate DAR registration number DAP-PL-3977.00.

The company started producing ecological products in 2007. Public institution "EKOAGROS" approved that AB "Žemaitijos pienas" complies with the requirements of EU Council Regulation EC No. 889/2008 and Rules of ecological agriculture. Certified production of ecologic products: ecological cheese, ecological milk, ecological yoghurts and other



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

products. Lately the assortment of ecological products is being increased: Ecological hard cheese was certified in 2010, ecological curd, ecological curd cheese desert production was started in 2011, 2012 – ecological curd cheese, clabber.

In May, 2008, AB "Žemaitijos pienas" purchased 87.82% ordinary registered shares of ABF "Šilutės Rambynas" (754,938 pcs.), which were owned by AB "Žemaitijos pieno investicija" by property right for 10,878,000 Litas (Eur 3,150,487), i.e. for 14.41 Litas (Eur 4.17) per share.

AB "Žemaitijos pienas" and AB-F "Šilutės Rambynas" pays great attention to product quality and safety, and satisfying our client's needs. For this reason a common Integrated Quality and Food Safety Management System (according to requirements of ISO 22000:2005 and ISO 9001:2008) was started to be developed in 2008.

The group of "Žemaitijos pienas" companies prepared a common Integrated Quality and Food Safety Management System (IMSKVS) according to the requirements of ISO 9001 and ISO 22000 in 2009, which was certified by the Management system certification and technical assessment company "Bureau Veritas Lit" on April 30, 2009.

Certification area – creation, production and sales of dairy products. ISO 9001 – the management system certificate indicates that companies have quality management systems ensuring effective management of the companies according to values and goals acknowledged throughout the world. ISO 22000 – the food safety management system certificate indicates that the company ensures food safety in all stages of production and the supply chain up to consumption. Companies with the ISO 22000 certificate must pay utmost attention to the production of products, implementing good hygiene and good production practices in order to ensure safety and a quality end-product.

AB "Žemaitijos pienas" decided to achieve higher rating – assessment according to BRC (Global Food Standard Issue 5 (British Retail Consortium) standards).

The IMSKVS was improved by high requirements of the BRC standard. In the beginning of 2010, auditors of certification institution "Bureau Veritas Certification" assessed the conformity of AB "Žemaitijos pienas" cheese-butter and melted-prepacked cheese production to the requirements of the BRC standard, conformity is verified by a certificate.

The BRC (British Retail Consortium) Global Standard for Food Safety is used throughout the world as the assessment system of various companies (traders or processors), helping produce safe food products and choose reliable suppliers. The BRC Global Standard for Food Safety is one of the most effective means usually used for assessing the reliability of suppliers. Following the experience of AB "Žemaitijos pienas", the staff of AB "Klaipėdos pienas" also pursued assessment according to BRC requirements, and the staff of AB-F "Šilutės Rambynas" did that at the end of the year.

In 2010 the laboratory of AB "Žemaitijos pienas" was reregistered to UAB "Nepriklausomą tyrimų laboratorija" (*Independent Testing Laboratory*), which was audited by the "DAKKS" auditing institution according to the requirements of DIN EN ISO/IEC 17025:2005, conformity is by an accreditation certificate

In order to demonstrate confidence in our food quality and safety systems in the beginning of 2012 our company also chose the, so called, "unannounced" audit method according to BRC Global Standard for Food Safety Issue 6. This allows a certification institution to perform an independent unannounced assessment of the company's production conditions and procedures. No other Lithuanian food production company certified according to BRC requirements has such an "advanced" certificate.

In April of 2012, "Bureau Veritas" performed audit and provided an FSSC 22000 certificate for the first Lithuanian food production company AB "Žemaitijos pienas".



AB “ŽEMAITIJOS PIENAS”
Company number 180240752

The FSSC scheme includes the international ISO 22000 food safety standard, necessary programs and additional FSSC requirements, indicated in standard ISO/TS 22002-1. The FSSC scheme was acknowledged by the global food Safety Initiative (GFSI).

In 2013 AB “Žemaitijos pienas” became the first food production company in the Baltic States with a BRC A+ level certificate. This especially high assessment recognized throughout the world means that unannounced food safety and quality audits are performed in one of the biggest and most modern dairy processing companies in Lithuania.

The European Commission included the **Samogitian sour cream butter** in the **Guaranteed Traditional Product Register** on 10/01/2013. This is the fifth Lithuanian product with a protected product name in the European Union. Recognition at EU level allows marking the product with the special EU mark with reference “Traditional Specialty Guaranteed”. It indicates that the product name is protected from direct or indirect commercial use, imitation or evocation or other activity, which could confuse consumers.

With increasing globalization of the supply process and changes in the sales markets, additional requirements for ensuring the level of food safety arise. One of such requirements is the IFS certificate in order to export the products produced by AB “Žemaitijos pienas” to Germany.

On April 7-15, 2014, the auditors of the “Det Norske Veritas” certification institution assessed the conformity of AB “Žemaitijos pienas” to IMSKVS to IFS requirements and awarded a certificate of the highest level. IFS – the International Food Safety Standard using a unified assessment system of selected suppliers. It was created in 2003 by associated members of the German retailer federation – Hauptverband des Deutschen Einzelhandels (HDE) and its equivalent in France.

In the beginning of this year auditors from “Bureau Veritas Certification” audited the IMSKV system according to ISO 22000, FSSC 22000, BRC and IFS requirements.

On January 26-28, 2016 the auditors of the “Bureau Veritas Lit” division reassessed the conformity of the Integrated Quality and Food Safety Management System (IMSKVS) to the requirements of standards **ISO 22000** and **FSSC 22000** and the requirements of the **BRC** (British Retail Consortium) Issue 7. Conformity was evaluated with the highest possible AA+ level.

On April 4-8, 2016 the auditor or “Bureau Veritas” division in Hungary assessed the conformity of IMSKVS to the requirements of the international **IFS** standard. Conformity was evaluated A (98.78%).

14.1. Important events since the end of the previous fiscal year

AB “Žemaitijos pienas” is a participant of global and national exhibitions and other events. Participation in events is evidenced with various awards, the first half of 2015 was not an exception, the company was awarded with awards of the highest quality:

Awards in 2016:

- AB “Žemaitijos pienas” Samogitian sour cream butter received a certificate from Public institution the Culinary Heritage Fund. (06/01/2016 certificate No. 3P)
- AB “Žemaitijos pienas” hard cheese “Džiugas” (grated) was the most popular hard cheese in “The most popular products of 2015” organized by the Lithuanian Trade Association (Vilnius, 16/03/2016).



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

- AB "Žemaitijos pienas" glazed vanilla curd cheese desert "Magija" was the most popular product of the producer in "The most popular products of 2015" organized by the Lithuanian Trade Association (Vilnius, 16/03/2016).
- AB "Žemaitijos pienas" "Žemaitijos" half fat (9%) curd was the most popular product of the producer in "The most popular products of 2015" organized by the Lithuanian Trade Association (Vilnius, 16/03/2016).
- AB "Žemaitijos pienas" peelable cheese strings "Pik-Nik" was the most popular product of the producer in "The most popular products of 2015" organized by the Lithuanian Trade Association (Vilnius, 16/03/2015).
- AB "Žemaitijos pienas" "Žemaitijos" kefir cocktail with bananas and strawberries was awarded with a gold medal in "AgroBalt2016" (the 21st international agriculture, food and packaging industry exhibition) (Kaunas, 31/03/2016-02/04/2016).
- AB "Žemaitijos pienas" hard cheese "DŽIUGAS Gourmet, 36 months" received the **Crystal Taste Award** in the "Superior Taste Award 2016" food and drinks contest organized by the "International Taste and Quality Institute" (iTQi) (Brussels, 04/05/2016)
- AB "Žemaitijos pienas" grated cheese mix of cheese „DŽIUGAS" for salads received a diploma in the International food exposition "Sial Innovation" 2016. (China, Shanghai, 07/05/2016)

15. Issuer's bodies

The issuer's bodies are the General Meeting of Shareholders, the Supervisory Council, the Board or the Chief Executive Officer (General Director), as well as the administration of the company – subordinate to the Chief Executive Officer, and it consists of structural parts – departments. Currently the following departments are functioning – Financial, Personnel and Legal, Transport and Logistics, Production and Sales. Management bodies are the Board and the Chief Executive Officer.

The Supervisory Council of the company is a collegial supervisory body overlooking activities of the company. The Council is chaired by the Chairman. The company's Council, which consists of 3 members, is elected by the General Meeting of Shareholders for a period of 4 years. The company's Articles of Association indicate that the number of tenures of a council member is unlimited.

The company's Board is a collegial management body, representing the company's shareholders for the period until their meetings and making decisions on the most important matters of the company's economic activity. The working procedures of the Board are established by the Board's Rules of Procedure. The Board consists of 5 members. Members of the Board are elected by the Supervisory Council for no more than 4 years. The number of tenures is unlimited. The activity of the Board is managed by the Chairman, who is elected among members of the Board.

The Chief Executive Officer of the company is the General Director, who follows the company's Articles of Association, decisions of the General Meeting of Shareholders, decisions of the Board and other local acts of the company.

The Chief Executive Officer organizes the company's activity and carries the actions needed for performing his functions, implementing the decision of the company's bodies and ensuring

AB “ŽEMAITIJOS PIENAS”
Company number 180240752

activity of the company. The company’s General Director is responsible and regularly reports to the Board.

The company’s bodies follow the laws and other legal acts of the Republic of Lithuania and the requirements established in the company’s Articles of Association in their activity. The company’s bodies are elected, assigned and called off according to the provision of the aforementioned documents.

16. Members of the company’s collegial bodies

16.1. The Supervisory Council of the company

Name, surname	Position	Number of shares owned in pcs. and part of the authorised capital (%)	Tenure start	Tenure end	Started working at “Žemaitijos pienas”
Romusas Jarulaitis	Chairman of the Supervisory Council (Manager) ⁵	1,105,510 2.29	25/04/2014	25/04/2019	26/01/1988
Robertas Pažemeckas	Member of the Supervisory Council (General Director) ⁶	-	25/04/2014	25/04/2019	26/08/2002
Gražina Norkevičienė	Member of the Supervisory Council	-	25/04/2014	25/04/2019	-

16.2. The Board of the company

Name, surname	Position	Number of shares owned in pcs. and part of the authorised capital (%)	Tenure start	Tenure end	Started working at “Žemaitijos pienas”
Algirdas Pažemeckas	Chairman of the Board, Manager of the Group’s brands	21,589,380 44.63	07/02/2014	07/02/2019	26/12/1986

⁵ The position is held on basis of employment relations;

⁶ The position is held on basis of employment relations;

AB “ŽEMAITIJOS PIENAS”
Company number 180240752

Marius Dromantas	Member of the Board, Director of Logistics ⁷	-	07/02/2014	07/02/2019	01/12/2003
Dalia Gecienė	Member of the Board, Chief Accountant	475,160	07/02/2014	07/02/2019	29/07/1986
Ramūnas Dargis	Director of Production	-	02/04/2016	02/04/2020	26/05/2003

16.3. The Administration of the company

Name, surname	Position	Number of shares owned in pcs.	Part of the authorised capital (%)
Robertas Pažemeckas	Director General	-	-
Dalia Gecienė	Chief Accountant	475,160	0.98

No guarantees or warranties and/or other means for securing obligations of the management bodies or members of the Supervisory Council were given during the first 6 months of 2016.

17. Transactions with associated parties

There are no agreements where the issuer is a party, which would come into force, change or be terminated if control of the issuer changes.

The issuer has not concluded any agreements with the members of its bodies or employees, where compensation for resigning or dismissal without reasonable cause, or termination of employment due to changes in control of the issuer would be indicated.

18. Employees

According to the data of June 30, 2016 AB “Žemaitijos pienas” has 1202 employees, comparing with the first half of 2015 the number of employees has slightly decreased, i.e. 1247 employees were working in the company during the corresponding period of the previous year.

	30/06/2016	30/06/2015	30/06/2014	30/06/2013
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⁷ The position is held on basis of employment relations;

AB "ŽEMAITIJOS PIENAS"
Company number 180240752

Average number of employees	1202	1247	1225	1242
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Grouping employees by education:

Number of employees by education:	30/06/2016	30/06/2015	30/06/2014	30/06/2013
With a Master's degree	51	48	40	35
With higher education	186	209	136	202
With non-university higher education	197	294	270	290
With vocational education	296	229	263	224
With secondary education	377	379	378	427
With unfinished secondary education	95	88	138	64
Total:	1202	1247	1225	1242

Number of AB "Žemaitijos pienas" employees according to corresponding groups and their average salaries according to corresponding employee work groups:

Number of employees according to groups	30/06/2016		30/06/2015		30/06/2014	
	Number of employees	Average salary, EUR	Number of employees	Average salary, EUR	Number of employees	Average salary, EUR
Management	28	2684	27	2343	15	2225
Specialists	249	1157	252	1149	248	997
Workers	925	769	968	740	962	703
Total:	1202		1247		1225	

Average salaries in AB "Šilutės Rambynas" according to corresponding employee work groups:

Number of employees in employee groups	30/06/2016		30/06/2015		30/06/2014	
	Number of employees	Average salary, EUR	Number of employees	Average salary, EUR	Number of employees	Average salary, EUR
Management	7	1636.23	7	2036.10	6	1920.03
Specialists	39	776.17	86	1074.15	78	887.06
Workers	145	626.57	103	772.52	104	599.84

The rights and obligations of AB "Žemaitijos pienas" and ABF "Šilutės Rambynas" employees are established in their job descriptions and other local acts. Special rights or obligations are not established in employment agreements.























AB “ŽEMAITIJOS PIENAS”
Company number 180240752

In carrying out the human resource policy the company seeks to create and develop long-term relations with employees. Employees of the company have the possibility to broaden their knowledge and skills. Training programmes are prepared for: production workers, production machine operators, production operators, production machinists-operators, production foremen.

19. Data on publicly disclosed information


Information (essential) associated with the Company over the system (website) of Vilnius stock exchange (AB “NASDAQ OMX Vilnius”). Records of all essential events are stored in the Central Regulated Information Database and published on the company’s website www.zpienas.lt.

The following essential events were announced during the reporting period:

Date	Market	News	Language
28/06/2016 12:18	VLN	Decision of the Board of AB “Žemaitijos pienas” of June 27, 2016	EN
23/06/2016 18:00	VLN	On a transaction concluded Attachments: 	EN
16/06/2016 07:42	VLN	On a transaction concluded Attachments: 	EN
14/06/2016 17:15	VLN	Decisions of AB “ŽEMAITIJOS PIENAS” Extraordinary General Meeting of Shareholders of June 14, 2016 Attachments: 	EN
24/05/2016 13:30	VLN	On convening the General Meeting of Shareholders Attachments: 	EN
13/05/2016 18:00	VLN	CORRECTION: Financial documents of AB “Žemaitijos pienas” Attachments:    	EN
29/04/2016 18:00	VLN	Financial documents of AB “Žemaitijos pienas” Attachments:   	EN
29/04/2016 17:00	VLN	Decisions of AB “ŽEMAITIJOS PIENAS” General Meeting of Shareholders of April 29, 2016 Attachments:     	EN
08/04/2016 18:00	VLN	AB “ŽEMAITIJOS PIENAS” Board draft decisions on the items of the agenda for the Ordinary General Meeting of Shareholder scheduled to take place on April 29, 2016 Attachments:      	EN
01/04/2016 17:00	VLN	On appointing a member of the company’s Board	EN
01/04/2016 16:00	VLN	On convening the Ordinary General Meeting of Shareholders	EN



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

Date	Market	News	Language
10/03/2016 22:56	VLN	On interim financial statements	EN
29/02/2016 18:00	VLN	Unaudited preliminary activity results of AB "Žemaitijos pienas" group of 2015 Attachments: 	EN
07/01/2016 14:16	VLN	On interim financial statements	EN

In its activity AB "Žemaitijos pienas" follows the laws of the Republic of Lithuania, other legal acts regulating the activity of legal entities and the company's Articles of Association. The Articles of Association of AB "Žemaitijos pienas" can be changed according to procedure established by legal acts of the Republic of Lithuania.

21. Information on following the Corporate Governance Code

The company aims to follow most norms of the Corporate Governance Code. Information on how the company follows specific articles of the Corporate Governance Code is presented with the annual report of 2015. All information is also presented on the company's website <http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=LT0000121865&list=3;www.zpienas.lt>.

20 July 2016

General Director

Chief Accountant

Robertas Pažemeckas

Dalia Gecienė