

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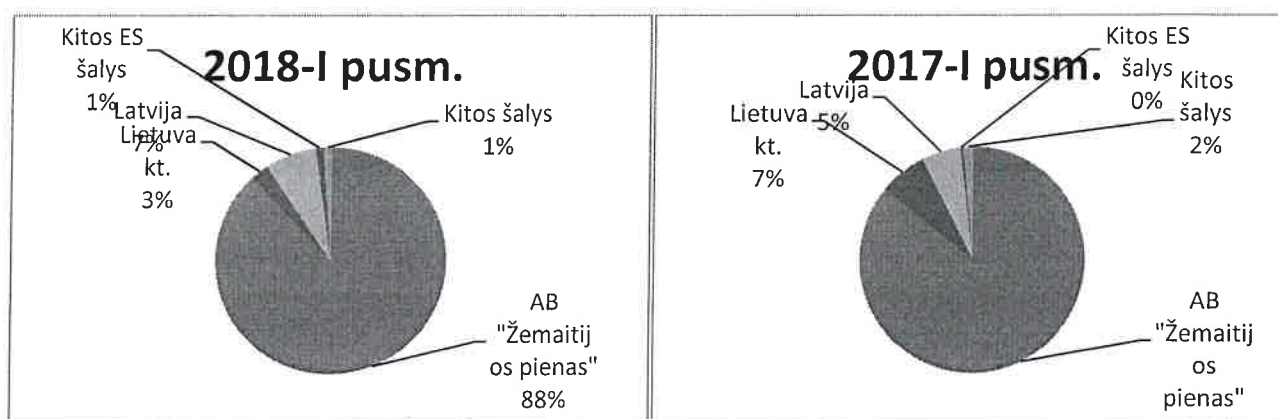
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Butter and fat spreads	7.150	8.50%	7.103	9.10%
Dry milk products	4.501	5.35%	6.348	8.13%
Other ⁸	10.270	12.20%	8.975	11.50%
Total	84.124	100%	78.073	100%

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

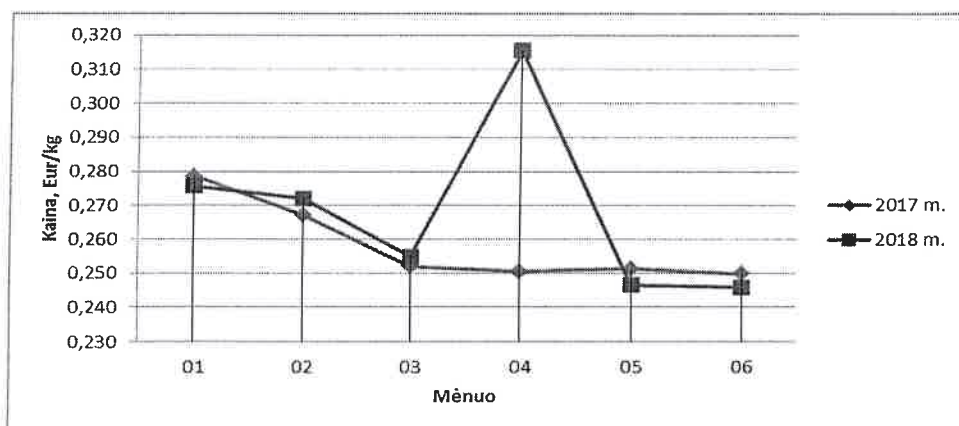
⁸ Kastinys, ice-cream, water products, raw materials;

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

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