



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

**2016
Telšiai**

AB "ŽEMAITIJOS PIENAS"
Company number 180240752



AB "ŽEMAITIJOS PIENAS"
INTERIM CONSOLIDATED REPORT
30 JUNE 2016



AB "ŽEMAITIJOS PIENAS"
Company number 180240752

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

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

2. Main data on the issuer

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

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

Subsidiaries controlled by the company:

ABF "Šilutės Rambynas", company number 277141670.

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

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

Office address – Klaipėdos str. 3, Šilutė.

Nature of activity – production of fermented cheese.

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

The company owns 32%.

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

Nature of activity – retail, wholesale.



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Branches of AB "Žemaitijos pienas":

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

4. Nature of main activity

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

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

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

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

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

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

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

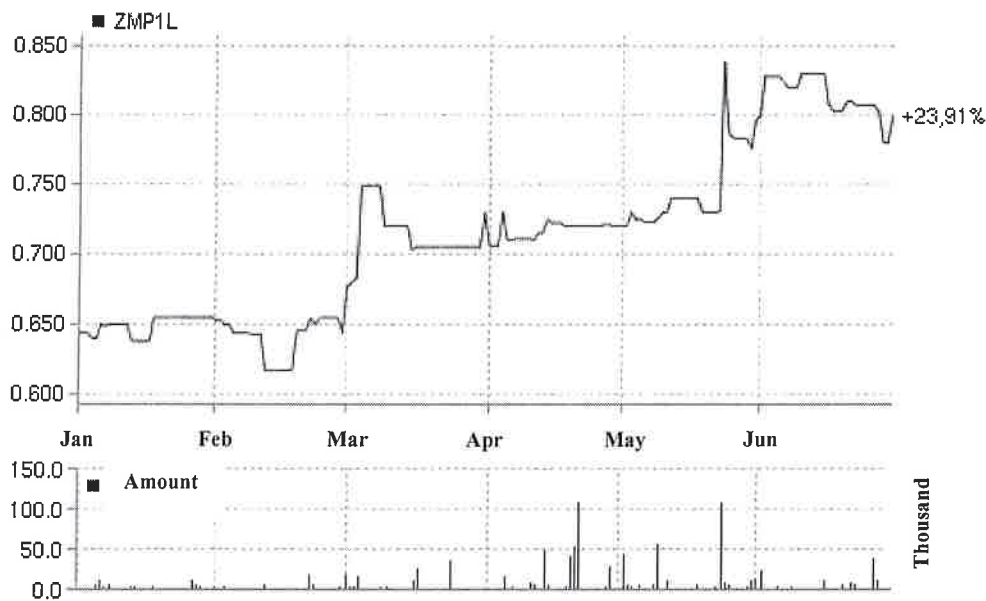
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Listed emission (pcs.)	48,375,000
Listing start date	13/10/1997
Total number of voting rights granted by the shares (pcs.)	46,304,379
Amount of shares controlled by the Company	2,070,621 pcs.

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

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

Period of trading securities January – June of 2016¹:



Historical data of trading securities²:

¹

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

²

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

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

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

7. Authorised capital

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

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

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

8. Procurement of own shares

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

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

9. Shareholders and shareholder rights

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

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

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

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

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

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

The shareholders of the company have the following property rights:

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

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

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

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

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

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

10. Risk management

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

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

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

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

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

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

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

11. Essential data on the company's activity results

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

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

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

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

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

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

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

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

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

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

12. Activity plans, development and forecasts

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

Main current objective of the company:

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

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

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

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

13. Environmental protection

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Awards in 2016:

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



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

15. Issuer's bodies

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

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

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

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

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

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

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

16. Members of the company’s collegial bodies

16.1. The Supervisory Council of the company

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

16.2. The Board of the company

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

⁵ The position is held on basis of employment relations;

⁶ The position is held on basis of employment relations;

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

16.3. The Administration of the company

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

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

17. Transactions with associated parties

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

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

18. Employees

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

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

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

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

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

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

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

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

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























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

19. Data on publicly disclosed information


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

The following essential events were announced during the reporting period:

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



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

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

21. Information on following the Corporate Governance Code

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

20 July 2016

General Director

Chief Accountant

Robertas Pažemeckas

Dalia Gecienė