



Confirmation of the Responsible Persons

Telšiai, September 2018 Nr. SE-18-04-388

We, the undersigned, Robertas Pažemeckas, Director General of Žemaitijos pienas, AB, and Dalia Gečienė, Chief Accountant, confirm that, to the best of our knowledge, interim unaudited consolidated financial statements of 6 months of the year 2018 have been prepared according to the accounting standards applied, they correspond to the facts and represent the property, obligations, financial status, profit or losses and cash flows of the Company and Group of Companies fairly and consolidated semi-annual report contains correct business development and activity review, the status of the Company and Group of Companies as well as the description of the main risks and uncertainties encountered.

Director General

Robertas Pažemeckas

Chief Accountant

Dalia Gečienė



AB "ŽEMAITIJOS PIENAS"

Consolidated Semi-Annual Report,
Package of Intermediate Consolidated Financial Statements,
Package of Individual Financial Statements
For the period from January to June 2018



CONSOLIDATED SEMI-ANNUAL REPORT

(all amounts are expressed in thousands of Euros, unless otherwise is specified)

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I. GENERAL INFORMATION ABOUT THE COMPANY

Reporting period for which the report is developed

The semi-annual consolidated report and financial statements have been prepared for the period from January to June 2018 in accordance with the terms, requirements and procedures established by legal acts. This document refers to AB "Žemaitijos pienas" (hereinafter referred to as the Company or Issuer), ABF "Šilutės Rambynas" (hereinafter referred to as the Group Company or Associated Company).

Basic data of the Company

Name	AB "Žemaitijos pienas"
Legal – organisational form	Public Limited Liability Company
Registered	23 June 1993, Telšiai
Entity identification number	180240752
VAT code	LT802407515
Authorised capital	EUR 14 028 750, divided into 48 375 000 ordinary registered shares; nominal value of one share is EUR 0.29
Shares granting voting right	46 207 329 ¹
Office address	Sedos Str. 35, LT-87101, Telšiai
Telephone	+ 370-444-22201
Fax	+ 370-444-74897
E-mail	info@zpienas.lt
WEB	www.zpienas.lt
Stock trading code	ZMP1L
ISIN number	LT0000121865

Data of AB "Žemaitijos pienas" are collected and stored in the State Enterprise Centre of Registers.

Brief history of the Company

The beginning of "Žemaitijos Pienas" dates back to 1924, when Telšiai dairy plant of high capacity was incorporated. In the end of 1984 Telšiai dairy plant activity moved to new premises and operated until opening and privatization of Telšiai cheese plant which was one of the largest in the Baltic States. AB "Žemaitijos pienas" was registered in the Register of Legal Entities on 23 June 1993 in Telšiai District Board and on 16 October 1998 it was re-registered in the Ministry of Agriculture of the Republic of Lithuania.

¹ Number of voting rights is determined after assessment of number of own shares purchased by the Company (2 167 671 pcs.) by 01-08-2018;



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Information about associated companies and branches of the Company

Company controlled by AB "Žemaitijos pienas":

ABF "Šilutės Rambynas", entity identification number 277141670, office address - Klaipėdos Str. 3, Šilutė. Date and place of registration: 1992-12-09, Šilutė District Municipality, Šilutė, Klaipėdos Str. 3. Authorised capital – EUR 2 493 028.50, AB "Žemaitijos pienas" holds 87,82% of authorised capital (shares) and votes. Telephone +370 441 77442, fax +370 441 77443, E-mail: info@rambynas.lt. ABF "Šilutės Rambynas" has no incorporated branches and representative offices.

SIA "Muižas Piens", entity identification number 40003786632, office address - Skaistkalnes 1, Riga, Latvia².

The Company holds 32% of shares of the associated company.

Field of activity – retail and wholesale.

Basic activity – retail sale of dairy products and other activities within the territory of the Republic of Lithuania aimed to realise AB "Žemaitijos pienas" activity.

Branches of AB "Žemaitijos pienas" :

- Vilnius Branch, address : Algirdo Str. 40/13, Vilnius
- Kaunas Branch, address : Europos Ave 36, Kaunas
- Klaipėda Branch, address: Šilutės Highway 33, Klaipėda
- Panevėžys Branch, address : J. Janonio Str. 9, Panevėžys

Branches of the Company fulfil the functions related to sale of goods (dairy products) within the set territory of the branch and take other actions or fulfil orders of the Company.

The Company has no incorporated representative offices.

Activity nature of the Company and associated company

The basic activity of AB "Žemaitijos pienas" (controlling company) is the development, production (NACE: C 10.5. Manufacture of dairy products; C 10.51. Operation of dairies and cheese making), and sales at Lithuanian and foreign markets of dairy products (fermented cheese and cheese products, pre-packaged cheese and cheese products, processed cheese and cheese products, cream, cream cheese, butter, dairy spreads, mixed spreads, milk fat, pasteurised cream, buttermilk, whey, dried milk products, fresh dairy products (milk, cream, curd, cheese products, yoghurt, desserts, curd cheese, glazed curd cheese, and fermented dairy products)).

The basic activity of ABF "Šilutės Rambynas" is the production and sale of fermented cheese and cheese products, as well as the production and sale of pasteurized cream, pasteurized whey and concentrated whey (NACE: C 10.5. Manufacture of dairy products; C 10.51. Operation of dairies and cheese making). Furthermore, the company provides transportation and storage services, services related to servicing of milk buying-up points and other services.

II. INFORMATION ABOUT AUTHORISED CAPITAL AND SECURITIES OF THE GROUP OF COMPANIES

Information about the contracts with intermediaries of public trading in securities

16 July 2004 the Company concluded a contract with AB "Šiaulių bankas", address: Tilžės Str. 149, Šiauliai, under which management of securities accounts of the Company was delegated to AB "Šiaulių bankas" as of 23 July 2004.

The register (accounting) of securities of ABF "Šilutės Rambynas" is kept by AB "Šiaulių bankas" under the contract dated of 16 July 2004.

² On 08-08-2018 the shares were disposed to UAB "Samogitija" under the Agreements for Sales and Purchase of Shares;

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Data about securities**AB "ŽEMAITIJOS PIENAS"**

ISIN number	LT0000121865
Abbreviation	ZMP1L
List/segment	BALTIC SECONDARY LIST
Nominal value	EUR 0.29
Name of securities	Ordinary registered shares
Issued number (pcs.)	48 375 000
Listed issued number (pcs.)	48 375 000
Listing start date	1997.10.13
Shares listed in supplementary list	1997.10.13
Total number of voting rights granted by shares	48 375 000
Number of shares held by the Company ³	2 132 844
Shares granting the voting right	46 242 156 ⁴

Only the shares issued by the Company are quoted on the supplementary list of "NASDAQ OMX Vilnius" (hereinafter referred to as Vilnius Stock Exchange) (Ticker symbol: ZMP1L). **Securities of AB "Žemaitijos pienas"** were first time listed at Vilnius Stock Exchange on 13 October 1997. ISIN code of the securities: LT0000121865.

It should be noted that trading in the issuer's securities on other stock exchange markets and other organized regulated markets was not carried out.

ABF "ŠILUTĖS RAMBYNAS"

ISIN number	LT LT0000109217 LT 0000118945 LT 0000125668
Nominal value	EUR 2.90
Name of securities	Ordinary registered shares
Issued number (pcs.)	859 665
Listed issued number (pcs.)	-
Total number of voting rights granted by shares	859 665
Number of shares held by the Company	0

ABF "Šilutės Rambynas" shares have not been sold at Vilnius Stock Exchange Market and other organized regulated markets. ABF "Šilutės Rambynas" does not manage securities of AB "Žemaitijos pienas" on any basis.

Authorised capital**Authorised capital of AB "Žemaitijos pienas" by 30 June 2018:**

³ Data were provided in the end of the reporting period (30-06-2018)

⁴ Item 1 of paragraph 4 of Article 27 of the Law on Companies.

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Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Part authorised of capital (%)
Ordinary registered shares ⁵	48 375 000	0.29	14 028 750	100

All shares are fully paid, and during the reporting period they were not subject to any restrictions on the transfer of securities (to the best knowledge of the issuer), except for restriction of right to dispose a part of shares of the Company under the judgement of 20 February 2018⁶. The restrictions were cancelled under decision of 18 July 2018, as well as a part of shares (shares of some shareholders) was pledged to the bank (detail information is provided in the section of annual report "Information about important events after the end of the reporting period"). The Issuer is not aware of individual agreements between shareholders which may result in restriction of disposal of securities and (or) voting right, except for the nature and scope related to the restrictions set for obligation fulfilment objective when pledging the shares. According to the data available at the Company there are no shareholders with special control rights.

Authorised capital of ABF "Šilutės Rambynas" by 30 June 2018:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Part authorised of capital (%)
Ordinary registered shares	859 665	2,90	2 493 028,50	100

All shares of ABF "Šilutės Rambynas" are fully paid and are not subject to any restrictions on the transfer of securities (to the best knowledge of the issuer), as well as Issuer is not aware of individual agreements between shareholders which may result in restriction of disposal of securities and (or) voting right. According to the data available at the Company there are no shareholders with special control rights.

Acquisition and disposal of own shares

During the financial year 2011, 10 pcs. of ordinary registered shares of AB "Žemaitijos pienas" with a nominal value of LTL 1 (one) (EUR 0.29) each were acquired at the price of LTL 18.00 (EUR 5.21) at "NASDAQ OMX Vilnius Stock Exchange" via official tender submarket. In December 2012, based on the assignment, the Company purchased 1 360 010 pcs. of the shares at the total price of LTL 2 992 000 (EUR 86 6543.10) at "NASDAQ OMX Vilnius Stock Exchange", during 2013 the Company purchased 710 611 own shares.

At the beginning of the reporting period the Company held 2 070 621 own shares or 4.28 per cents. On 12-25 June 2018 during public procurement the Company acquired 62 223 own shares, and on 23 July 2018 the Company acquired 34 827 own shares. In the end of the reporting period the Company held 2 132 844 own shares (nominal value 0.29 EUR/pcs.), that made 4.41 per cents of all shares held by AB "Žemaitijos pienas". On the moment of approval of the semi-annual consolidated report the Company held 2 167 671 pcs. or 4.48 per cents of own shares.

The General Meeting of Shareholders, which took place on 30 April 2018, set the main purposes of acquisition of own shares: 1. Have an opportunity in future, following requirements of legal acts and after taking of relevant decisions, to assign own shares for promotion of employees of the Company in order to make them join achievement of the best results of the Company, and sell them to the employees of the Company, except the

⁵ Ordinary shares shall mean the ordinary shares of the Company that do not confer special privileges or restrictions of rights. These shares are the items constituting the Company's share capital, whose owners (shareholders) become the members of the Company entitled to vote at annual meetings, receive dividends from the Company's profits, as well as to have other rights and obligations provided for by laws.

⁶ Supreme Court of Lithuania by its decision of 18 July 2018 cancelled the applicable restrictions, for more details see - <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=848640&messageId=1067425>

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employees being members of the Supervisory Board or the Board of the Company or Manager of the Company, as well as employees being shareholders of the Company; 2. Have an opportunity to use own shares in probable exchange processes, when the Company acquires or sells shares of other companies; 3. Have an opportunity in future, following requirements of legal acts and after taking of relevant decisions, to reduce authorised capital of the Company; 4. In order to have reserve of own shares, which, if necessary, may be used for the aforementioned purposes (for one or several) upon decision of the Board of the Company.

During the reporting period the Company did not dispose its shares, did not conclude any transactions, for example, shares were not pledged or rights were not restricted. All shares acquired by the Company are fully paid.

ABF "Šilutės Rambynas" did not acquire own shares. It also does not manage its shares on other basis.

III. OVERVIEW OF ACTIVITY OF THE GROUP OF COMPANIES AND PERSPECTIVES**Overview of the activity, condition and development***Sales of products*

During the first half of 2018 sales of AB "Žemaitijos pienas" reached 84.124 thous. EUR, i.e. they increased sales of the first half of 2017 by 7.75 per cents (sales in the first half of 2017 reached 78.073 thous. EUR).

AB "Žemaitijos pienas" earns major part of income from Lithuanian sales market. Sales at this market make more than half of whole income of the Company - 55.20 per cents (when in the first half of 2017 it was 52.48 per cents). The rest part of sales income divided as follows: Baltic States and CIS Countries – 14.11 per cents (when in the first half of 2017 it was 16.65 per cents), other European Countries – 26.55 per cents (when in the first half of 2017 it was 24.35 per cents), the rest countries – 4.14 per cents (when in the first half of 2017 it was 6.51 per cents). Major part of sales in the first part of 2018 was referred to sale in Poland, Latvia and Germany.

Sales of AB "Žemaitijos pienas" according to geographical segments, thous. EUR.

Sales according to geographical segments, thous. EUR	First half of 2018	Per cent from total income for the first half of 2018	First half of 2017	Per cent from total income for the first half of 2017
Lithuania	46.436	55.20%	42.564	54.52%
Other Baltic States and CIS Countries	11.869	14.11%	13.003	16.65%
Other European Countries	22.339	26.55%	19.013	24.35%
Other ⁷	3.480	4.14%	3.493	4.48%
Total	84.124	100%	78.073	100%

Sales of AB "Žemaitijos pienas" according to groups of products, thous. EUR.

Sales according to groups of products, thous. EUR	First half of 2018	Per cent from total income for the first half of 2018	First half of 2017	Per cent from total income for the first half of 2017
Fermented and melted cheese	33.697	40.06%	29.925	38.33%
Fresh dairy products	28.506	33.89%	25.722	32.94%

⁷ Georgia, Hong Kong, Israel, Japan, USA, Canada, China, Lebanon, Malaysia, Mongolia, South Korea, Saudi Arabia, Singapore;

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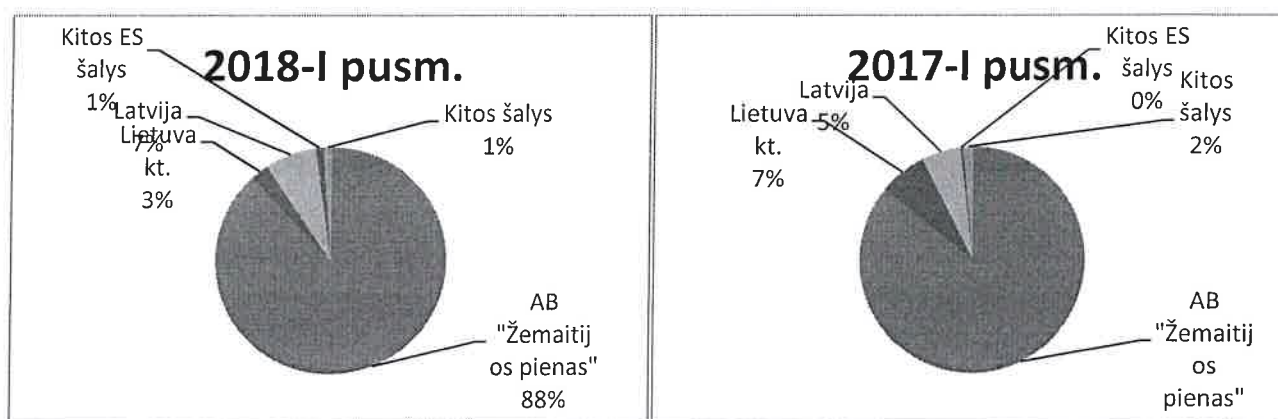
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Butter and fat spreads	7.150	8.50%	7.103	9.10%
Dry milk products	4.501	5.35%	6.348	8.13%
Other ⁸	10.270	12.20%	8.975	11.50%
Total	84.124	100%	78.073	100%

During the first half of 2018 ABF "Šilutės Rambynas" produced 2739 tons of cheese or a decrease of 435 t. (13.7 per cents) compared to the first half of 2017. Cheese and cheese product production is reduced because of unfavourable situation at the market, i.e. low prices. Production of fermented cheese (Gouda and Tilsit) is reduced down to 784 t, when in the first half of 2017 the company produced 1005 t of such cheese (decrease by 28.1 per cents). Production of fermented cheese decreased by 29.1 per cents - from 915 down to 649 tons. At the same time production of cheese sausages and other cheese increased comparing with the same period in 2017. Whereas the company purchased the same quantity of raw materials as in the first half of 2017, part the raw materials turned fat free milk and sold as raw material to AB "Žemaitijos pienas" or UAB "Laktopolis".

During the first half of 2018 ABF "Šilutės Rambynas" sold products for 16.442 thous. EUR or an increase of 6.6 per cents compared to the same period in 2017, when sales reached 15.419 thous. EUR. Growth of sales was pre-determined by increase of number and price of raw cream, and sales increased from 4.608 thous. EUR up to 5.582 thous. EUR (increase by 21.1 per cents), and sales of fat free milk increased by 11 times from 41 thous. EUR up to 454 thous. EUR. At the same time income from sale of cheese decreased from 10.110 thous. EUR in 2017 down to 9.947 thous. EUR in 2018, i.e. by 1.6 per cent. Due to reduced production of cheese, thick whey sales decreased down to 460 thous. EUR, i.e. a decrease of 43.5 per cents compared to the first half of 2017.

Major part of products produced by the company is sold through the controlling company – AB "Žemaitijos pienas". Sales structures according to markets:

**Purchasing of raw milk**

Comparison of quantity and purchase price of raw milk of AB "Žemaitijos pienas" in the first half of 2018 and in the first half of 2017:

Raw milk purchasing (recalculated to basic fat content)	First half of 2018	First half of 2017	Changes comparing the first half of 2018 and first half of 2017, %
Quantity of purchased milk, thous. tons	180	175	2.86
Price of purchased milk, EUR/t	264	249	6.02

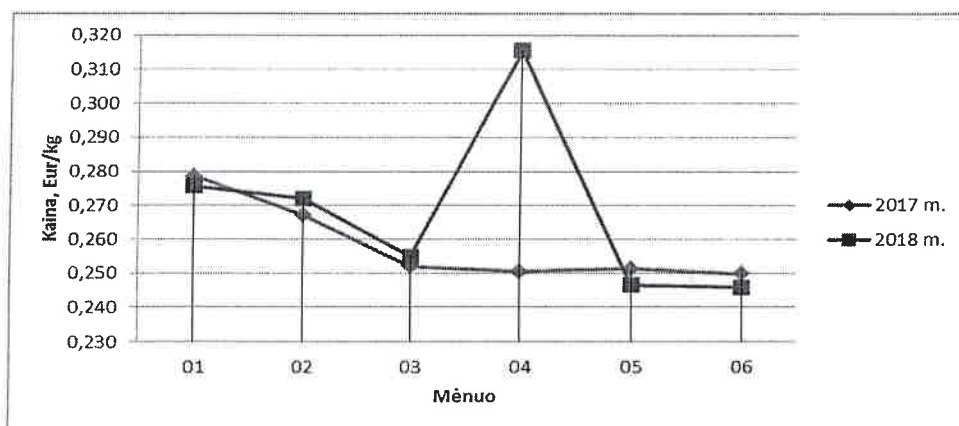
⁸ Kastinys, ice-cream, water products, raw materials;

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AB "Žemaitijos pienas" for a long time pays to farmers a competitive price for production of high-quality milk, as well as different bonuses. Average quantity of purchased milk in the first half of 2018 - 148 thous. tons, i.e. an increase of 2.07 per cent compared with the first half of 2017 (in the first half of 2017 - 145 thous. tons). Average price of milk purchased in the first half of 2018 is 314 EUR/t and this is an increase of 3.97 per cent compared to the first half of 2017 (price of milk purchased in the first half of 2017 was 302 EUR/t). In order to stimulate competitive capacity of Lithuanian milk farms, attractiveness of dairy business, farm development and modification, as well as to improve competitive capacity of the company at the milk market, in the first half of 2018 AB "Žemaitijos pienas" paid annual bonuses in the amount of 2 mln Euros to its partners – milk producers which sell high-quality milk directly from a farm.

Associated company ABF "Šilutės Rambynas" does not purchase raw milk directly, it sells raw milk to AB "Žemaitijos pienas". Price of raw materials shall be calculated according to the formula: milk price adding AB "Žemaitijos pienas" collection costs and transportation expenses. Change of prices of milks purchased in the first half of 2017-2018 recalculated according to basic parameters is demonstrated graphically:



In total ABF "Šilutės Rambynas" purchased 36 thous. tons of raw milk in the first half of 2018, i.e. the same quantity compared to 2017. In May 2018 price of raw material increased due to single payment to milk producers.

Assessment of safety and quality of products

In the first half of 2018 AB "Žemaitijos pienas" was assessed according to the requirements of international standards of Food Safety and Quality Management:

- On 19-22 March 2018 auditors of UAB „Bureau Veritas“ carried out audit of AB "Žemaitijos pienas" processes according to ISO 22000 "Food safety management systems -- Requirements for any organization in the food chain" + ISO/TS 22002-1 "Prerequisite programmes on food safety — Part 1: Food manufacturing" and additional requirements according to FSSC 22000. Audit conclusion: the Company meets the requirements of certified standards. The audit was carried out without prior agreement of the audit date and plan. AB "Žemaitijos pienas" met the requirements of the afore-mentioned international food safety standards acknowledged by the Global Food Safety Initiative (GFSI).
- In the first half of 2018 the Company was audited according to the requirements of "Lidl" and "Biedronka" companies.

Investment

In order to keep competitive capacity at markets the Company permanently invests to updating of production equipment and implementation of advanced technologies. The Company continues implementation of the Project signed in 2016 with National Paying Agency regarding allocation of support according to the instrument of Lithuanian rural area development programme for 2014-2020 "Investment to material assets", field of activity "Support to investment to processing, marketing and (or) development of agricultural products". Purpose of the investment is not only to increase competitive capacity of the Group of Companies in sale of

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products at the market, but also to solve environment protection problems, improve product quality and working conditions and occupational safety.

Major directions of the investment are oriented to cheese-butter production unit, logistics of raw materials and products and warehousing. Moreover, the investment will be aimed to improve product quality, package ergonomics, reduce of pollution and use energy effectively. We also seek that the equipment and technological processes would meet expectations of customers and that the final product would be safe and high-quality. Value of this project is ~ 18 mln. EUR, support amount is ~ 3 mln. EUR.

- At the first stage the Company has already received ~ 200 thous. EUR, at the second stage ~ 165 thous. EUR.
- At the second stage the Company acquired:
 - * Pasteurized milk line automation, i.e. automated distribution, visualization and control of intermediate operations. The Project objective is to reduce wastewater, accurate traceability, sanitary and quality assurance, elimination of human factor.
 - * New running gears, isothermal bodies and freezing equipment designed for product logistics. Reduction of logistics costs, meeting to quality requirements for exported products.

During the first half of 2018 ABF „Šilutės Rambynas“ acquired new non-current assets, which value is 432 thous. EUR, in the same period of 2017 the company acquired non-current assets at the price of 139 thous. EUR, i.e. there is a decrease of 3.1 per cents. Major achievement – purchase of ventilation system for the production unit at the price of 362 thous. EUR. 25 thous. EUR were spent for acquisition of cistern; 45 thous. EUR referred to service equipment for cheese production and inventory, computers, communication equipment and software.

Products of the Group of Companies

In the first half of 2018 there were no new products created and introduced to the market. On the other hand, the products available at the market have been appreciated by customers. In 2018 products of the group of Companies were assessed 11 times and got awards in different assessment categories:

1. Agrobalt 2018 Certificate for Worldwide Representation of Lithuania by the product “Žemaitiškas kastinys”;
2. Nantwich, England, International Cheese & Dairy awards 2018 Best New Dairy Product, The best new milk product “Kefyro kokteiliai”;
3. The most popular product in 2017 “ŽEMAITIJOS” semi-fat curd, 1kg. ,Vilnius, Lithuania;
4. The most popular product in 2017 Fat spread “SAULUTĖ”, Vilnius, Lithuania;
5. “DŽIUGAS” trademark of the year, Lithuania;
6. AgroBalt 2018, Vilnius, Lithuania. Golden medal in nomination – for breakthrough to export markets awarded to “Džiugas 36 mėn.”, 180 g package;
7. “International cheese awards”, Nantwich, silver medal in “Vegetarian cheese” category awarded to “Džiugas24 mėn.”;
8. “International cheese awards”, Nantwich, England Highly recommended awards in „Catering and food service“ category to “Džiugas kubeliais”;
9. „International Cheese & Dairy awards” golden medal in category “Cheese for Children”, “Pik-Nik Twiller”, Nantwich, England;
10. The most popular product in 2017 to “PIK-NIK” chees sticks, Vilnius, Lithuania;
11. The most popular product in 2017 to “Magija” chocolate-glazed cream cheese, Vilnius, Lithuania;

It should be noticed that from 1 May 2018 chocolate-glazed cream cheese “MAGIJA” are coated with original 67% chocolate. Following the global tendencies related to sugar content reduction AB “Žemaitijos pienas” gradually reduces sugar content in ecological yoghurts “Dobilas”. In the first half of 2018 sugar content is reduced by approximately 10 %.

Performance of the Group of Companies

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The Company selected major standard financial indices, used by the majority of companies for analysis of financial data. The major financial activity indices, reflecting the performance of the Group of Companies in the first half of 2018, are as follow:

Financial indices	Group		Company	
	First half of 2018	First half of 2017	First half of 2018	First half of 2017
Turnover, thous. Euros	84.692	78.686	84.124	78.073
Gross margin, %	18.95	20.71	19.04	19.79
Net margin, %	4.70	5.77	4.76	5.29
EBITDA, thous. Euros	5.861	7.879	5.710	7.115
EBITDA margin, %	6.92	10.01	6.79	9.11
ROE margin, %	5.35	5.91	6.19	6.09
ROA margin, %	3.88	4.69	4.18	4.62
Current liquidity ratio	2.81	3.54	2.13	2.78
Quick ratio	1.43	1.99	0.99	1.48
Debt-to-Equity ratio	0.38	0.26	0.48	0.32
Debt ratio	0.28	0.21	0.32	0.24
Investment to fixed assets, thous. Euros	7.419	1.891	6.942	1.753

The formulas for calculation of the afore-mentioned financial indices and descriptions of index values are provided on pages 16-17 in section "Performance of the Group of Companies" of the Annual Consolidated Report for 2017.⁹

Existing and probable risk types, their factors and uncertainties, their control in the activity of the Group of Companies

Financial and other risks described in Section 26 "Financial Risk Management" of Explanatory Note of the Annual Financial Statements for 2017¹⁰ and on page 19 of the Annual Audited Report, did not change in the first half of 2018.

Business plans of the Group of Companies and forecasts

Long-term goals of AB "Žemaitijos pienas" to become and be a strong, technically modern, and reliable company attractive to investors have not change in the first half of 2018. To find and maintain the most profitable markets for our products in the European Union, the Baltic and other countries of the world by giving priority to the closest markets, as well as to the markets of Germany, France and England. To make maximum possible use of the existing production capacities. In addition, the consumer market studies are carried out continually, the consumer demand for new products is taken into account, tastings are carried out, and dairy

⁹ Link: <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=837525&messageId=1053079>

¹⁰ Link: <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=837525&messageId=1053079>

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products are perfected and new products. One more goal is to become as close as possible to a consumer by providing and selling the products directly to a customer.

The essential current objectives and plans of the Company are as follow:

- To purchase milk in accordance with market conditions but not at a higher price than that paid for raw milk by other market participants in Lithuania;
- To purchase high-quality milk only;
- To increase sales at the prices favourable to the Company. To focus on the basket of the strongest main products and maintain at least 40-50%-share of the internal market.
- To focus on the sales of higher value-added products on export markets;
- To strengthen the marketing function and Company name recognition;
- To reduce the production costs and cost price of the products;
- To reduce product distribution expenses;
- To make maximum use of the designed production capacity;
- To provide employees with incentives solely for the achievement of the excellent final result and implementation of the plans undertaken.

The lack of skilled labour forces the Company to focus on search of new markets and keep positions at the markets. The Company will give preference to further modernization and reduction of energy, material and labours resources, business optimization and production of profitable products.

After attraction of support of the EU Structural Funds, major investment will refer to the projects aimed to reduce production costs, improve of product quality, reduce impact of human factor on production, including reduction of increasing labour costs. Moreover, the Company will invest to improvement of working conditions of employees, improvement and modification of available equipment, repair of premises and replacements of worn out equipment.

Strong competition, the ever changing and dynamic market of the sale of products and the purchase of raw milk, as well as other factors, force AB "Žemaitijos pienas" Group to refrain from publishing the turnover and profit forecasts for the upcoming activity periods.

Information about research and development activity of the Group of Companies

During the first half of 2018 the Company, as well as its associated company (collectively or individually), continued and realised investment and searches in order to ensure permanent growth of income and improve the activity effectiveness.

The Company maintains relationships with LSMU, VU, KTU FTMC scientists, Lithuanian and foreign experts. The Company carries out laboratory tests in laboratories of National Food and Veterinary Risk Institute, Eurofins, Hamilton, KTU MI, LSMU Veterinary Academy and other laboratories, improving recipes, strengthening product individuality and creating new products. Uninterruptible tests are mainly oriented to improvement of available product cart.

Activity of the Group of Companies in the field of environmental protection

In 2018 AB "Žemaitijos pienas" initiated waste management through electronic data accumulation system GPAIS (product waste package information system), as well as submits (forms) quarterly waste generation reports and exported-imported waste package accounting reports. Dangerous and non-dangerous waste in the territory are stored and managed, so to avoid environment pollution, it is sorted, and waste storage places are properly marked. Waste is transported to waste disposal companies on due time. AB "Žemaitijos pienas" sorts waste packages in the waste generation place, presses and prepares for recycling. It also separates unsuitable waste packages and delivers it to waste collectors and recycling companies to generate energy.

In order to reduce emission of gas leading to greenhouse effect, AB "Žemaitijos pienas" permanently reduces Freon gas use, so in 2018 it acquired "environment friendly" equipment and means and actively implement and stimulate use of renewable sources. AB "Žemaitijos pienas" installed 10MW bio fuel boiler house, which uses renewable energy sources instead of natural gas – wooden chips (SM2). During the period from January to June

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2018 AB "Žemaitijos pienas" consumed 191.289 m³ of gas; i.e. there is a decrease of 56.1 per cents compared to the period from January to June of the previous year. During the period from January to June 2018 the Company consumed 2405.589 t.n.e. of bio fuel, and this means that biofuel consumption remains unchanged comparing to the period from January to June 2017. The Company performs annual cleaning of rainwater dirt-oil collectors and utilities. The Company also carries out regular wastewater contamination measurements individually in each unit in order to control, analyse and take preventive measures to avoid contamination of wastewater.

In the field of environment protection ABF "Šilutės Rambynas" focuses on wastewater management, so regular reduction of wastewater contamination creates conditions for delivery of low contaminated wastewater to the waste manager, so such situation results in lower activity costs.

Staff management and human resource aspects of the Group of Companies

Both companies also face lack of highly qualified employees in 2018. This problem shall be solved by creating and developing long-term relationships with employees, adapting, educating and improving them in professional field. Provides opportunities for employees to deepen their knowledge and skills, improve their qualifications through participation in various seminars and courses. Training programs have been developed for the training and certification of specialists, production workers, operators, operators, locksmiths, brigadier, and craftsmen. A great deal of attention is paid to the teaching of foreign languages. Foreign language staff is trained in courses organized by the company. The mentioned training is also carried out in other forms of learning and development, including the ability of foreign languages to be extended abroad.

During the reporting period, the focus was on several areas of training: improving the skills of the staff in order to ensure compliance with the quality of work requirements, and, at the latest, the need to ensure staff substitutability, universality, and training for additional posts or additional functions. It prepares training programs and allocates and encourages trained professionals.

According to the data available by 30 June 2018, number of employees working for AB "Žemaitijos pienas" was 1227.

According to the data available by 31 December 2017, number of employees working for AB "Žemaitijos pienas" was 1163.

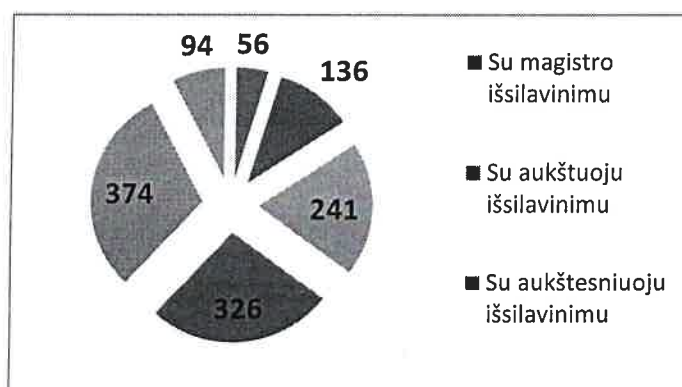
Groups of employees of AB "Žemaitijos pienas" according to education level (2016 - 2018):

Number of employees	31 12 2016	31 12 2017	30 06 2018
Master`s Degree	43	35	56
Higher university education	187	192	136
Higher non-university education	241	225	241
Vocational training	291	270	326
Secondary education	366	363	374
Incomplete secondary education	86	78	94
Total:	1214	1163	1227

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Groups of employees of AB "Žemaitijos pienas" 30 June 2018,

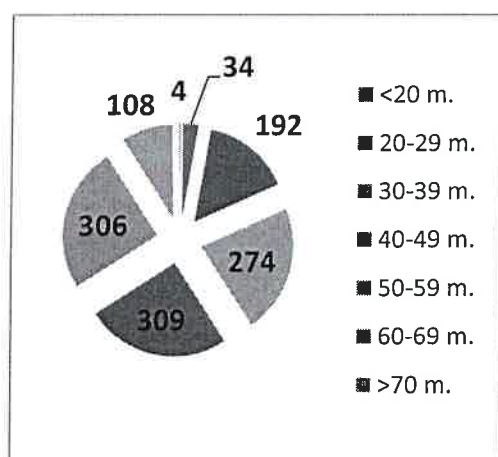


employees of AB "Žemaitijos" according to education level (by number of persons):

Number of employees of AB "Žemaitijos pienas" according to their groups and their average wages according to work groups of employees:

Number of employees according to groups	31 12 2016		31 12 2017		30 06 2018	
	Number of employees	Average wages, EUR	Number of employees	Average wages, EUR	Number of employees	Average wages, EUR
Managers	7	4230	9	6154	9	5880
Specialists	272	1310	261	1423	300	1418
Workers	935	743	893	842	918	762
Total:	1214		1163		1227	

Number of employees according to age by 30 June 2018:



Rights and duties of AB "Žemaitijos Pienas" employees are set out in their job description. The employment contracts do not provide for special rights or obligations of employees, there is no collective agreement in the company, but the labour council is established.

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2018 ABF "Šilutės Rambynas" had 187 employees at the end of the reporting period, their number decreased by 3 employees (-6.1%) compared to the same period of 2017. Changes in employee groups according to their education level are presented in the table:

Education of employees	30 06 2018	30 06 2017
Master`s Degree	7	9
Higher university education	22	21
Higher non-university education	27	28
Vocational training	65	74
Secondary education	46	40
Incomplete secondary education	20	18
Total:	187	190

Average wages in the first half of 2018 was 1089 EUR/months, i.e. there was an increase of 7.6 per cents compared to 2017. Change of wages according to groups of employees is provided in the table:

Number of employees according to groups	30 06 2018		30 06 2017	
	Number of employees	Average wages, EUR/month	Number of employees	Average wages, EUR/month
Managers	7	2792	7	2371
Specialists	30	1263	31	1216
Workers	150	974	152	908
Total:	187	1089	190	1012

The Company seeks to develop long-term relationships with employees, especially when the situation in the labor market is not satisfactory - the lack of highly qualified employees. Therefore, employees are constantly encouraged to develop their professional skills. The employees of the Company have the opportunity to improve knowledge and skills at seminars, courses. There are prepared training programs that train and certify specialists, production workers, operators, locksmiths, brigadier, craftsmen.



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IV. ASPECTS OF MANAGEMENT OF COMPANIES

Company risk scale and risk management

The part "Current and probable risks and uncertainties, their management inside the Group of Companies" of section "Overview of activity of the group of Companies and perspectives" of the Annual Report ¹¹ (2017) provides essential financial risks and their scopes, so this section does not contain detail information related to this topic, but it should be noticed that there are no essential changes.

Information about significant directly or indirectly held packages of shares, mutual agreements between shareholders, their special control rights

The companies referred to the Group of Companies do not know the relevant information about the direct or indirect holding of packages of shares by shareholders, except for the data on contracted persons presented in the table below (see Table "Persons holding more than 5 percent of votes and capital of AB "Žemaitijos pienas"). The Group of Companies do not hold significant packages of shares of other entities, except for those packages of shares listed in the chapter "Information on Subsidiaries and Affiliates of the Company".

AB "Žemaitijos Pienas" is not aware of any other facts and facts about agreements of shareholders or special rights or obligations, including control rights, not mentioned in this annual report.

ABF "Šilutės Rambynas" does not have information about agreements of shareholders or special rights or obligations, including control rights.

Essential data of the Group of Companies about shareholders

According to the data available by 30 June 2018, 2905 shareholders holds shares of AB "Žemaitijos pienas" by the right of ownership. Persons holding more than 5 percent of votes and capital of AB "Žemaitijos pienas":

¹¹ Link: <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=837525&messageId=1053079>

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Row No.	Shareholder	Number of shares held by the right of ownership, pcs.	Part of authorised capital held by the right of ownership, %	Part of votes held by the right of ownership ¹² , %	Part of votes held together with associated persons ¹³ , %
1	Pažemeckas Algirdas	14 014 581	28.97	30.31	79.24
2	Pažemeckienė Danutė	14 014 581	28.97	30.31	79.24
3	AB "Klaipėdos pienas", entity identification number 240026930, Šilutės Highway 33, 91107 Klaipėda	2 901 844	6.00	6.27	79.24
4.	UAB „Baltic Holding“, entity identification number 302688114, office address: Vilhelmo Berbomo Str. 9-4, Klaipėda	5 713 018	11.81	12.35	79.24
5.	AB „Žemaitijos pieno investicija“, entity identification number 300041701, office address: Sedos Str. 35, Telšiai	0,0	0.0	0.0	79.24
6.	Romusas Jarulaitis*	1 870 430	3.86	4.04	7.89

¹² By the end of the reporting period the Company holds 2 132 844 pcs. of own shares, which according to item 1 of paragraph 4 of Article 24 and paragraph 7 of Article 54 of the Law on Companies of the Republic of Lithuania do not grant the Company a right to use property and non-property rights granted by the shares (including voting right), so the shares issued by the Company grant in total 46 242 156 votes.

¹³ Danutė Pažemeckienė holds 14 014 581 pcs. of shares, 28.97 per cents of shares and 30.31 per cents of votes, as well as 14 014 581 pcs. of shares, 28.97 per cents of shares and 30.31 per cents of votes by joint common property right of spouses together with Algirdas Pažemeckas; Algirdas Pažemeckas by joint common property right of spouses together with Danutė Pažemeckienė holds 14 014 581 pcs. of shares, 28.97 per cents of shares and 30.31 of votes. The following entities/persons shall refer to entities/persons acting under agreement: AB "Klaipėdos pienas" (holding 2 901 844 pcs. of shares, 6.00 per cents of shares and 6.27 per cents of votes), UAB "Baltic Holding" (holding 5 713 018 pcs. of shares, 11.81 per cents of shares and 12.34 per cents of votes) and AB "Žemaitijos pieno investicija" (0 pcs., 0.00 per cent), which holds 86.47 per cents of shares of AB "Klaipėdos pienas", and A. and D. Pažemeckai holds by the right of ownership by 36.715 per cents of shares and votes of AB "Žemaitijos pieno investicija";

* R.Jarulaitis, R. Jarulaitienė acting on the basis of marriage, and R. Jarulaitis ir D. Gecienė shall be considered as persons acting together when fulfilling functions in the Company Board;

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7.	Regina Jarulaitienė*	1 303 740	2.70	2.82	7.89
8.	Dalia Gecienė*	475 160	0.98	1.03	7.89
9.	Other shareholders	8 081 646	16.71	12.87	-
	TOTAL	48 375 000	100	100	100

The largest shareholder of AB "Šilutė Rambynas" is AB "Žemaitijos pienas". This company directly owns 87.82 percent of shares. The remaining shares are held by minor shareholders, the majority of which are raw milk producers. The total number of shareholders is 616, it should be noted that by the beginning of the reporting period there were 658 shareholders. ABF "Šilutės Rambynas" does not apply to share management and usage restrictions. ABF "Šilutės Rambynas" does not manage shares of any other significant entities either directly or indirectly.

Information about significant transactions, including transaction with associated parties

There are no agreements with AB "Žemaitijos pienas" acting as a party, which would be binding, changed or terminated as the result of change of the Issuer's control, as well as their impact, except for cases, when disclosure of such agreements would made large damage to the Issuer. The situation is the same with ABF "Šilutės Rambynas".

AB "Žemaitijos pienas", the same like ABF "Šilutės Rambynas", did not conclude complicated agreements with their management members or employees, which would provide compensation in case of removal from office upon own initiative or without reasonable excuse, or if their job finishes as the result of change of control of the Issuer.

There were no harmful transactions during the reporting period that do not correspond to the objectives of the Company or the Group of Companies, normal market conditions that violate the interests of shareholders or other groups of persons and which could or could have a negative impact on the Company's activities or performance results. There were also no transactions arising from conflicts of interest between the Company's directors, controlling the responsibilities of the shareholders or other parties to the Company and their private interests and / or obligations.

Transactions with associated parties are provided on page 17 "Transactions with associated parties" of the Explanatory Note of the Consolidated Financial Statements for 2017.

Information of the group of Companies about rights of shareholders, their realisation, restrictions of voting rights or specific use of voting rights

Both AB "Žemaitijos pienas" and ABF "Šilutės Rambynas" do not have restrictions of securities disposal or other prohibitions, except for facts specified in this Report and information published through Vilnius Securities Exchange Market¹⁴. Shareholders of both companies realise their owned property and non-property rights and have obligations provided for in the Law on Companies of the Republic of Lithuania and Articles of Association of the Company. All issued shares grant to their holder equal rights provided for in the Law on Companies of the Republic of Lithuania, other legal acts and Articles of Association of the Companies.

¹⁴ Link: <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=847686&messageId=1066234>



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Restrictions of voting and other rights¹⁵. All shares of the companies giving voting rights are of the same nominal value, each share in the general shareholders' meeting gives one vote to the shareholder. The companies (both) do not have any restrictions or prohibitions and / or other special conditions applicable to their securities or their packages during the reporting period, and there is no information (no data) on systems whereby the property rights granted by the securities are separated from the holders of securities except for the circumstances set out in this notice. The Company does not have any data on the specific control rights held by the shareholders (the shareholder), therefore, they consider that there are no such shareholders and there are also no special agreements between shareholders or their groups that could substantially change, create or terminate their rights and obligations in the management of the company, affect the interests of the Company or shareholders.

Shareholders of the Company have the following property rights:

to receive part of the company's profit (dividend); get the part of the assets of the company being liquidated; to receive shares free of charge if the authorized capital is increased from the funds of the company, except in cases established by law; where the shareholder is a natural person - to leave, in whole or in part, a will to one or several persons; in accordance with the procedure and conditions established by laws, to sell or otherwise transfer all or part of shares to the ownership of other persons, other rights granted by legal acts;

Shareholders of the Company have the following non-property rights:

attend meetings; vote according to right granted by the shares in the meetings; receive non-confidential information about the company's economic activities in accordance with the terms and conditions stipulated by legal acts; to be elect and be elected to the management and control bodies of the company, to occupy any position in the company, unless otherwise provided by the Articles of Association and in the Law on Companies of the Republic of Lithuania; to submit concrete proposals to improve financial, economic, organizational activity, etc., to appeal to the court decisions or actions of general meetings of shareholders, the supervisory board, the management board and the company's manager that violate the laws of the Republic of Lithuania, the company's Articles of Association, shareholders' property and non-property rights. One or several shareholders without a separate power of attorney have the right to demand compensation for damage caused to shareholders; other non-property rights established by laws. A person acquires all rights and obligations granted to him by the authorized capital and / or voting rights: in the case of increase of authorized capital - from the date of registration of the Articles of Association related to the increase of authorized capital and / or voting rights, in other cases - from the occurrence of ownership rights to the share capital of the company and / or voting rights.

Procedure for modification of Articles of Association

The Articles of Association shall be modified in accordance with the procedure established by legal acts of the Republic of Lithuania. AB "Žemaitijos Pienas" and its associated company shall follow the laws of the Republic of Lithuania, Government resolutions and regulatory acts regulating the activities of companies, the Company's Articles of Association.

Bodies of AB "Žemaitijos pienas" and other aspects related to the Company management

Bodies of the Company are the General Meeting of Shareholders, Supervisory Board, Board and single management body – the Manager of the Company (General Director), as well as subordinates to the Manager – Administration of the Company, consisting of structural divisions and departments. Currently the Company has the following departments – (i) financial, (ii) personnel and law, (iii) logistics, (iv) production and raw material purchasing (v) sales and marketing. The Company also has Audit Committee.

The General Meeting of Shareholders is the body of the Company making the most significant decisions. The

¹⁵ AB „Žemaitijos pienas“ has 2 132 844 pcs. of won shares, which according to paragraph 7 of Article 54 of the Law on Companies of the Republic of Lithuania do not grant the Company a right to use property and non-property rights granted by the shares (including voting right).

Right to dispose 2 070 621 pcs. of shares (own purchased shares) was restricted upon decision of the Supreme Court of Lithuania of 20 February 2018, the restriction term was not set. The restriction was cancelled upon decision of the Supreme Court of Lithuania of 18 July 2018, link for more details:

<https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=848640&messageId=1067425>

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scope, procedure for convening, as well as rights and duties of the General Meeting of Shareholders are essentially the same as the scope, procedure for convening, and rights and duties of the general meeting of shareholders provided for by the Law on Companies of the Republic of Lithuania.

The Supervisory Board is a collegial supervisory body supervising the activities of the company and is chaired by its chairman. The Company's Supervisory Board consists of 3 members and is elected by the general shareholders' meeting for four years. The Articles of Association of the Company provide that the number of members of the council member's term of office is unlimited. At present, the Supervisory Board is completely independent - (i) unrelated to the Company's employment relationship; (ii) unrelated to the major shareholders of the Company; (iii) unrelated to any other relationship that may or may affect the independence or impartiality of the members of the supervisory board. Certain aspects relate to the Board of Supervisors and its activities are reviewed in the Corporate Governance Compliance Report for 2017. It needs to be noted that the election of the members of the Supervisory Council of the Company that regulates the special rules does not apply and their amendment, while following these steps the Company follows the provisions of the Articles of Association of the Company, the Articles of Association of the Company. Certain powers of activity are assigned to the members of the Supervisory Board according to the individual areas of the Company's activities for which they are responsible¹⁶.

Data about Members of Supervisory Board of the Company

Name, ¹⁷ Surname	Office in the Issuer ¹⁸	Number of shares held and part of authorise d capital%	Term start	Term end	Activity, position held	Education
Kęstutis ¹⁹ Trečiokas	Chairman of the Supervisor y Board	no	29 12 2016	29 12 2020	Member of Telšiai District Municipality Council	(i) Kaunas Technological University, (Electrical and Mechanical Engineer), (ii) Vilnius University, (Economist)
Hugo Ader ²⁰	Member of the Supervisor y Board	no	29 12 2016	29 12 2020	Advisor of Chief Executive Office of UAB "Lemininkainen Lietuva"	Leningrad Music and Cinematography Institute, (Drama Editor)

¹⁶ One may study the Report of Following to the Company Management Code at the Company web page and by link: <http://www.nasdaqbaltic.com>

¹⁷ Members of the Supervisory Council (candidates) declared before the appointment (member of the organ) that their duties in the company would not cause a conflict of interest, the candidate was obliged to act in the company's interests and interests;

¹⁸ Members of the Management Board (candidates) declared before the appointment (member of the organ) that their duties in the company would not cause a conflict of interest, the candidate was obliged to act in the company's interests and interests;

¹⁹ Responsible for personnel and financial issues of the Company;

²⁰ Responsible for dairy product sale. Marketing and logistics issues;

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Aristydas ²¹ Kulvinskis	Member of the Supervisory Board	no	29 12 2016	29 12 2020	Businessman	Lithuanian Agricultural Academy, (Hydrotechnical Engineer)
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The Board of the Company is a collegial management body representing the shareholders of the Company within the periods between their meetings and making decisions on the most important issues of the Company's economic activities. The work procedure of the Board is established by the Rules of Procedure of the Board adopted by it. Currently, the Board consists of five *de facto* members, and seven members of the board are established *de jure*. The members of the Board are elected by the Supervisory Council for a maximum four-year period. The number of their terms of office is unlimited. The activities of the Board are managed by the chairman who is elected by the members of the Board. Specific aspects related to the Board and its activity is provided in the Report on Following to the Company Management Code²². It shall be noticed that no special rules regulating election of members of the Board, their replacement, except for Law on Companies of the Republic of Lithuania and Articles of Association of the Company.

Data about members of the Board of the Company

Name, Surname	Office in the Issuer	Number of shares held and part of authorised capital%	Term start	Term end	Activity, position held	Education
Robertas ²³ Pažemeckas	Member of the Board, Director General	none	12/04/2018	12/04/2022	Director General of AB "Žemaitijos pienas"	Vilnius University, Master of Laws
Marius Dromantas ²⁴	Member of the Board	none	12/04/2018	12/04/2022	Logistics Director of AB "Žemaitijos pienas"	(i) Kaunas Technological University (Bachelor of Transport Engineering); (ii) Vilnius Gediminas Technical University (Master of Transport Engineering);
Dalia ²⁵ Gecienė	Member of the Board	475 160 units or 1.03 proc.	12/04/2018	12/04/2022	Chief Accountant AB "Žemaitijos pienas", ²⁶	Kaunas University of Technology (KUT), Engineer- Economist

²¹ Responsible for production, raw materials and purchase issues;

²² One may study the Report of Following to the Company Management Code at the Company web page and by link - <http://www.nasdaqbaltic.com>

²³ Responsible for such sale areas as procurement, personnel and legal, dry dairy products and dairy cream ;

²⁴ Responsible for logistics area;

²⁵ Responsible for financial area;

²⁶ Accountant of AB "Žemaitijos pieno investicija", 0.2 rate;

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Ramūnas ²⁷ Dargis	Member of the Board	none	12/04/2018	12/041/2022	Production Director of AB "Žemaitijos pienas"	(i) Klaipėda Higher School of Agriculture, (ii) Lithuanian University of Agriculture, Mechanical Engineering
Romusas Jarulaitis	Member of the Board	1 870 430 units 3.86	12/04/2018	12/041/2022	Stakeholder of AB "Žemaitijos pieno investicija", 938 235 pcs.	Kaunas University of Technology (KUT), Mechanic Engineer

The Head of Company is Director General, acting on the basis of the Company's Articles of Association, the decisions of the general meeting of shareholders, Board decisions and other Company's local acts. The Head shall organise Company's daily activity and implement the actions required to perform the functions, to implement the decisions of Company's bodies and to ensure Company's business. The Director General of the Company is a responsible one and reports to the Board on a regular basis. It is noticeable that no special rules, regulating selection or replacement of Company's head, are applicable; when performing these actions the Company follows the Law on Companies and the provisions of Company's Articles of Association.

Data about the administration of the Company

Name, Surname	Position	Start of work in the company	Education	Number of shares held (units)	Authorised capital share owned (%)
Robertas Pažemeckas	Director General	26/08/2002	University	-	-
Marius Dromantas	Logistics Director	01/12/2003	University	-	-
Rūta Katkauskaitė - Čičirkienė	Director for Personnel and Legal	24/04/2017	University	-	-
Nijolė Penkovskienė	Head of Procurement Department	03/07/2017	University	-	-
Alma Bartkienė	Production Director	25/05/2003	University	-	-
Robertas Pavelskis	Technical Director	02/08/1993	University	-	-
Jurgita Petrauskienė	Sales Manager	29/08/2005	University	-	-
Jolita Gedgaudienė	Acting Marketing Manager	19/09/2005	University	-	-
Dalia Gecienė	Chief Accountant	29/07/1986	University	475 160	1,03

The Head of Company's administration is General Director. The following positions are directly subordinated to the General Director: Production Director, Export Director, Chief Accountant, Personnel and Legal Director, Logistics Director and Purchasing Director. The above listed directors implement the goals and tasks set by the bodies of the Company, carry out functions within the scope assigned to them and manage the subordinate employees.

Company's administration consists of Director General, Production Director, Logistics Director, Technical Manager, Sales Manager, Marketing Manager, Procurement Manager, Personnel and Legal Director, Chief Accountant. The Head of Company's administration is Director General. Directors/Managers implement the

²⁷ Responsible for such areas as production, technics, and procurement of raw materials;

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objectives and tasks set by the management bodies of the Company, perform the functions in accordance with the assigned competencies and supervise subordinate employees.

Company's departments are the Company's structural units performing and implementing the decisions, orders and other instructions (written or verbal) of both Company's Board and Director General.

Company's bodies when performing their activities follow the laws of the Republic of Lithuania and other legal acts, and requirements established by the Company's Articles of Association. In accordance with the provisions of abovementioned documents the bodies are elected, assigned and displaced.

The members of Company's management, control and supervisory bodies are elected in accordance with the requirements of the legislation, taking into account the skills, qualifications and professional experience of these entities; also each candidate, before being elected to the relevant body, shall fill out a declaration of conflict of interests. The company has not established any specific rules for the election of bodies or specific electoral policies related to the aspects such as age, sex, etc. The company believes that such a system of election of candidates for a post fully meets the interests of the company and the majority of shareholders.

Audit Committee of the Company

The Company's Audit Committee operates at AB "Žemaitijos pienas"; it consists of three persons – Angelė Taraškevičienė (chair), Zina Sakalauskienė and Sigita Leonavičienė. Angelė Taraškevičienė was elected to Audit Committee for the second term; Zina Sakalauskienė and Sigita Leonavičienė were assigned instead of previous members of Audit Committee Stanislava Vaičienė and Daiva Kataraskienė. The main functions of Audit Committee is to perform unexpected financial checks, and stock-takings of tangible assets, submit proposals for optimization of processes, and perform other duties established by legal acts.

Name, Surname	Work places Positions Authority	Number of shares held (units) at the Issuer	Start of the term of office within the committee	End of the term of office within the committee
Angelė Taraškevičienė	UAB "Vertybių auditas", Head	0.0	24/10/2017	Up to the date when the electing body of the Company removes the member from office or the term of office expires.
Zina Sakalauskienė	UAB "Telšių statyba", Chief Financial Officer, Auditor	0.0	24/10/2017	Up to the date when the electing body of the Company removes the member from office or the term of office expires.
Sigita Leonavičienė	UAB "Baltijos mineralinių vandenų kompanija", Accountant	0.0	24/10/2017	Up to the date when the electing body of the Company removes the member from office or the term of office expires.

The main function of the Audit Committee is to be the advisory body of the Company's Supervisory Council, and the main task is to increase the effectiveness of the Supervisory Council's work in the financial supervision sector, to help ensure that decisions are taken impartially and with due consideration. It should be noted that there are no other committees established in the Company.

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Other aspects related to AB "Žemaitijos pienas" bodies

During the reporting period (first half of 2018) the Company (Issuer) assigned to the members of the Supervisory Board 29.944 Euros of wages, i.e. 9.981 Euros to one member of the Supervisory Board; to the members of the Board - 267.008 Euros of wages, i.e. 53.402 Euros to one member of the Board. To the Administration Directors/ Managers the Company assigned 317.502 Euros of wages, i.e. 35.279 Euros to one person. During the first half of 2018 the Company paid 200 000 Euros of share of profit to the members of the Supervisory Board and the Board for 2016 according to the decision of the general Meeting of the Shareholders of 14/04/2017. Each member has an average of 25,000 euros.

During the reporting period, no guarantees or warranties were received from the members of the supervisory board and the management board, the head of the company, the chief financial officer / chief accountant and audit committee members, nor any assets or other property rights were transferred.

Members of the Supervisory Board and the Management Board, Company Director, Chief Financial Officer / Chief Accountant the accounting officer and the members of the audit committee have no material substantive obligations to the company (issuer), as the company (issuer) has no liabilities to these persons, except that the part not paid in 2016 is allocated to the bonds.

There were no bonds and guarantees and/or other securities related to the management bodies and Supervisory Board members (Manager, Chief Financial Officer / Chief Accountant the accounting officer and the members of the audit committee) issued on behalf of the Issuer in the first half of 2018. The Issuer did not also give loans to these subjects.

Bodies of ABF "Šilutės Rambynas" and other company management aspects

The bodies of ABF "Šilutė Rambynas" are the general meeting of shareholders, the management board and the sole management body - the manager of the company (general manager), as well as the employees of the company's management acting under the responsibility of the company's head.

The General Meeting of Shareholders acts, and its competence, rights and obligations of shareholders are provided for in legal acts, including the articles of association of the company.

The Company's Articles of Association are amended or separate new provisions are adopted in accordance with the usual procedure established by legal acts.

The Board operates in the Company, its members are subject to the same rules as AB "Žemaitijos Pienas", which, in addition to collecting or changing its members, complies with the requirements of the Law on Companies and the provisions of the Bonding Act, nor does it grant the members of the Board different or special powers than the laws provide and the Articles of Association. In this company, the board members do not have special functions or powers, for example, are not assigned to certain areas of activity in the company, except those who are performing employment contracts, if they are employees of the company.

The board of the company "de facto" and "de jure" consists of five members. The essential data are shown in the table:

Name, Surname	Office in the Issuer	Number of shares held and part of authorised capital%	Term start	Term end	Activity, position held	Education
Algirdas Bladžinauskas	Chairman of the Board	no	29 04 2014	29 04 2018	ABF „Šilutės Rambynas" General Director	Lithuanian Agricultural Academy (Master of agricultural agronomy)

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	General Director					
Irena Baltrušaitienė	Member of the Board	no	29 04 2014	29 04 2018	-	Kaunas Polytechnic Institute (Master of milk and dairy product technology)
Linus Puskunigis	Member of the Board	2076 pcs. or 0.24 per cent	29 04 2014	29 04 2018	ABF „Šilutės Rambynas" Chief Accounting Officer	Lithuanian Agricultural Academy (Master of agricultural economy – organisation)
Remigijus Bieliauskas	Member of the Board	no	29 04 2014	29 04 2018	AB „Žemaitijos pienas" technologist	Kaunas Technological University (Master of dairy product technology)
Renata Rupšienė	Member of the Board	50 pcs. or 0.01 per cent	29 04 2014	29 04 2018	ABF „Šilutės Rambynas" Production Director	Kaunas Technological University (Master of chemical engineering)

Company Manager and Administration

The Company Manager (General Director) - Algirdas Bladžinauskas, Chief Accounting Officer Linus Puskunigis (see data of these persons in the afore-mentioned table). It should be noticed that the election, amendment of the Manager of the Company, which regulates the special rules, is not applicable, the Company follows the requirements of the Law on Companies, the Articles of Association of the Company, and other legal acts. During the reporting period, the Director General (member of the Management Board) has been charged EUR 30.840 (payments related to employment relationships, "gross"), 16,959 Eur was paid to a member of the board - Linus Puskunigis (payments related to employment relationships, "gross"), Renata Rupšienė – EUR 25.913 (working-related benefits, "gross"), no payments were made to the remaining members of the company's board.

ABF "Šilutės Rambynas" elects the members of the organs based on candidate's professional experience and abilities, evaluates personal qualities, various other characteristics of the candidate, among other things, the candidate fills out a declaration of conflict of interests; the company does not apply diversity policy related to the age, sex, etc. The company believes that this system allows choosing the best members of the company's bodies.

IV. OTHER INFORMATION

Public information of the Company

During the reporting period, the Company published more than 37 facts (events) related to the Company through the information system of the Vilnius Stock Exchange (NASDAQ OMX Vilnius) (website). All facts (events) are stored in the Central Regulated Information Base, as well as this information is available on the Company's website www.zpienas.lt²⁸.

Information about significant events after the reporting period

²⁸ http://www.nasdaqbaltic.com/market/?pg=news&issuer=ZMP&start_d=1&start_m=1&start_y=1996



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The events occurring after the end of the reporting period and other regulated information published by the Company can be accessed through the central regulated information system of the Vilnius Securities Exchange (link:

<http://www.nasdaqbaltic.com/market/?pg=details&instrument=LT0000121865&list=3>.

AB "Žemaitijos pienas" entered into the Sales and Purchase Agreement for sale of all (32 per cents) of shares of SIA "Muižas Piens" to UAB "Samogitija"²⁹.

Preliminary consolidated non-audited sales of AB "Žemaitijos pienas" in the first half of 2018 reached 84.7 mln. EUR, i.e. there is an increase of 7.6 per cents compared to the same period of the previous year. Preliminary consolidated non-audited result of AB "Žemaitijos pienas" during six months of 2018 is 3.98 mln. EUR of net profit.

Semi-Annual Consolidated Report (2018) is signed on 13 september 2018.

Robertas Pažemeckas
General Director

Dalia Gecienė
Senior Accounting Officer

²⁹ Transaction for sales and purchase of shares is not finally implemented.

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STATEMENTS OF FINANCIAL POSITION

ASSETS	Notes	The Group		The Company	
		30-06-2018	31-12-2017	30-06-2018	31-12-2017
Fixed assets					
Intangible assets	4	199	156	183	155
Tangible assets	4	37.983	32.175	34.345	28.804
Investments for sale	5	3.011	3.021	3.851	3.949
Investments into subsidiaries		1	1	3.152	3.152
Loans granted	7	2.149	1.839	2.149	1.840
Other fin. assets		13	13	13	13
Deferred profit tax assets	6	1.311	1.316	1.161	1.197
Total amount of fixed assets		44.666	38.521	44.854	39.109
Current assets					
Stock	8	28.476	29.502	27.240	27.457
Advance payments		689	211	607	199
Receivables from the buyers	9	18.405	17.127	18.034	17.072
Other receivables	10	1.137	2.450	1.136	2.201
Cash and cash equivalents	11	9.413	12.277	3.906	4.688
Total amount of current assets		58.120	61.568	50.922	51.617
ASSETS IN TOTAL		102.786	100.089	95.776	90.727
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	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		5.000	5.000	5.000	5.000
Undistributed profit		53.913	56.872	45.654	48.598
Equity of the shareholders of the parent company		72.911	75.979	64.651	67.705
Minority interest		1.582	1.584	-	-
Equity in total		74.493	77.563	64.651	67.705
Long-term liabilities					
Support received		915	968	800	847
Loans	13	3.115	-	3.115	-
Liabilities arising from the financial lease	14	-	-	-	-
Liabilities arising from the deferred profit tax		-	-	-	-
Other long-term liabilities		3.572	3.572	3.288	3.288
Total amount of long-term liabilities		7.602	4.540	7.203	4.135
Short-term liabilities					
Loans		-	-	-	-
Liabilities arising from the financial lease	14	-	-	-	-
Trade debts	15	12.512	9.995	16.380	11.433
Payable profit tax		31	-	-	-
Other payable amounts	16	8.148	7.991	7.542	7.454
Total amount of short-term liabilities		20.691	17.986	23.922	18.887
Liabilities in total		28.293	22.526	31.125	23.022
EQUITY AND LIABILITIES IN TOTAL		102.786	100.089	95.776	90.727

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STATEMENTS OF COMPREHENSIVE INCOME

The Group

	Note	Jan-Jun 2018	Jan-Jun 2017 after corrections	Jan-Jun 2017 – before corrections
Notes				
Sales	3	84.692	78.686	78.686
Cost of sales		(68.639)	(62.388)	(62.388)
GROSS PROFIT		16.053	16.298	16.298
Operating expenses		(11.852)	(10.921)	(8.970)
Other operating income and expenses		334	189	189
(LOSS) PROFIT FROM OPERATIONS		4.535	5.566	7.517
Finance costs		(2)	(0)	(0)
Other financial income and expenses		101	(29)	(29)
(LOSS) PROFIT BEFORE TAX		4.634	5.537	7.488
Income tax (benefit) expense		(650)	(995)	(1.108)
TOTAL INCOME FOR THE PERIOD		3.984	4.542	6.380
ATTRIBUTABLE TO:				
Equity holders of the Company		3.986	4.492	6.330
Minority interest		(2)	50	50
		3.984	4.542	6.380
Basic and diluted earnings per share (EUR)		0,09	0,10	0,14

The Company

	Jan-Jun 2018	Jan-Jun 2017 after corrections	Jan-Jun 2017 before corrections
Sales	84.124	78.073	78.073
Cost of sales	(68.108)	(62.619)	(62.619)
GROSS PROFIT	16.016	15.454	15.454
Operating expenses	(11.813)	(10.753)	(8.802)
Other operating income and expenses	250	371	371
(LOSS) PROFIT FROM OPERATIONS	4.453	5.072	7.023
Finance costs	(2)	(0)	(0)
Other financial income and expenses	120	(26)	(26)
(LOSS) PROFIT BEFORE TAX	4.571	5.046	6.997
Income tax (benefit) expense	(570)	(915)	(1.027)
TOTAL INCOME FOR THE PERIOD	4.001	4.131	5.970
ATTRIBUTABLE TO:			
Equity holders of the Company	4.001	4.131	5.970
Minority interest	-	-	-
	4.001	4.131	5.970
Basic and diluted earnings per share (EUR)	0,09	0,09	0,13

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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 2016	14.029	(1.323)	1.401	4.344	221	49.435	68.107	1.447	69.554
31 December 2016 after corrections	14.029	(1.323)	1.401	4.344	221	56.845	75.517	1.436	76.953
Dividends	-	-	-	-	-	(4.630)	(4.630)	-	(4.630)
Acquisition of own shares	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	656	(221)	(435)	-	-	-
Reserves used	-	-	-	-	-	-	-	-	-
<i>Net profit after corrections</i>	-	-	-	-	-	4.492	4.492	50	4.542
Balance as of 30 June 2017 after corrections	14.029	(1.323)	1.401	5.000	-	56.273	75.380	1.486	76.866
Balance as of 31 December 2017	14.029	(1.323)	1.401	5.000	-	56.872	75.979	1.584	77.563
Dividends	-	-	-	-	-	(6.946)	(6.946)	-	(6.946)
Acquisition of own shares	-	(109)	-	-	-	(109)	-	-	(109)
Transfer to reserves	-	-	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
<i>Net profit</i>	-	-	-	-	-	3.986	3.986	(2)	3.984
Balance as of 30 June 2018	14.029	(1.432)	1.401	5.000	-	53.913	72.911	1.582	74.493

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STATEMENT OF CHANGES IN EQUITY

The Company	Share capital	Own shares (-)	Legal reserve	Reserve s for own shares	Other reserve s	Retain ed earnings	Total
Balance as of 31 December 2016	14.029	(1.323)	1.401	4.344	221	42.152	60.824
31 December 2016 after corrections	14.029	(1.323)	1.401	4.344	221	49.639	68.311
Dividends	-	-	-	-	-	(4.630)	(4.630)
Acquisition of own shares	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	656	(221)	(435)	-
Reserves used	-	-	-	-	-	-	-
Net profit after corrections	-	-	-	-	-	4.131	4.131
Balance as of 30 June 2017 after corrections	14.029	(1.323)	1.401	5.000	-	48.705	67.812
Balance as of 31 December 2017	14.029	(1.323)	1.401	5.000	-	48.598	67.705
Dividends	-	-	-	-	-	(6.946)	(6.946)
Acquisition of own shares	-	(109)	-	-	-	-	(109)
Transfer to reserves	-	-	-	-	-	-	-
Reserves used	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-
Net profit	-	-	-	-	-	4.001	4.001
Balance as of 30 June 2018	14.029	(1.323)	1.401	5.000	-	45.654	64.651

CASH FLOW STATEMENTS

	The Group			The Company		
	Jan-Jun 2018	Jan-Jun 2017 after corr.	Jan-Jun 2017 before corr.	Jan-Jun 2018	Jan-Jun 2017 after corr.	Jan-Jun 2017 before corr.
Cash flow from operating activities						
Profit (loss) for the period	3.984	4.542	6.380	4.001	4.131	5.970
Adjustments:						
Depreciation and amortization	1.225	2.342	2.342	1.137	2.069	2.069
Amortization of grants received	(53)	(205)	(205)	(47)	(173)	(173)
Gain (loss) on disposal of non-current assets	(89)	(4)	(13)	155	(13)	(13)
Corporate income tax expenses	5	209	319	36	206	319
Impairment of accounts receivable	(209)	(375)	(1.126)	(209)	(375)	(1.126)
Impairment of property, plant and equipment	-	-	-	-	-	-

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Impairment of inventories to net realizable value	(1.214)	(367)	(367)	(878)	(367)	(367)
Net financial expenses (income)	(27)	(41)	(41)	(24)	(41)	(41)
Elimination of non-cash items	-	-	-	-	-	-
Loss from liquidation of subsidiaries	-	-	-	-	-	-
Net cash flows from ordinary activities before changes in working capital	3.621	6.101	7.289	4.171	5.437	6.638
Changes in working capital:						
(Increase) decrease in inventories	2.241	(2.211)	(2.231)	1.095	(1.763)	(1.763)
(Increase) decrease in trade receivables	(1.069)	(1.179)	(1.179)	(752)	(811)	(811)
(Increase) decrease in prepayments	(478)	(141)	(141)	(408)	(48)	(48)
(Increase) decrease in other receivables	952	585	615	704	563	563
(Decrease) increase in trade payables	2.517	901	901	4.946	562	562
(Decrease) increase other accounts payable	157	1.035	981	88	1.063	1.062
Corporate income tax paid	31	-	54	-	-	-
Net cash flows from operating activities	7.972	5.091	6.289	9.844	5.003	6.203
Cash flows from (to) investing activities						
(Acquisition of intangible assets and property, plant and equipment.	(7.419)	(1.891)	(1.890)	(6.942)	(1.753)	(1.753)
Proceeds on sale of property, plant and equipment	443	19	19	180	19	19
Acquisition of subsidiaries	-	-	-	-	-	-
Sale of investments available for sale	-	-	-	-	-	-
Repayment of loans granted	428	1.182	1.182	428	1.182	1.182
Loans granted	(376)	(519)	(519)	(376)	(519)	(519)
Interest received	37	44	44	37	44	44
Net cash flows (to) investing activities	(6.887)	(1.166)	(1.164)	(6.674)	(1.027)	(1.027)
Cash flows from (to) financing activities						
Dividends paid	(6.946)	(4.630)	(5.830)	(6.946)	(4.630)	(5.830)
Acquisition of own shares	(109)	-	-	(109)	-	-
Grants received (-)	3.115	-	-	3.115	-	-
Loans received (-)	-	-	-	-	-	-
Repayment of loans	-	-	-	-	-	-
Financial lease payments	-	-	-	-	-	-
Interest paid	(2)	-	-	(2)	-	-
Other financial (income) and expenses	(7)	-	-	(11)	-	-
Net cash flows from financial activities	(3.949)	(4.630)	(5.830)	(3.953)	(4.630)	(5.830)
Net increase (decrease) in cash and cash equivalents	(2.864)	(705)	(705)	(783)	(654)	(654)
Cash and cash equivalents at the beginning of the year	12.277	17.000	17.000	4.688	10.921	10.921
Cash and cash equivalents at the end of the year	9.413	16.295	16.295	3.906	10.267	10.267



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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 2017 and 2018 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 2018 and 2017.

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

On 30 June 2017 Company had acquired its own shares – 2.071 thousand units by 1.323 thousand of EUR.

During January- June 2018 Company had acquired its own shares – 62 thousand units by 109 thousand of EUR

On 30 June 2018, the Group was composed of Žemaitijos pienas, AB and its subsidiaries (hereinafter - the Group):

<u>Subsidiary</u>	<u>Registered office of the Company</u>	<u>Interest of the Group's shares</u>	<u>Consolidated interest</u>	<u>Investments (cost price) 30 June 2018</u>	<u>Net assets 30 June 2018</u>	<u>Main activities</u>
Šilutės Rambynas, ABF	Klaipėdos st. 3, Šilutė, Lithuania	87.82 %	87.82 %	3.150	12.992	Production and sale of cheese

On 30 June 2018, the Company had 1.227 employees, and the Group had 1.414 employees (on 30 June 2017 – 1.235 employees in the Company and 1.427 employees in the Group).

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 2017.

Here are the most significant accounting policies:

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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: 5-15 years

Vehicles and other equipment: 4 - 10 years.

During the period of March-April of 2018, the Company and the Group performed a review of the residual values and useful lives of all its fixed assets in accordance with the requirements of IAS 16 "Real property, plant and equipment" and consequently adopted a decision to change the residual values and useful lives of non-

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depreciated (as at 31/12/2017) fixed assets as of 1 January 2018. The Company and the Group approved residual value of 10% for the group of fixed assets and buildings; extended the useful lives of other fixed assets with the material acquisition cost (exceeding EUR 1,000), extended useful lives (not exceeding the maximum useful lives of the respective group of assets) of such fixed assets and set the residual value of 5% from the acquisition value. Where the acquisition cost of property is not material, the residual value of 0.29 EUR remains.

Based on the strategy approved by the Board and on the fixed assets accounting policy, considering the interests of the Company and the Group and the need for control and proper accounting of movements in material assets, the Company and the Group approved the minimum acquisition value of fixed assets of EUR 1,000 as of 1 February 2018.

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 are initially recognized at their fair value in the statement of financial position, receivables are recognized at the transaction price. 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

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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. As of 1 January 2019, the Company plans to adopt a new standard IFRS 16 under which the lessee will be required to recognise assets and liabilities arising from all finance lease and almost all operating lease presented in the balance sheet.

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:

<u>30 June 2018</u>		<u>30 June 2017</u>	
1 USD	= EUR 0,85778	1 USD	= EUR 0,87619

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

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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.

Corrections of accounting estimates and errors

In connection with the additional retrospective accounting estimate of the Group and the Company performed on 31/12/2017 the financial statements of 30 June 2017 have been recalculated accordingly.

Statements of financial position retrospective 30 June 2017:

	Group		Company	
	2017 06 30- after corrections	2017 06 30- before correction s	2017 06 30 - after correction s	2017 06 30- before corrections
ASSETS				
Fixed assets				
Intangible assets	97	97	95	95
Tangible assets	27.843	26.715	25.143	24.300
Investments for sale	693	693	1.642	1.642
Investments into subsidiaries	1	1	3.152	3.152
Loans granted	2.334	2.334	2.334	2.334
Other fin. assets	20	20	20	20
Deferred profit tax assets	1.649	1.832	1.552	1.750
Total amount of fixed assets	32.638	31.692	33.938	33.293
Current assets				
Stock	28.133	27.831	26.005	25.417
Advance payments	339	339	202	202
Receivables from the buyers	18.333	17.903	17.958	17.528
Other receivables	1.080	1.080	1.077	1.076
Cash and cash equivalents	16.295	16.295	10.267	10.267
Total amount of current assets	64.180	63.448	55.508	54.490
ASSETS IN TOTAL	96.817	95.140	89.446	87.783

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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	5.000	5.000	5.000	5.000
Undistributed profit	56.273	49.500	48.705	41.857
Equity of the shareholders of the parent company	75.380	68.607	67.812	60.964
Minority interest	1.486	1.497	-	-
Equity in total	76.866	70.104	67.812	60.964
Long-term liabilities				
Support received	921	921	819	819
Loans				
Liabilities arising from the financial lease				
Liabilities arising from the deferred profit tax				
Other long-term liabilities	892	-	818	
Total amount of long-term liabilities	1.812	921	1.637	819
Short-term liabilities				
Loans	-	-	-	-
Liabilities arising from the financial lease				
Trade debts	9.936	16.936	12.284	19.284
Payable profit tax	-	54	-	-
Other payable amounts	8.203	7.125	7.713	6.716
Total amount of short-term liabilities	18.139	24.115	19.997	26.000
Liabilities in total	19.951	25.036	21.634	26.819
EQUITY AND LIABILITIES IN TOTAL	96.817	95.140	89.446	87.783

Statements of comprehensive income retrospective 30 June 2017:

	Group		Company	
	2017 06 30 - after corrections	2017 06 30- before corrections	2017 06 30 - after corrections	2017 06 30 - before corrections
Sales	78.686	78.686	78.073	78.073
Cost of sales	(62.388)	(62.388)	(62.619)	(62.619)
GROSS PROFIT	16.298	16.298	15.454	15.454
Operating expenses	(10.921)	(8.970)	(10.753)	(8.802)
Other operating income and expenses	189	189	371	371
(LOSS) PROFIT FROM OPERATIONS	5.566	7.517	5.072	7.023
Finance costs	-	-	-	-
Other financial income and expenses	(29)	(29)	(26)	(26)



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Income tax (benefit) expense	(995)	(1.108)	(915)	(1.027)
NET(LOSS) PROFIT	4.542	6.380	4.131	5.970
ATRIBUTABLE TO:				
Equity holders of the Company	4.492	6.330	4.131	5.970
Minority interest	50	50	-	-
	4.542	6.380	4.131	5.970
Basic and diluted earnings per share (EUR)	0,10	0,14	0,09	0,13

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 and cheese products (primary segment). Other products as addition (primary) segment consist of sales of milk, butter, milk whey and other.

The Group	Sales, EUR thousand		Variation in % as comparing 01-06 2018 with 01-06 2017
	Jan-Jun 2018	Jan-Jun 2017	
Cheese and cheese products	35.038	31.840	10,04%
Fresh dairy products	28.597	25.722	11,18%
Other products	21.057	21.124	-0,32%
Total:	84.692	78.686	7,63%

The Group	Gross profit, EUR thousand		Variation in % as comparing 01-06 2018 with 01-06 2017
	Jan-Jun 2018	Jan-Jun 2017	
Cheese and cheese products	7.022	7.632	-8%
Fresh dairy products	10.284	8.605	19,51%
Other products	(1.253)	61	-2.154,1%
Total:	16.053	16.298	1,50%

The Company	Sales, EUR thousand		Variation in % as comparing 01-06 2018 with 01-06
	Jan-Jun 2018	Jan-Jun 2017	

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			2017
Cheese and cheese products	33.697	29.925	12,60%
Fresh dairy products	28.506	25.722	10,82%
Other products	21.921	22.426	-2,25%
Total:	84.124	78.073	7,75%

The Company	Gross profit, EUR thousand		Variation in % as comparing 01-06 2018 with 01-06 2017
	Jan-Jun 2018	Jan-Jun 2017	
Cheese and cheese products	7.581	6.401	18,43%
Fresh dairy products	10.234	8.955	14,28%
Other products	(1.799)	98	-1.935,71%
Total:	16.016	15.454	3,64%

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

The Group	Jan-Jun 2018	Jan-Jun 2017
Sales, EUR thousand		
Lithuania	45.465	42.015
Other Baltic and CIS states	13.050	13.860
Other European states	22.516	19.078
Other	3.661	3.733
In total	84.692	78.686

The Company	Jan-Jun 2018	Jan-Jun 2017
Sales, EUR thousand		
Lithuania	46.436	42.564
Other Baltic States and CIS members	11.869	13.003
Other Europe countries	22.339	19.013
Other	3.480	3.493
Total, EUR thousand:	84.124	78.073

4. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Changes in intangible assets of the Group as of 30 June 2018:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2017	105	226	453	784
- acquisition	61	-	24	85

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- transfers between accounts	-	-	-	-
As of 30 June 2018	166	226	477	869
Accumulated depreciation				
As of 31 December 2017	66	213	348	627
- amortization	15	3	24	43
- amortization of transferred and written-off assets	-	-	-	-
As of 30 June 2018	81	217	372	670
Net book value:				
As of 31 December 2017	39	13	105	156
As of 30 June 2018	85	10	105	199

Changes in intangible assets of the Company as of 30 June 2018

The Company	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2017	105	226	438	769
-acquisition	61	-	9	70
-sold or written-off assets	-	-	-	-
-transfers between accounts	-	-	-	-
As of 30 June 2018	166	226	447	839
Accumulated depreciation				
As of 31 December 2017	66	213	335	614
-amortization	15	3	24	42
-amortization of transferred and written-off assets	-	-	-	-
As of 30 June 2018	81	216	359	659
Net book value:				
As of 31 December 2017	39	13	103	155
As of 30 June 2018	85	10	88	183

In the period January-June 2018 amortization of non-current intangible assets of the Group and the Company amounts to EUR 43 thousand and EUR 42 thousand respectively.

Investments in the purchase of non-current intangible assets made by the Group and the Company in the period January - June 2018 amount to EUR 85 thousand and EUR 70 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 2018

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The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Acquisition cost	15.724	64.105	12.164	3.076	7.812	102.881
As of 31 December 2017						
-acquisition	52	1.068	525	152	5.412	7.208
-sold or written-off assets	(148)	(591)	(1.651)	(315)	-	(2.705)
-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	(719)	-	-	-	-	(719)
-transfers between accounts	-	-	-	-	-	-
-adding value	-	61	-	-	45	106
-reclassification	82	885	-	-	(967)	-
As of 30 June 2018	14.990	65.528	11.038	2.913	12.302	106.771
Accumulated depreciation	8.822	48.613	10.732	2.506	-	70.673
As of 31 December 2017						
-depreciation	193	762	81	45	-	1.082
-depreciation of written-off and sold assets	(11)	(490)	(1.648)	(203)	-	(2.352)
-recalculation of the accounting policy change	-	-	-	-	-	-
-transfers to investing assets	(635)	-	-	-	-	(635)
-transfers between accounts	82	(82)	-	-	-	-
As of 30 June 2018	8.451	48.804	9.165	2.348	-	68.768
Accumulated impairment losses	31	-	-	-	2	33
As of 31 December 2017						
-impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
-transfers to investing assets	(12)	-	-	-	-	(12)
As of 30 June 2018	19	-	-	-	2	21
Net book value:						
As of 31 December 2017	6.871	15.492	1.432	570	7.810	32.175
As of 30 June 2018	6.521	16.724	1.873	565	12.300	37.983

Changes in property, plant and equipment of the Company as of 30 June 2018:

The Company	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total

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Acquisition cost						
As of 31 December 2017	10.767	57.571	8.994	2.601	7.184	87.117
-acquisition	52	1.050	499	122	5.068	6.791
-recalculation of the accounting policy change	-	-	-	-	-	-
-sold or written-off assets	(148)	(558)	(233)	(241)	-	(1.180)
-adding value	-	61	-	-	-	61
-reclassification	-	488	-	-	(488)	-
-transfers to accounts investing assets	-	-	-	-	-	-
As of 30 June 2018	10.671	58.612	9.260	2.483	11.764	92.790
Accumulated depreciation						
As of 31 December 2017	5.350	43.161	7.692	2.111	-	58.314
-depreciation	163	704	74	37	-	977
-depreciation of written-off and sold assets	(11)	(457)	(230)	(148)	-	(846)
-recalculation of the accounting	-	-	-	-	-	-
-transfers to investing assets	-	-	-	-	-	-
-reclassification	-	-	-	-	-	-
As of 30 June 2018	5.502	43.408	7.535	2.000	-	58.445
Accumulated impairment losses						
As of 31 December 2017	-	-	-	-	-	-
-impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
As of 30 June 2018	-	-	-	-	-	-
Net book value						
As of 31 December 2017	5.417	14.410	1.303	490	7.184	28.804
As of 30 June 2018	5.169	15.204	1.725	483	11.764	34.345

For the period ending at 30 June 2018 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to EUR 1.082 thousand and EUR 977 thousand respectively.

Investments in the the acquiring of non-current tangible and intangible assets made by the Group and the Company in January-June 2018 amounted to EUR 7.399 thousand and EUR 6.922 thousand. All the acquisitions above relate to the geographic segment of Lithuania.

5. INVESTMENT PROPERTY

Changes in the investment assets as of 30 June 2018:

	<u>The Group</u>	<u>The Company</u>
Acquisition cost		
As of 31 December 2017	3.313	6.071
- acquisition	19	19
- transfers from long-term assets	719	-
As of 30 June 2018	4.051	6.090

Accumulated depreciation

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As of 31 December 2017	292	2.122
- depreciation	101	117
- transfers from long-term assets	635	-
As of 30 June 2018	1.028	2.239
Accumulated impairment losses	-	-
As of 31 December 2017	-	-
-impairment losses	-	-
-reversal of impairment	12	-
As of 30 June 2018	12	-
Net book value, Eur thousand:		
As of 31 December 2017	3.021	3.949
As of 30 June 2018	3.011	3.851

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 2018 amounted to EUR 101 thousand and EUR 117 thousand respectively.

The Company's investment assets in 2018 and 2017 represents rented assets to ABF Šilutės Rambynas and UAB Čia Market and other companies.

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 2018</u>	<u>Jan-Jun 2017</u>	<u>Jan-Jun 2018</u>	<u>Jan-Jun 2017</u>
Deferred income tax asset				
Accounts receivable	84	116	6	38
Inventories	550	681	468	599
Accrued vacation reserve	176	176	170	170
Other accrued expenses	863	825	770	763
Investment incentiv	370	397	370	397
Total deferred income tax asset, EUR thousand	2.043	2.195	1.784	1.967
Deferred income tax asset realization allowance	(430)	(577)	(352)	(499)
Deferred income tax asset (after realization allowance)	1.613	1.618	1.432	1.468
Deferred income tax liability				
Difference in property, plant and equipment depreciation rates	(302)	(302)	(271)	(271)
Total deferred income tax liability, EUR thousand	(302)	(302)	(271)	(271)
Deferred income tax asset, net EUR thousand	1.311	1.316	1.161	1.197

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7. LOANS GRANTED

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

	The Group		The Company	
	30 06 2018	31 12 2017	30 06 2018	31 12 2017
Loans granted	2.548	2.600	2.548	2.600
in a number of loans to related parties	899	953	899	953
in a number of loans to farmers	1.547	1.522	1.547	1.522
in a number of loans to employees	102	125	102	125
<i>Less: current portion of loans granted</i>	<i>(399)</i>	<i>(761)</i>	<i>(399)</i>	<i>(761)</i>
Non- current loans granted, EUR thousand	2.149	1.839	2.149	1.839

The repayment term is from 1 to 9 years.

20 company's employees had a loan balance as of 30/06/2018. The average annual loan interest rate: 3%.

Loans have been granted to the employees as a motivating tool based on the Regulations for Provision of Loans to employees. A limit of the fund intended for provision of loans to the employees makes up 231.696 euros. On all occasions loans are being granted to a borrower after he/she undertakes to secure repayment of a loan by pledging his/her or another person's real property assets or using other means of security of repayment of a loan acceptable to the company (a credit institution guarantee or other). Upon assessment of a possible risk, liquidity of real estate assets being pledged and etc. a value of the real estate assets being pledged makes up from 100% to 200% of an amount being borrowed.

72 farmers had a loan balance as of 30/06/2018. Loans in the amount of 371 thousand euros had been granted to farmers within the period from 01/01/2018 to 30/06/2018. The average interest rate on loans granted: 3,32%. All long-term loans have been granted with collateral (land have been pledged at market prices).

The associated company owed 898 thousand euros to Klaipėdos pienas, AB as of 30/06/2018. The loan has been granted with a variable/floating annual interest rate; a loan repayment period – the year 2029; real estate assets have been pledged.

8. STOCK

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

	The Group		The Company	
	30 06 2018	31 12 2017	30 06 2018	31 12 2017
Raw materials	3.252	3.429	2.745	2.928
Finished goods and work in process	28.287	30.318	27.352	28.231
Goods for resale	260	292	259	292
	31.799	34.039	30.356	31.451
Less: write off to net realizable value	(3.323)	(4.537)	(3.116)	(3.994)
Total, EUR thousand:	28.476	29.502	27.240	27.457

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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 2018	31 12 2017	30 06 2018	31 12 2017
Trade accounts receivable	14.789	14.834	14.232	14.311
Accounts receivable from related parties	4.180	3.066	3.844	3.013
	18.969	17.900	18.077	17.324
Impairment allowance for bad debts	(564)	(584)	(43)	(63)
Impairment allowance for bad debts of related parties	-	(189)	-	(189)
Net trade receivables:	18.405	17.127	18.034	17.072

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 2018	31 12 2017	30 06 2018	31 12 2017
Income tax receivables	-	637	-	505
Current portion of long-term loans granted	399	761	399	761
VAT receivable	698	775	698	660
Other receivables	40	277	39	275
Total:	1.137	2.450	1.136	2.201

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 2018	31 12 2017	30 06 2018	31 12 2017
Cash at bank	9.391	12.247	3.884	4.659
Cash on hand	22	30	22	29
Total:	9.413	12.277	3.906	4.688

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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, "Žemaitijos pienas" AB 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 2018 and 31 December 2017 the share capital amounted to 48.375.000 ordinary registered shares with a nominal value of 0.29 Eur.

On 30 June 2018 and 31 December 2017, 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 2017 the Group and the Company hadn't loans.

In June 2018, Žemaitijos Pienas, AB concluded a Credit Agreement with SEB Bankas for the amount of 10 million euro. The credit was granted for 5 (five) years and bears fluctuating annual interest rate; the last date for repayment – June 2023. Collateral for the performance of the obligations under this credit agreement includes the following: current account at SEB Bank and real estate.

On June 30, 2018 the balance of the loan payable to the Company and the Group amounted to Eur thousand 3.115.

14. LIABILITIES UNDER THE FINANCIAL LEASE CONTRACT

On 31 December 2017 and on 30 June 2018 the Group and the Company hadn't unpaid financial lease contracts.

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	
	30 06 2018	31 12 2017	30 06 2018	31 12 2017
Payables to suppliers	11.249	9.150	10.695	8.487
Payables to related parties	736	496	5.159	2.597
Prepayments	527	349	526	349
Total:	12.512	9.995	16.380	11.433

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16. OTHER PAYABLE AMOUNTS

Other payable amounts consisted of the following:

	The Group		The Company	
	30 06 2018	31 12 2017	30 06 2018	31 12 2017
Accrued expenses	1.757	2.245	1.660	2.148
Holiday reserve	1.296	1.296	1.131	1.131
Wages and salaries payable	1.061	879	918	758
Social security payable	637	1.004	556	897
Taxes payable, other than income tax	310	204	192	158
Tantiems	959	695	959	695
Other current liabilities	2.128	1.668	2.126	1.667
Total:	8.148	7.991	7.542	7.454

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;
- the companies that are under control or material impact of the aforesaid persons.

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

N o.	Company name	Company's information	The nature of the main activity
1.	ABF „Šilutės Rambynas“	Company code: 277141670; address: Klaipėdos g. 3, Šilutė, LT-99115	Dairy and cheese production
2.	AB „Žemaitijos pieno investicija“	Company code: 300041701; address: Sedos g. 35, Telšiai, LT-87101	Rental and maintenance of own and leased real estate
3.	UAB „Baltijos mineralinių vandenų kompanija“	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Production of bottled natural mineral water
4.	AB „Klaipėdos pienas“	Company code: 240026930; address: Šilutės pl. 33, Klaipėda, LT-91107	Production of ice cream
5.	UAB „Čia Market“	Company code: 141354683, address: Sedos g. 35A, Telšiai LT-87101	Retail sales in non-specialized stores
6.	SIA „Muižas piens“	Company code: 40003786632, address: Bauskas iela 58a-8, 5stavs 507 kab. Rīga, LV-1004, Latvia	Wholesale of food products
7.	UAB „Samogitija“	Company code: 302501454, address: Narutavičių g. 4, Telšiai, LT-87101	Production, transportation, storage, distribution, etc. of milk and other food products
8.	S.A.R.Dziugas France	Company code: 751860669, address: 149	Production and sale of

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		avenue du Maine, Paris	dairy products. Activity is currently on hold.
9.	Dziugas PL Sp.z.o.o.	Liquidated in 2017	
10.	Dziugas USA L.L.C.	Company code: 0400754292, address: Five greentree centre, ste. 104, 525 Route 73 North Marlon, NJ08053,	Wholesale import of dairy products
11.	Dziugas Eesti OU	Company code: 14324189, address: Punane g. 56, Talin	Wholesale import and sale of dairy products
12.	Dziugas Poland	Company code: 368496450, address: Luki Wielke g. 5, Warsaw	Agents involved in the sale of food and beverages
13.	UAB „Baltic Holding“	Company code: 302688114, address: Įgulos g.18B -4, Klaipėda	IT services

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

	The Group		The Company	
	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
1) Sales				
Sales of goods				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	11.671	11.135
	-	-	11.671	11.135
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	8	-	8
Klaipėdos pienas AB	415	355	70	67
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	3.460	3.418	3.460	3.417
Muizas piens SIA	247	515	247	515
Dziugas USA LLC	-	343	-	343
	4.122	4.640	3.777	4.350
Sales of inventory and services				
<i>To the Group</i>				
Šilutės Rambynas ABF	-	-	223	233
	-	-	223	233
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	18	46	18	46
Klaipėdos pienas AB	241	299	241	299
Žemaitijos pieno investicija AB	151	18	151	18
Samogitija UAB	0	0	0	0
Čia Market UAB	210	98	208	96
Muizas piens SIA	3	2	3	2
Dziugas Poland	1	-	1	-
Dziugas USA LLC	-	14	-	14
	624	477	622	475
Total Sales:	4.746	5.117	16.293	16.193

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	The Group		The Company	
	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
2) Purchases				
<i>From the Group</i>				
Šilutės Rambynas ABF	-	-	14.893	13.330
	-	-	14.893	13.330
<i>From Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	1.059	963	1.058	962
Samogitija UAB	27	2	27	2
Klaipėdos pienas AB	46	271	46	270
Žemaitijos pieno investicija AB	414	413	413	413
Čia Market UAB	1.290	572	1.285	563
Muizas piens SIA	159	4	159	4
Dziugas Poland	64	-	64	-
Dziugas PL Sp. Z.o.o.	-	48	-	48
Dziugas Eesti OU	34	-	34	-
Dziugas USA LLC	-	42	-	42
	3.093	2.315	3.087	2.304
Total Purchases:	3.093	2.315	17.979	15.634

Balances outstanding with related parties

	The Group		The Company	
	30 06 2018	31 12 2017	30 06 2018	31 12 2017
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	0	0	0	0
Žemaitijos pieno investicija UAB	-	-	-	-
Klaipėdos pienas AB	1.544	1.016	1.209	963
Čia Market AB	2.814	1.924	2.813	1.924
Muizas piens SIA	221	213	221	213
Dziugas France S.A.R.	-	-	-	-
Dziugas USA LLC	499	677	499	677
	5.078	3.830	4.742	3.777

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	5.078		3.830		4.742		3.777	
	The Group				The Company			
	30	06	2018	31	12	30	06	31
			2017		2018		2017	
Total balances of payables:								
4) Balances of payables								
<i>To Group</i>								
-								
Šilutės Rambynas ABF					4.422		2.109	
					4.422		2.109	
<i>To Related parties</i>								
Baltijos mineralinių vandenų kompanija UAB	597		318		597		318	
Žemaitijos pieno investicija UAB	109		103		109		103	
Klaipėdos pienas AB	-		-		-		-	
Čia Market AB	-		7		-		-	
Muizas piens SIA	14		49		14		49	
Dziugas Poland	8		-		8		-	
Dziugas PL.Sp.z.o.o.	-		9		-		9	
UAB Samogitija	-		9		-		9	
Dziugas Eesti OU	8		-		8		-	
Dziugas USA LLC	-		-		-		-	
	736		495		736		488	
Total balances of payables:	736		495		5.158		2.597	

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. On 30 June 2018, the Company didn't applied decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (on 31 December 2017 – after audit correction decrease in distribution value for doubtful accounts of related parties was EUR 189 thousand). Evaluation of these doubtful accounts is being reviewed every financial period. 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 vandenų kompanija" UAB and sales of finished goods to "Čia Market" UAB, sales of raw materials, production and various services to "Klaipėdos 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.