

**Stock Company**  
**ŽEMAITIJOS PIENAS**

**SEMI-ANNUAL REPORT**  
**for the First Half-Year of 2007**

Telšiai, 2007

## SECTION I

### GENERAL

#### 1. Accountable period for which the annual prospectus-report has been prepared

First half of year 2007.

#### 2. Main data on the Issuer

Company name of the Issuer	Stock Company Žemaitijos Pienas
Registered Office	Sedos g. 35, LT-87101 Telšiai
Telephone	(8-444) 22201
Fax	(8-444) 74897
E-mail address	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
Website	<a href="http://www.zpienas.lt">http://www.zpienas.lt</a>

Legal and organizational form	Legal entity, Stock Company
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Data on Public Company registration with the Register of Enterprises:

Registration date	23 June 1993
Register administrator	State Enterprise Center of Registers
Code in the Register of Enterprises	180240752

Authorized capital in the amount of 48.375.000 LTL has been registered with the Register of Enterprises.

Authorized capital is divided into 4.837.500 ordinary registered shares with a nominal value of 10 LTL.

#### 3. Information about where and how one can get acquainted with the report and the documents on the basis of which it was prepared and the name of means of mass media.

The semi-annual report, financial statements, and auditor's reports are available in AB Žemaitijos Pienas at the address Sedos g. 35, Telšiai, on working hours.

The means of mass media - newspapers *Valstiečių Laikraštis* and *Kalvotoji Žemaitija*.



#### **4. Persons responsible for the accuracy of information in the report**

##### **4.1. Members of managing bodies, employees, and Head of Administration of the Issuer**

Algirdas Pažemeckas, General Director of AB Žemaitijos Pienas, tel.: (444) 22201, fax: (444) 74897;

Dalia Gecienė, Chief Financial Officer of AB Žemaitijos Pienas, tel.: (444) 22206, fax: (444) 74897.

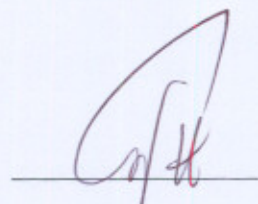
##### **4.2. Consultants**

Consultant – Securities Accounting Department of AB Šiaulių Bankas, address: Tilžės g. 149, LT-76348, Šiauliai, tel.: (8-41) 595669, fax: (8-41) 595 687, Consultant's representative – Jolanta Dobiliauskienė, tel.: (8-41) 595669.

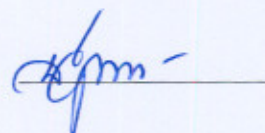
#### **5. Declaration by the responsible persons.**

Persons responsible for the Report by signing it declare that the information contained in the report does reflect the real situation and there does not exist any concealed information likely to affect the investors' decision concerning purchase, sale or valuation of the Issuer's securities or the market price of these securities.

Algirdas Pažemeckas  
General Director of AB Žemaitijos Pienas



Dalia Gecienė  
Chief Financial Officer of AB Žemaitijos Pienas



Telšiai, 29 August 2007



## SECTION II

### INFORMATION ON THE ISSUER'S AUTHORIZED CAPITAL, SECURITIES ISSUED, AND THE MEMBERS OF MANAGING BODIES

#### 6. The Issuer's authorized capital

##### 6.1. Authorized capital registered with the Register of Enterprises

Authorized capital registered with the Register of Enterprises amounts to 48 375 000 LTL.

The capital is divided into 4 837 500 ordinary registered shares with a nominal value of 10 LTL.

##### 6.2. Information on the projected increase of the authorized capital by converting or exchanging debt securities or derivative securities issued into shares

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#### 7. Shareholders

On 30 June 2007, the number of shareholders of the Company amounted to 2.926.

The following is the data on the shareholders having owned more than 5 % of the Company's authorized capital and votes on 30 June 2007:

No	Full name, (corporate name), ID code, address	Number of shares held under the right of property	Percentage of the authorized capital and votes granted by the owned shares, %	Percentage of authorized capital and votes held in concert with other persons, %
1	Algirdas Pažemeckas ID code 35111120012	1.970.587	40,74	48,81
2	Skandinaviska Enskilda Banken klientai, ID code 50203290810, Sergebs Torg 2, 10640 Stockholm	537.027	11,10	11,10
3	AB „Klaipėdos pienas“ ID code 240026930	327.562	6,77	6,77

#### 8. Securities not representing capital, however, turnover whereof is governed by the Law on Securities Market

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## 9. Secondary trading in securities issued by the Issuer

The Company has issued for public trading 4.837.500 ordinary registered shares with a nominal value of 10 LTL (ISIN code LT0000121865), the total nominal value hereof amounted to – 48.375.000 LTL.

The shares were admitted to the trading lists of the Vilnius Stock Exchange.

Trading on Vilnius Stock Exchange:

Trading session	Price (LTL)			Turnover (LTL)		
	max.	min.	last session	max.	min.	last session
2007-01-03 - 2007-06-30	25,80	20,50	22,60	1.551.092	0	28.446

## 10. Agreements with intermediaries of public trading in securities

1) AB Žemaitijos Pienas has concluded the brokerage service agreement with financial brokerage firm UAB FMĮ Baltijos Vertybiniai Popieriai (Gedimino pr. 60, Vilnius).

2) On 16 July 2004 the Company had concluded the securities account handling agreement with AB Šiaulių Bankas Brokerage Department (Tilžės 149, Šiauliai) under which starting from 23 July 2004 the Company transferred the accounting of securities issued by it to AB Šiaulių Bankas Brokerage Department.



## 11. Members of Managing Bodies

**Positions, names, Issuer's involvement in the capital, participation in the activities of other companies and the management of their capital:**

No	Position	Full name	Percentage of capital and votes, %.	Participation in the activities of other companies and management of their capital (exceeding 5 % of the capital and votes)
<b>Supervisory Council</b>				
1.	Chairwoman of the Council	Asta Šliogerė a.k. 46107230021	0,69	-
2.	Member of the Council	Gražina Norkevičienė a.k. 45305110083	0,15	-
3.	Member of the Council	Algirdas Stulpinas a/k. 34507240122	-	Director for Transport, AB Žemaitijos Pienas; Member of the Board, UAB Telšių Autoservisas; Member of the Board, ABF Šilutės Rambynas.
<b>The Board of Directors</b>				
1.	Chairman of the Board	Algirdas Pažemeckas	40,74	Chairman of the Board, AB Klaipėdos Pienas
2.	Member of the Board	Romusas Jarulaitis	2,29	General Director, Member of the Board, AB Žemaitijos Pieno Investicija; Director, Member of the Board, UAB Telšių Autoservisas; AB Žemaitijos pieno investicija –
3.	Member of the Board	Irena Baltrušaitienė	1,19	Member of the Board, AB Žemaitijos Pieno Investicija; Member of the Board, AB Klaipėdos Pienas; Member of the Board, ABF Šilutės Rambynas; AB Žemaitijos Pieno Investicija –
4.	Member of the Board	Dalia Gecienė	1,38	Member of the Board, AB Klaipėdos Pienas; Member of the Board, AB Žemaitijos Pieno Investicija;
5.	Member of the Board	Algirdas Bladžinauskas	–	
<b>Administration</b>				
1.	General Director	Algirdas Pažemeckas	40,74	Chairman of the Board, AB Klaipėdos Pienas
2.	Chief Financial Officer	Dalia Gecienė	1,38	Member of the Board, AB Klaipėdos Pienas; Member of the Board, AB Žemaitijos Pieno Investicija

## SECTION III FINANCIAL STATUS

### 12. Balance sheets

		Group	
	Notes	As of 30 June 2007	As of 31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		549	518
Property, plant and equipment		47.056	46.833
Investment property		5.082	5.307
Available – for – sale investments		14	14
Investments into subsidiaries		-	-
Non-current receivables		1.698	1.906
Deferred income tax asset		298	298
<b>Total non-current assets</b>		<b>54.697</b>	<b>54.876</b>
<b>Current assets</b>			
Inventories	4	36.695	39.077
Prepayments		644	859
Trade receivables		25.977	31.549
Receivables from subsidiaries		-	-
Receivables from other related parties		17.224	15.378
Other receivables		6.301	5.544
Cash and cash equivalents		20.893	14.534
<b>Total current assets</b>		<b>107.734</b>	<b>106.941</b>
<b>Total assets</b>		<b>162.431</b>	<b>161.817</b>



Balance sheets (cont'd)

	Notes	Group As of 30 June 2007	As of 31 December 2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		48.375	48.375
Share premium account		-	-
Legal reserve		4.838	4.838
Other reserves		-	-
Retained earnings		24.637	19.400
		77.850	72.613
<b>Minority interest</b>		<b>1.037</b>	<b>1.037</b>
<b>Total shareholders' equity</b>		<b>78.887</b>	<b>73.650</b>
<b>Non-current liabilities</b>			
Grants received		4.393	2.073
Non-current loans		39.686	23.173
Long-term loans from related parties		-	-
Financial lease obligations		7.106	4.599
Other current liabilities		124	124
<b>Total non-current liabilities</b>		<b>51.309</b>	<b>29.969</b>
<b>Current liabilities</b>			
Current portion of non-current loans		549	22.913
Current portion of non-current financial lease obligations		1.700	1.727
Trade payables		21.591	22.536
Payables to subsidiaries		-	-
Payables to other related parties		2.067	6.856
Income tax payable		745	763
Other current liabilities		5.583	3.403
<b>Total current liabilities</b>		<b>32.235</b>	<b>58.198</b>
<b>Total liabilities and shareholders' equity</b>		<b>162.431</b>	<b>161.817</b>



### 13. Income statements

		Group	
		As of 30	As of 30
	Notes	June 2007	June 2006
Sales	3	202.911	186.922
Cost of sales		(164.425)	(156.865)
<b>Gross profit</b>		<b>38.485</b>	<b>30.057</b>
Operating expenses		(33.421)	(30.283)
Other operating income, net		3.364	4.198
<b>Profit from operations</b>		<b>8.429</b>	<b>3.972</b>
Financial and investment activities		(1.047)	(71)
<b>Profit before income tax</b>		<b>7.382</b>	<b>3.901</b>
Income tax		(1.178)	(962)
<b>Net profit</b>		<b>6.204</b>	<b>2.939</b>

### Statements of changes in equity

Group	Attributable to shareholders of the Company							Minority interest	Total
	Share capital	Share surplus	Legal reserve	Other reserves	Retained earnings	Total			
Balance as of 31 December 2005	48.375	-	3.700	-	10.541	62.616	1.037		63.653
Dividends declared	-	-	-	-	(2.903)	(2.903)	-		(2.903)
Transfer to legal reserve	-	-	1.138	-	(1.138)	-	-		-
Net profit for the year	-	-	-	-	12.900	12.900	-		12.900
Balance as of 31 December 2006	48.375	-	4.838	-	19.400	72.613	1.037		73.650
Dividends declared	-	-	-	-	(968)	(968)	-		(968)
Net profit for the year	-	-	-	-	6.204	6.204	-		6.204
Balance as of 30 June 2007	48.375	-	4.838	-	24.637	71.645	1.037		78.887

## Cash flow statements

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Cash flows from (to) operating activities</b>		
Net profit	6.204	2.939
<b>Adjustments for non-cash items:</b>		
Depreciation and amortization	8.268	6.957
Amortization of grants received	(957)	(934)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(267)	(67)
Result from financial and investment activities	1.071	
Allowance for receivables	68	
Income tax expenses		
(Adjustment) of net realizable value of inventories		
Other non-cash (income) expenses		788
	14.387	9.683
<b>Changes in working capital:</b>		
Decrease in inventories	2.382	17.061
(Increase of) Receivables		
Decrease in prepayments and other current assets	215	627
Decrease in other receivables		
Increase in trade payables, payables to related parties and payables to subsidiaries	2.968	(18.205)
Income tax (paid)		
Increase (decrease) in other current liabilities	(3.852)	5.205
<b>Net cash flows from operating activities</b>	<b>16.100</b>	<b>14.368</b>
<b>Cash flows from (to) investing activities</b>		
(Acquisition) of property, plant and equipment and intangible assets	(7.990)	(6.044)
Disposal of property, plant and equipment	124	1.117
Proceeds from sales of investments		24
Repayment of loans granted	2.091	3.666
Loans (granted)	(1.952)	(2.769)
Interest received	72	161
<b>Net cash flows (to) investing activities</b>	<b>(7.655)</b>	<b>(3.845)</b>



## Cash flow statements (cont'd)

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Cash flows from (to) financing activities</b>		
Dividends (paid)	(914)	(2.686)
Cash, (transferred) during reorganization		
Loans received	16.513	5.268
(Repayment) of loans	(22.365)	(1.936)
Financial lease (payments)	2.481	(586)
Sponsorship Received	3.277	-
Other revenue from financial activities	152	331
Interest (paid)	(1.230)	(1.063)
<b>Net cash flows (to) financial activities</b>	<b>(2.086)</b>	<b>(672)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6.359</b>	<b>9.851</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14.534</b>	<b>13.097</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>20.893</b>	<b>22.948</b>

## 14. Notes to the financial statements

### 1. General information

As of 30 June 2007 and 2006 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 10 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 30 June 2007 and 30 June 2006, the Company also had no its own shares.

As of 30 June 2007 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
AB Telšių autoservisas	Mažeikių Str. 4, Telšiai, Lithuania	37,49%	100%	393	1	(109)	Repair of vehicles
UAB Žemaitijos pieno žaliava	Sedos Str. 35, Telšiai, Lithuania	100,00%	100%	1.000	(10)	727	Milk collection services
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	13	458	Milk collection services
ŽŪK So-džiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	141	1,305	Milk collection services



According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries. AB Telšių Autoservisas is considered a subsidiary because AB Žemaitijos Pienas controls its activities, although it owns less than 50% of the shares. AB Telšių Autoservisas had no active operations in the year ended 31 December 2006 and six months ended 30 June 2007.

As of 30 June 2007, the number of employees of the Group was 2000 (as of 30 June 2006 – 2014).

## 2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the six months ended 30 June 2007 are as follows:

### 2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### 2.2. Principles of consolidation

The consolidated financial statements of the Group include AB Žemaitijos pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Intercompany balances and transactions, including unrealized profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

### 2.3. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Company and the Group do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

### 2.4. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Buildings	20 - 40 years
Machinery and equipment	5 years
Vehicles and other equipment	4 - 10 years



The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

#### **2.5. Investment property**

Investment property of the Group consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20-40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

#### **2.6. Inventories**

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory is fully written-off.

#### **2.7. Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to know amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits.

#### **2.8. Financial assets and financial liabilities**

The Group and the Company recognize financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

#### **Investments**

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

#### **Receivables and loans granted**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### **Loans received**

Loan costs are expensed as incurred.

Loans are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the loans.



## **2.9. Financial and operating leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

## **2.10. Grants**

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in caption "Grants received" on the balance sheet.

## **2.11. Income tax**

Income tax is calculated based on the Lithuanian tax legislation

On the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%. On 1 January 2007 m. companies have to pay an additional 3% tax calculated based on the income tax principles.

## **2.12. Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risk and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

## **2.13. Expense recognition**

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

## **2.14. Foreign currencies**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the transaction of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

## **2.15. Guarantees**

Financial guarantees provided by the Group are initially recognized in the financial statements at fair value, under other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognized in the income statement in financial income on a straight-line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties.

## **2.16. Offsetting**

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.



### 3 Segment information

For management purposes the activities of the Group and Company are organized as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Sales</b>		
Lithuania	112.589	108.089
Other Baltic States and CIS countries	38.954	40.478
Other European countries	37.079	37.828
USA	47	75
Other	14.242	452
	<b>202.911</b>	<b>186.922</b>

Since April 2006, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to ABF Šilutės Rambynas and purchases the production of this company for resale.

Since June 2007, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to AB Klaipėdos Pienas and purchases the production of this company for resale.

On the basis of appropriate articles of IAS 27 and IAS 39, the amount received for the milk sold to ABF Šilutės Rambynas was excluded from the annual audited consolidated profit (loss) account of 2006, therefore, following the comparison principle, the respective amount received for the milk sold to ABF Šilutės Rambynas and AB Klaipėdos Pienas was excluded from the costs and sales income in the profit (loss) account of 30 June 2007 and 30 June 2006.

### 4 Inventories

	Group	
	As of 30 June 2007	As of 30 June 2006
Raw materials	12.004	12.988
Finished goods and work in process	22.426	17.366
Goods for resale	2.265	1.192
	<b>36.695</b>	<b>31.546</b>

### 5 Loans' repayment terms:

	30 June 2007
2007 m.	5.797
2008 m.	2.196
2009 m.	6.610
2010 m.	1.252
2011 m.	1.670
2012 m.	22.387
2013m.	323
<b>Total Loans on 30 June 2006</b>	<b>40.235</b>

30 June 2007, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	30 June 2007
Loan currency:	
Eurai	34.730
Litai	5.505
	<u>40.235</u>

On 30 June 2007, the weighted average of the interest rates on outstanding loans was 5%. Floating interest rates fluctuate depending on 6 months or 1 year EUR LIBOR.

#### 15. Information on the audit

Semi-annual accounts and financial statements of the Company are not audited.



## SECTION IV

### MATERIAL EVENTS IN THE ISSUER'S ACTIVITIES

#### 16. Material events in the Issuer's activity

AB Žemaitijos Pienas announced on the following material events during the first half year of 2007:

- 29.01.2007 - On Resignations of the General Director of AB Žemaitijos Pienas
- 30.01.2007 - On Resignation of the General Director of AB Žemaitijos Pienas (modified)
- 19.02.2007 - AB Žemaitijos Pienas performance results of 2006
- 20.02.2007 - AB Žemaitijos pienas performance results of 2006 (supplemented)
- 16.03.2007 - General Meeting of Shareholders to be convened
- 17.04.2007 - Draft resolutions of General Meeting of Shareholders to be held on 24 April 2007
- 27.04.2007 - Resolutions of General Meeting of Shareholders of AB Žemaitijos Pienas
- 16.05.2007 - AB Žemaitijos Pienas performance results of 1st quarter 2007
- 29.05.2007 - AB Žemaitijos Pienas quarterly report
- 10.08.2007 - AB Žemaitijos Pienas performance results of 1st half-year 2007

#### 17. Judicial Actions and Third Party (Arbitration) Proceedings

General Director of AB Žemaitijos Pienas



Algirdas Pažemeckas

Chief Financial Officer of AB Žemaitijos Pienas

Dalia Gecienė





AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai  
CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007  
(all amounts are in LTL thousand unless otherwise stated )

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## AB „ŽEMAITIJOS PIENAS“

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED  
30 JUNE 2007



## Balance sheets

		Group	
	Notes	As of 30 June 2007	As of 31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		549	518
Property, plant and equipment		47,056	46,833
Investment property		5,082	5,307
Available – for – sale investments		14	14
Investments into subsidiaries		-	-
Non-current receivables		1,698	1,906
Deferred income tax asset		298	298
<b>Total non-current assets</b>		<b>54,697</b>	<b>54,876</b>
<b>Current assets</b>			
Inventories	4	36,695	39,077
Prepayments		644	859
Trade receivables		25,977	31,549
Receivables from subsidiaries		-	-
Receivables from other related parties		17,224	15,378
Other receivables		6,301	5,544
Cash and cash equivalents		20,893	14,534
<b>Total current assets</b>		<b>107,734</b>	<b>106,941</b>
<b>Total assets</b>		<b>162,431</b>	<b>161,817</b>



Balance sheets (cont'd)

	Notes	Group As of 30 June 2007	As of 31 December 2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		48.375	48.375
Share premium account		-	-
Legal reserve		4.838	4.838
Other reserves		-	-
Retained earnings		24.637	19.400
		77.850	72.613
<b>Minority interest</b>		<b>1.037</b>	<b>1.037</b>
<b>Total shareholders' equity</b>		<b>78.887</b>	<b>73.650</b>
<b>Non-current liabilities</b>			
Grants received		4.393	2.073
Non-current loans		39.686	23.173
Long-term loans from related parties		-	-
Financial lease obligations		7.106	4.599
Other current liabilities		124	124
<b>Total non-current liabilities</b>		<b>51.309</b>	<b>29.969</b>
<b>Current liabilities</b>			
Current portion of non-current loans		549	22.913
Current portion of non-current financial lease obligations		1.700	1.727
Trade payables		21.591	22.536
Payables to subsidiaries		-	-
Payables to other related parties		2.067	6.856
Income tax payable		745	763
Other current liabilities		5.583	3.403
<b>Total current liabilities</b>		<b>32.235</b>	<b>58.198</b>
<b>Total liabilities and shareholders' equity</b>		<b>162.431</b>	<b>161.817</b>

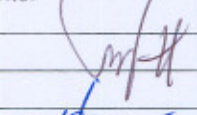
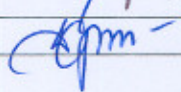
The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		29 August 2007
Chief Accountant	Dalia Gecienė		29 August 2007

## Income statements

		Group	
	Notes	As of 30 June 2007	As of 30 June 2006
Sales	3	202.911	186.922
Cost of sales		(164.425)	(156.865)
<b>Gross profit</b>		<b>38.485</b>	<b>30.057</b>
Operating expenses		(33.421)	(30.283)
Other operating income, net		3.364	4.198
<b>Profit from operations</b>		<b>8.429</b>	<b>3.972</b>
Financial and investment activities		(1.047)	(71)
<b>Profit before income tax</b>		<b>7.382</b>	<b>3.901</b>
Income tax		(1.178)	(962)
<b>Net profit</b>		<b>6.204</b>	<b>2.939</b>

The accompanying notes are an integral part of these financial statements.

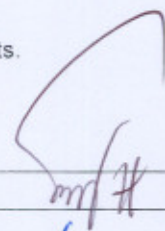
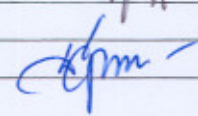
General Manager		Algirdas Pažemeckas			29 August 2007
Chief Accountant		Dalia Gecienė			29 August 2007



## Statements of changes in equity

Group	Attributable to shareholders of the Company						Minority interest	Total
	Share capital	Share surplus	Legal reserve	Other reserves	Retained earnings	Total		
Balance as of 31 December 2005	48.375	-	3.700	-	10.541	62.616	1.037	63.653
Dividends declared	-	-	-	-	(2.903)	(2.903)	-	(2.903)
Transfer to legal reserve	-	-	1.138	-	(1.138)	-	-	-
Net profit for the year	-	-	-	-	12.900	12.900	-	12.900
Balance as of 31 December 2006	48.375	-	4.838	-	19.400	72.613	1.037	73.650
Dividends declared	-	-	-	-	(968)	(968)	-	(968)
Net profit for the year	-	-	-	-	6.204	6.204	-	6.204
Balance as of 30 June 2007	48.375	-	4.838	-	24.637	71.645	1.037	78.887

The accompanying notes are an integral part of these financial statements.

General Manager		Algirdas Pažemeckas				29 August 2007
Chief Accountant		Dalia Gecienė				29 August 2007

## Cash flow statements

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Cash flows from (to) operating activities</b>		
Net profit	6.204	2.939
<b>Adjustments for non-cash items:</b>		
Depreciation and amortization	8.268	6.957
Amortization of grants received	(957)	(934)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(267)	(67)
Result from financial and investment activities	1.071	
Allowance for receivables	68	
Income tax expenses		
(Adjustment) of net realizable value of inventories		
Other non-cash (income) expenses		788
	14.387	9.683
<b>Changes in working capital:</b>		
Decrease in inventories	2.382	17.061
(Increase of) Receivables		
Decrease in prepayments and other current assets	215	627
Decrease in other receivables		
Increase in trade payables, payables to related parties and payables to subsidiaries	2.968	(18.205)
Income tax (paid)		
Increase (decrease) in other current liabilities	(3.852)	5.205
<b>Net cash flows from operating activities</b>	<b>16.100</b>	<b>14.368</b>
<b>Cash flows from (to) investing activities</b>		
(Acquisition) of property, plant and equipment and intangible assets	(7.990)	(6.044)
Disposal of property, plant and equipment	124	1.117
Proceeds from sales of investments		24
Repayment of loans granted	2.091	3.666
Loans (granted)	(1.952)	(2.769)
Interest received	72	161
<b>Net cash flows (to) investing activities</b>	<b>(7.655)</b>	<b>(3.845)</b>

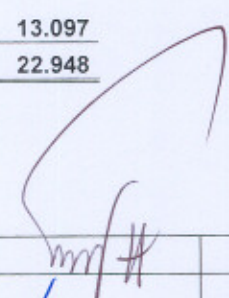
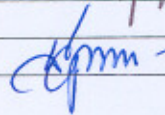
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**Cash flow statements (cont'd)**

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Cash flows from (to) financing activities</b>		
Dividends (paid)	(914)	(2.686)
Cash, (transferred) during reorganization		
Loans received	16.513	5.268
(Repayment) of loans	(22.365)	(1.936)
Financial lease (payments)	2.481	(586)
Sponsorship Received	3.277	-
Other revenue from financial activities	152	331
Interest (paid)	(1.230)	(1.063)
<b>Net cash flows (to) financial activities</b>	<b>(2.086)</b>	<b>(672)</b>
 <b>Net increase (decrease) in cash and cash equivalents</b>	 <b>6.359</b>	 <b>9.851</b>
 <b>Cash and cash equivalents at the beginning of the year</b>	 <b>14.534</b>	 <b>13.097</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>20.893</b>	<b>22.948</b>

The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		29 August 2007
Chief Accountant	Dalia Gecienė		29 August 2007



## Notes to the financial statements

### 1. General information

As of 30 June 2007 and 2006 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 10 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 30 June 2007 and 30 June 2006, the Company also had no its own shares.

As of 30 June 2007 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
AB Telšių autoservisas	Mažeikių Str. 4, Telšiai, Lithuania	37,49%	100%	393	1	(109)	Repair of vehicles
UAB Žemaitijos pieno žaliava	Sedos Str. 35, Telšiai, Lithuania	100,00%	100%	1.000	(10)	727	Milk collection services
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	13	458	Milk collection services
ŽŪK Sodžiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	141	1,305	Milk collection services

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries. AB Telšių Autoservisas is considered a subsidiary because AB Žemaitijos Pienas controls its activities, although it owns less than 50% of the shares. AB Telšių Autoservisas had no active operations in the year ended 31 December 2006 and six months ended 30 June 2007.

As of 30 June 2007, the number of employees of the Group was 2000 ( as of 30 June 2006 – 2014).

### 2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the six months ended 30 June 2007 are as follows:

#### 2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

#### 2.2. Principles of consolidation

The consolidated financial statements of the Group include AB Žemaitijos pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights



of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Intercompany balances and transactions, including unrealized profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

### 2.3. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Company and the Group do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

### 2.4. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Buildings	20 - 40 years
Machinery and equipment	5 years
Vehicles and other equipment	4 - 10 years

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

### 2.5. Investment property

Investment property of the Group consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20-40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

### 2.6. Inventories

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory is fully written-off.



## 2.7. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits.

## 2.8. Financial assets and financial liabilities

The Group and the Company recognize financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

### Investments

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

### Receivables and loans granted

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### Loans received

Loan costs are expensed as incurred.

Loans are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the loans.

## 2.9. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

## 2.10. Grants

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in caption "Grants received" on the balance sheet.

## 2.11. Income tax

Income tax is calculated based on the Lithuanian tax legislation

On the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%. On 1 January 2007 m. companies have to pay an additional 3% tax calculated based on the income tax principles.



## 2.12. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risk and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

## 2.13. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

## 2.14. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the transaction of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

## 2.15. Guarantees

Financial guarantees provided by the Group are initially recognized in the financial statements at fair value, under other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognized in the income statement in financial income on a straight-line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties

## 2.16. Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.

## 3 Segment information

For management purposes the activities of the Group and Company are organized as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group	
	As of 30 June 2007	As of 30 June 2006
<b>Sales</b>		
Lithuania	112.589	108.089
Other Baltic States and CIS countries	38.954	40.478
Other European countries	37.079	37.828
USA	47	75
Other	14.242	452
	<b>202.911</b>	<b>186.922</b>



Since April 2006, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to ABF Šilutės Rambynas and purchases the production of this company for resale.

Since June 2007, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to AB Klaipėdos Pienas and purchases the production of this company for resale.

On the basis of appropriate articles of IAS 27 and IAS 39, the amount received for the milk sold to ABF Šilutės Rambynas was excluded from the annual audited consolidated profit (loss) account of 2006, therefore, following the comparison principle, the respective amount received for the milk sold to ABF Šilutės Rambynas and AB Klaipėdos Pienas was excluded from the costs and sales income in the profit (loss) account of 30 June 2007 and 30 June 2006.

#### 4 Inventories

	Group	
	As of 30 June 2007	As of 30 June 2006
Raw materials	12.004	12.988
Finished goods and work in process	22.426	17.366
Goods for resale	2.265	1.192
	<b>36.695</b>	<b>31.546</b>



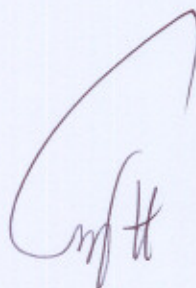
**Žemaitijos pienas AB**  
**Approval of responsible persons**

29 August 2007  
Telšiai

**Regarding drafting of financial statement of I half of 2007**

We hereby certify that the intermediate financial statement drafted on the basis of the International Accounting Standards is true and accurately indicates the assets, liabilities, financial status, and profit.

General Manager



Algirdas Pažemeckas

Chief Accountant



Dalia Gecienė