



**AB "ŽEMAITIJOS PIENAS"  
CONSOLIDATED  
MANAGEMENT REPORT FOR 2019**

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## GENERAL INFORMATION ON MANAGEMENT REPORT OF COMPANIES

AB "Žemaitijos pienas" Consolidated Management Report is developed for 2019 reporting period. During development of the Consolidated Management Report (hereinafter referred to as the Report) one followed the Law on Financial Statements of Companies of the Republic of Lithuania and Law on Consolidated Financial Statements of Groups of Companies of the Republic of Lithuania, Law on Companies of the Republic of Lithuania, legal acts regulating issuer legal form and activities, documents on incorporation of issuer and affiliated company and other legal acts.

AB "Žemaitijos pienas" is a company of great public interest, its associated (subsidiary) company – ABF "Šilutės Rambynas" is a medium company (hereinafter collectively referred to as the Company or Group), as both companies are related General (Consolidated) Report shall be provided.

The Report contains key risks faced during pursuance of economic activity, their minimization measures and processes, information on structural bodies of both Companies and shareholders and their held (directly or indirectly) share packages, rights of the shareholders, transactions concluded by the Group in accordance with the procedure established in Article 37<sup>2</sup> of the Law on Companies of the Republic of Lithuania, as well as data on the group management and other bodies, systems policies on election of their members, powers and functions of bodies, information on following to the Corporate Governance Code for the Companies, review of other information related to the Group management.

Consolidated Annual Report for 2019, financial documents, Report on Following to the Corporate Governance Code, this Report and Consolidated Social Accounting Report are published in accordance with the procedure established by legal acts at the Company web page, link: <http://www.zpienas.lt/lt> and [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com).

## KEY RISK FACTORS AND RISK MANAGEMENT

The Group seeks that its management structure and internal processes would ensure transparent, effective and profitable activity and on the same time satisfy the demands of all holders of interests of the Company. Created and implemented inner control systems and management practice essentially comply with the best management principles, but different factors in dairy industry pre-determine occurrence of risks. It should be noted that according to the business nature the Company has the following key risks – business, competition, currency Exchange rate deviation, credit, customer and supplier reliability, liquidity and others.

Risk management is the process of identifying, evaluating, monitoring and controlling all risks incurred. Systematic use of processes within the Company and the Group in order to identify, manage and monitor risk, so that summarized information could help to avoided or minimize the risk and create added value.

The Company and the Group face **business risk** in their operating environment. Business risk is mostly related to the environment in which the Company and the Group operate and affects the financial performance of the Company and the Group, which is the competitiveness of the Company and the Group; economic viability and potential of the Company's and the Group's largest customers; the political and economic environment in the European Union and the Russian Federation, in other major countries of the world; legal regulations for the purchase of raw materials.

The major risk faced by AB "Žemaitijos pienas" is raw milk seasonality: in summer one purchases twice as much milk than in winter, therefore such situation at the raw milk market has negative impact on both Companies. Therefore, production capacities of the Company are used irregularly: in summer the Company operates with full capacity, and in winter – with only 60 per cent capacity. So, wishing to ensure raw milk supply, the Company pays to raw milk suppliers (farmers) higher price than it is paid at the market. The main reasons for the Company's lack of milk as a milk processor are the high standards of milk quality and dairy farms in the EU (some farms do not ensure high quality of raw milk). Co-operatives or other legal entities operating in the Lithuanian milk purchasing market who sell raw milk to foreign milk processors also have negative impact.

The Company and the Group are affected by the rise in energy prices due to higher production costs and higher transportation and distribution costs of raw materials as well as transportation costs, which affect the sales prices of manufactured products.

According to the assessment of the Company and the Group, business risk remained unchanged compared to the previous year. When reducing the afore-mentioned risk, the Company and Group make production effective by computerizing and standardizing workplaces, optimizing logistics routes.

**Competitive risk.** The Company and Group face **competitive risk** at the local market, so the main objective of the Company and Group is to increase export sales directly to "shelves" of marketing networks. In order to avoid lack of sales specialists, the Company purchases brokerage, representation and advertising services in strategic countries, thus reducing the risk of lack of sales specialists. According to the assessment of managers of the Company and the Group, the competitive risk decreased slightly compared to the previous year due to the successful implementation of risk reduction measures - increased export sales directly to retail networks, which allows obtaining and creation of significantly higher benefits.

The Company and the Group are exposed to the main **financial risks** - market risks, which can be distinguished into interest rate risk, exchange rate risk and commodity price risk, as well as liquidity risk and credit risk.

**Currency exchange rate deviation risk.** The Company and Group pursue their activity at international level, so there is currency exchange rate deviation risk factor. When pursuing international business, the Company settles accounts in foreign currencies, so there is currency exchange rate deviation risk, related to Polish zloty, US dollars and etc. Currency exchange rate deviation risk arise in relation with commercial transactions, acknowledged assets liabilities, and investment into companies operating abroad, when the acknowledged assets and liabilities are evaluated in currency, which is not functional currency of the Company and Group. The main currency used by the Company and Group for settlement of accounts is Euro.

Income and expenses of the Company and Group from the main activity do not depend on market interest rate changes. However, the Company faces **the interest rate change risk** dealing with long-term loans. In order to define interest rate impact on the results of the Company activity, it is necessary to define the positions, which constitute interest rate change risk. Assets and liabilities, which are sensitive to interest rate changes, cover actual transactions of the Company, such as deposits, investment, received loans, securities owned by companies and any other balance and non-balance transactions, which value depends on fixed or variable interest rates and positively correlates with interest rate deviations. The Company does not use any financial means to defend itself against interest rate change risk.

According to the assessment of managers of the Company and the Group, the risk of exchange rate fluctuations and interest rate changes remains similar to last year.

**Credit risk.** In order to prevent the Group customers from non-paying for the goods sold, the Company's employees responsible for the pre-contractual stage of the contract verify the financial and economic position of the customer in public sources (various bases, registers, etc.). The concentration of buyers in the dairy industry may affect the overall credit risk of the Company and the Group, as these buyers may be exposed to changes in economic conditions. The Company has procedures in place to ensure that sales are conducted in a manner that does not exceed the credit risk limit, i.e. when selling goods or services, the Company evaluates the reliability of each partner, and performs analysis. The sale of products (dispatch) in the Company is only carried out with a 90-100% payment guarantee. Various ways of ensuring payment are applied in the company, for instance: 100 % prepayment; pledge of liquid real property (value shall be determined by the appraisers); bank guarantor; documentary letter of credit (L/C); commonly used trade credit limit insurance; collection of documents.

The Company is one of the few Lithuanian companies that pays for goods and services in a timely manner and assesses, ranks, determines reliability of its customers, i.e. what kind of guarantee can be required, credit line and deferred payment to be provided, and constantly monitors customer payments.

Whereas this type of risk is particularly well-managed, the Company does not have any significant new debt, which can make it easier to plan its cash flows.

**Purchase and supply risk.** Purchases of goods (basic, auxiliary materials, parts, equipment, etc.) and services in the Company are carried out by public and closed tenders or by sending inquiries / inquiries to suppliers of services or goods. The supplier of goods or services is usually selected from three commercial offers. The Company and the Group have procedures for identifying and analysing purchase and supplier risk factors.

All contracts shall be prepared and signed on the basis of the approved procedure / procedure for conclusion, coordination and approval of the agreements between the Company and the Group. The Company strives to minimize legal compliance risks and ensure that the Company's performance complies with applicable legal requirements and standards. To this end, the Company's lawyers are involved in the decision-making process of the Company's management, in the various procedures / procedures and in the preparation of contracts. Procurement and supplier risks remain unchanged compared to last year.

**Liquidity risk.** The Company's policy is to maintain cash and cash equivalents or to secure funding to meet its strategic plans and commitments. The liquidity of the company is determined by the ratio of assets to liabilities, and the aim is to have a liquidity ratio close to one or above.

The company manages liquidity risk by planning cash flows that make it easier to manage money and, if they are lacking, make it easier to choose a financing method. The company has a loan committee that assesses the risk of loans to employees and milk sellers. The Company has approved loan terms and conditions on the basis of which the members of the Loan Committee evaluate the applications of the borrowers. Loans are not granted if the borrower does not offer liquid assets for the pledge.

In the company, conservative liquidity risk management allows to maintain the required amount of cash as well as to maintain the flexibility of financing. The Company's liquidity risk management includes cash flow forecasting. The more complete and accurate this forecasting is, the better is the Company's liquidity management. The Company has cash flow forecasts for one month, year and long term up to 3 or 5 years. Payments for goods sold are between 14 and 30 days, in rare cases up to 60-90 days. Services and goods suppliers are settled on average for thirty days, and with raw milk sellers within 15-20 days after the end of the decade, so the forecast for the week is quite accurate. We are currently working with suppliers of goods and services to match payment delays to 60 days. This cash flow forecast provides the nearest cash receipts and payments, and allows you to plan short-term cash borrowings and investments. By the end of the current year, the forecast shows the main trends in working capital and cash movements. This forecast provides information about the necessity of financing or investing the funds, the potential impact of interest rate or currency exchange risk. At the end of the current year, the next year's budget is being drawn up. Long-term forecasts (over the years) are part of strategic business planning. These cash flow projections provide information on the amount of money surplus and demand, when there will be a surplus of cash or the need for it, how long will the surplus of cash or extra demand continue, how the surplus of money will be spent or the demand funded.

Cash flow forecasts use the cash payments and receipts method by the end of the month or the end of the current year, and the method of cash sources and use for the next year's budget plan or the next 3-5 years. Cash flow forecasting is necessary because revenue and expenditure flows are not evenly distributed. According to the assessment of managers of the Company and the Group, the liquidity risk remains unchanged compared to the previous year.

**Reputation risk.** This risk is related to the Company's decisions and employee behaviour. Reputation risk is of great importance to the Company and the Group. The Company and the Group value their reputation and reputation and take reputational risk mitigation measures. The Company approved the Code of Ethics in 2018. The Code of Conduct sets out standards of conduct for all employees of the Company and the Group, regardless of the position occupied by the employees, the scope of working time, and so on. To reduce the risk of corruption and bribery, the Company and the Group have

implemented appropriate internal processes. 2018 The company and the Group have confirmed the equal opportunities policy.

According to the assessment of managers of the Company and the Group, due to the additional reputation risk management measures implemented last year, this risk has decreased compared to the previous year.

**Operational risk.** This is the widest risk group covering the risks related to the activities within the Company, the security of internal processes and operations, reliability, judicial basis, employee - specialist safety.

Operational risk is the risk of increase in loss, loss of goodwill, loss of confidence that may be caused by external environmental factors (such as natural disasters, criminal acts by third parties, etc.) or internal factors (for example, inefficient operations and management, inappropriate and inefficient use of funds, internal control weaknesses, inefficient procedures, information system malfunctions, inappropriate distribution of functions or responsibilities, etc.).

In order to manage operational risk, appropriate organizational - preventive measures are implemented, procedures and information systems supporting business processes are implemented, the whole of which must ensure the proper functioning of the internal control system and proper cooperation with the relevant third countries. The Company applies the following main elements of internal control: separation of business decision-making and control functions, procedures of accounting control of operations, limits of the powers of decision-making and their control, adoption of collegial decisions in business processes and so on.

The Company strives to minimize legal compliance risks and ensure that the Company`s performance complies with applicable legal requirements and standards. To this end, the Company`s lawyers are involved in the decision-making process of the Company`s management, and in the preparation of contracts and internal legal acts.

In 2019 the company visited representatives of potential customers who carried out independent audits and positively assessed the state of the existing infrastructure, organization of the core activities and safety processes, cooperation with interested third parties and the established control system. The Audit Committee supervises the preparation of the Company`s consolidated financial statements, internal control and financial risk management systems, and compliance with the legislation on the preparation of consolidated financial statements. The Company is responsible for the preparation of the consolidated financial statements.

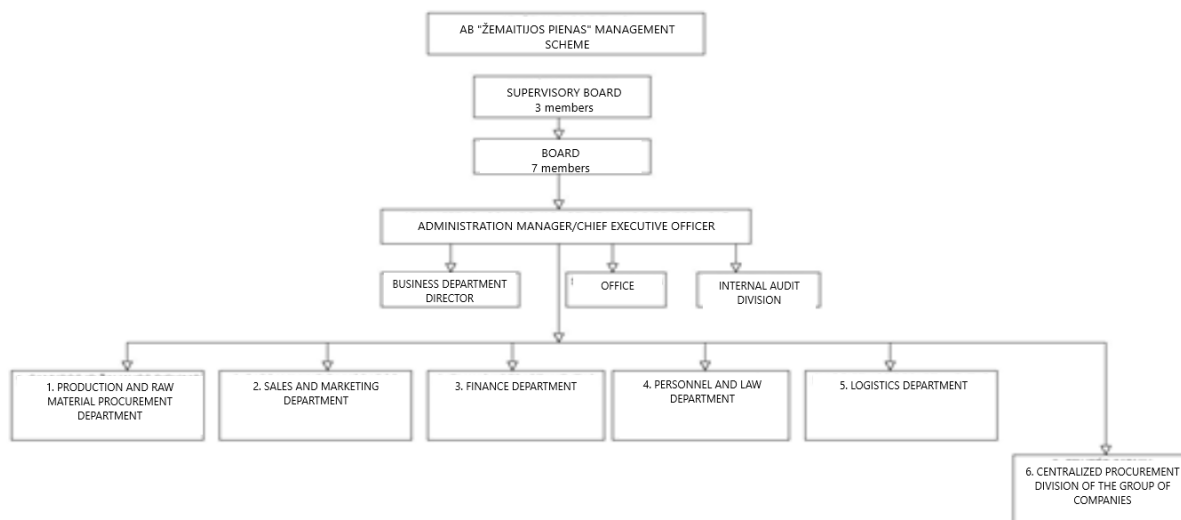
## **MANAGEMENT OF COMPANIES (GROUP)**

### **Bodies and system of the Company**

Bodies of AB "Žemaitijos pienas" are the General Meeting of Shareholders, Supervisory Board, Board and single-person management body – Manager of the Company (Chief Executive officer), as well as subordinates of the Manager of the Company – administration of the Company, consisting of structural divisions – departments. The Company has the following departments– (i) Financial, (ii) Personnel and Law, (iii) Logistics, (iv) Production and Raw Material Procurement and (v) Sales and Marketing. The Company also has an Audit Committee.

Structural management scheme of the Company is provided below.

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**Information on the shareholders, shares and granted rights, other information related to management of shares of the Issuer and exercising of rights**

**General Meeting of Shareholders** is the supreme body of the Company responsible for taking of decisions. Competence of the general Meeting of Shareholders, its convocation procedure, rights and obligations do not differ from competence of the General Meeting of Shareholders, its convocation procedure and rights and obligations provided for in the Law on Companies of the Republic of Lithuania, other legal acts and Articles of Association of the Company.

According to the data available by 31 December 2019 shares of AB “Žemaitijos pienas” were owned by 2848 shareholders (natural persons and legal entities). Persons/entities holding more than 5 per cents of authorised capital of AB “Žemaitijos pienas” and votes:

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Row No.	Shareholder	Number of owned shares, pcs.	Owned part of authorised capital, %	Owned part of votes, %	Number of votes owned along with <sup>1</sup> associated persons/entities, %
1	Pažemeckas Algirdas	14 014 581	28.97	28.97	73.68
2	Pažemeckienė Danutė	14 014 581	28.97	28.97	73.68
3	AB “Klaipėdos pienas”, company code 240026930, office address Šilutės pl. 33, 91107 Klaipėda	2 901 844	6.00	6.00	73.68
4	UAB “Baltic Holding”, company code 302688114, office address Vilhelmo Berbomo Str. 9-4, Klaipėda	4 713 018	9.74	9.74	73.68
5	AB “Žemaitijos pieno investicija”, company code 300041701, office address Sedos Str. 35, Telšiai	0.0	0.0	0.0	73.68
6	Jarulaitis Romusas *	1 870 430	3.86	3.86	7.55
7	Jarulaitienė Regina *	1 303 740	2.70	2.70	7.55
8	Gečienė Dalia *	1 475 160	0.98	0.98	7.55
9	Pažemeckas Robertas*	2 540	0.01	0.01	7.55
10.	Other shareholders	8053675	16.65	16.65	16.65
	<b>TOTAL</b>	<b>48 375 000</b>	<b>100</b>	<b>100</b>	<b>100</b>

The largest shareholder of AB “Šilutė Rambynas” is AB “Žemaitijos pienas”. This company directly owns 87.82 per cents of shares. The remaining shares are held by minor shareholders, the majority of

<sup>1</sup> Danutė Pažemeckienė owns 14 014 581 shares, 28.97 per cents of shares and 28.97 per cents of votes, as well as by joint common property right of spouses together with Algirdas Pažemeckas she has 14 014 581 shares, 28.97 per cents of shares and 28.97 per cents of votes; Algirdas Pažemeckas by joint common property right of spouses together with Danutė Pažemeckienė holds 14 014 581 shares, 28.97 per cents of shares and 28.97 of votes. The following entities/persons shall refer to entities/persons acting under agreement: AB “Klaipėdos pienas” (holding 2 901 844 shares, 6.00 per cents of shares and 6.27 per cents of votes), UAB “Baltic Holding” (holding 4 713 018 shares, 11.84 per cents of shares and 12.39 per cents of votes) and AB “Žemaitijos pieno investicija” (0 shares, 0.00 per cent), which holds 86.47 per cents of shares of votes of AB “Klaipėdos pienas”. A. Pažemeckas by the right of ownership holds 32.97 per cents, and D. Pažemeckienė by the right of ownership holds 40.71 per cents of votes and shares of AB “Žemaitijos pieno investicija”;

\* R.Jarulaitis, R. Jarulaitienė acting on the basis of marriage, and R.Pažemeckas (Member of the Board), and R. Jarulaitis (Member of the Supervisory Board) and D. Gečienė (Member of the Board) shall be considered as persons acting together when fulfilling functions in the Company Board;



which are raw milk producers. The total number of shareholders is 658. ABF “Šilutės Rambynas” does not apply to share management and usage restrictions. ABF “Šilutės Rambynas” does not manage shares of any other significant entities either directly or indirectly.

### **Information on rights of shareholders, their realisation, restrictions of voting rights or specific voting right use systems**

Neither AB “Žemaitijos pienas”, nor ABF “Šilutės Rambynas” have been restricted in terms of the transfer (disposal of) securities, or subject to any other constraints, including those imposed on voting rights. The shareholders of both Companies exercise their proprietary and non-proprietary rights, and are obliged to perform the duties specified in the Republic of Lithuania Law on Companies, and the Articles of Association of the Company. All of the issued shares grant their holders equal rights laid out in the Republic of Lithuania Law on Companies, other legislation, and the Company’s Articles of Association<sup>2</sup>.

**Restrictions imposed on voting rights and other rights.** All registered ordinary shares of the companies carry equal voting rights and are of equal nominal value. Each share grants its holder one vote during general shareholder meetings. The companies do not know of any restrictions, bans and/or other special conditions which have been applicable to their securities or shareholdings during the reporting period, and are not aware of (have no data on) any systems in accordance with which the property rights attached to securities have been separated from the holders thereof. The companies do not know of any special control rights held by any individual shareholders (shareholder), which leads them to believe that no such shareholders exist, and are not aware of any special agreements drawn up between shareholders or groups thereof which could fundamentally alter, give rise to, or terminate their rights and duties with regards to controlling the company, including affecting the interests of the Group or the shareholders.

#### **Shareholders of the companies shall have the following proprietary rights:**

to receive a part of the company profits (dividends); to receive a part of the assets of liquidated companies; to receive shares free of charge, provided that authorised capital has been increased using company funds, except in cases specified by the law; in cases where the shareholder is a natural person – to bequeath all shares, or a part thereof, to one or more persons; having regard to the procedure and conditions laid out by the law, to sell or otherwise transfer all shares, or a part thereof, to other persons; other rights conferred by legislation;

#### **Shareholders of the companies shall have the following non-proprietary rights:**

to take part in meetings; to vote at said meetings in accordance with the rights attached to shares; to receive non-confidential information on the economic activities of the company in accordance with the conditions and grounds specified in legislation; to vote for, and be elected to, the company’s managerial and supervisory bodies, and to assume any position within said company, unless specified otherwise by the Republic of Lithuania Law on Companies, or the articles of association of the company; to submit specific proposals designed to improve the company’s financial, economic, organisational or other performance, and to challenge before the court any decisions or actions made by shareholder meetings, the supervisory board, the board of directors, or the director of the company which violate the laws of the Republic of Lithuania, the articles of association of the company, or the proprietary or non-proprietary rights of the shareholders. One or more shareholders shall have the right to demand, without any separate authorisation, the compensation of damages incurred by the shareholders, as well as other non-proprietary rights specified by the law. Persons shall acquire all the rights and duties conferred upon them by the part of the company’s authorised capital and/or voting rights which they have purchased: in case of an increase in the authorised capital – from the day of registration of amendments to the company’s articles of association related to the increase in the authorised capital and/or voting rights; in all other cases – from the moment when the proprietary rights to the relevant part of the company’s authorised capital and/or voting rights have arisen.

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<sup>2</sup> Conclusions regarding management of shares, rights to shares, disposal and disposal nature, other peculiarities of management of shares shall be made only according to the available information and data received from the Register of Shareholders;

### **Information on the mutual agreements, their special control rights, restrictions imposed on voting rights, and other features related to the holding of shares**

The companies do not know of any significant agreements drawn up between shareholders or by any shareholders who have been conferred any special control rights. Furthermore, based on the available data, shares held by the shareholders are not subject to any restrictions, constraints, or special rights. As far as the Company is aware, all shareholders are free to exercise their property and non-property rights attached to the shares.

There have been no agreements wherein AB "Žemaitijos pienas" is a party and which would enter into force, change, or be terminated in the event of a change in control of the issuer, or the effects thereof, except in cases where due to the nature of the agreements the disclosure thereof would cause significant damage to the issuer. The same situation obtains at ABF "Šilutės Rambynas".

The companies have not entered into any unusual agreements with members or employees of the bodies thereof, which would entitle such members or employees to compensation in case they resign or are fired without justification, or in the event their duties cease due to a change in control of the issuer.

During the reporting period, there have been no harmful transactions which: fail to comply with the aims of the Company or the Group, or with regular market conditions; violate the interests of the shareholders or other groups of persons; and have had any negative impact on the operations of the Company or the performance thereof, or might have such an impact in the future. There have also been no transactions regarding any conflicts between the interests of the Company directors, controlling shareholders, or other parties, and the private interests and/or duties thereof.

### **Procedure on amendment of Articles of Association**

Articles of Association shall be amended in accordance with the procedure established by legal acts of the Republic of Lithuania.

#### **Supervisory Board of the Company**

Supervisory Board of the Company is a collegial supervisory body, responsible for the Company activity supervision, managed by the Chairman. Supervisory Board of the Company consists of 3 members elected by the General Meeting of Shareholders for the period of four years. Articles of Association of the Company provide that number of cadencies of the Board members is unlimited. By 31 December 2019 the Supervisory Board is almost independent since two members of the Supervisory Board do not have any relationships with the Company and only one member of the Supervisory Board has employment relationships with the Company and holds its shares.

Specific aspects related to the Supervisory Board and its activities are reviewed in the Report on Following to the Corporate Governance Code. It should be noted that no special rules regulating election, replacement of members of the Supervisory Board are applied. These actions are taken in accordance with provisions of the Law on Companies and Articles of Association of the Company. No special policies related to age, gender, education, professional experience are applied to election of members. We appreciate personal properties which would be the best for interests of the Group and shareholders. Functioning of the Supervisory Board is regulated in the Work procedure of the Supervisory Board.

In addition to the functions assigned to them by the Law on Companies, the members of the Supervisory Board perform specific functions in the Company according to certain areas of activity of AB "Žemaitijos Pienas". It should be noticed that in this respect, the members manage, formulate strategic goals, set operating principles and require reports from those divisions (administrative employees) of the Company that perform specific executive functions (based on employment contracts and job descriptions) and create real value to the Company, for example raw milk procurement department aims to buy the best quality milk, ensure the quantities of milk procured according to the plans, the product sales department aims to sell the goods at the best price and other advantageous conditions, etc.

Member of the Supervisory Board R. Jarulaitis is responsible for sales, milk raw material (procurement, quality) and financial activities. V. Vaitkuvienė is responsible for the operation, administration and / or setting of essential guidelines in the Company's production processes, development of new products, while G. Norkevičienė is responsible for quality parameters of production processes, product tasting and supervision, as well as for supervision of companies providing raw milk test services.

### Data on the Members of the Supervisory Board of the Company

Name, <sup>3</sup> Surname	Office in the Issuer	Number of shares held and part of authorised capital, %	Activity, position held, Independence criterion	Education
Romusas Jarulaitis	Chairman of of the Supervisory Board	1 870 430 pcs. or 3.86	AB "Žemaitijos pienas" Export Manager	Kaunas University of Technology (KUT), Mechanic Engineer
Gražina Norkevičienė	Member of of the Supervisory Board	no	Retired	Kaunas Polytechnic Institute, Technologist and Engineer for Milk and Dairy Products.
Virginija Vaitkuvienė	Member of of the Supervisory Board	no	Retired	Kaunas Polytechnic Institute, Technologist and Engineer for Milk and Dairy Products.
Name, Surname	Position in the Supervisory Board	Independence criterion	Other activities, Number of shares (in other entities)	Cadence beginning/end date
Romusas Jarulaitis	Chairman of the Supervisory Board	Labour relations in the Company	Shareholder of AB "Žemaitijos pieno investicija" 938 235 pcs., Shareholder of UAB "Čia Market", 1.4 per cent	10/04/2019 - 10/04/2023
Gražina Norkevičienė	Member of of the Supervisory Board	Independent	-	10/04/2019 - 10/04/2023
Virginija Vaitkuvienė	Member of of the Supervisory Board	Independent	-	10/04/2019 - 10/04/2023

During 2019 the following amounts were paid to the members of the Supervisory Board - Aristytydas Kulvinskas - EUR 4525, Hugo Ader - EUR 4444, Gražina Norkevičienė - EUR 5575, V. Vaitkuvienė - EUR 5575. The members of the Supervisory Board did not received loans, guarantees and assets. K. Trečiokas and R. Jarulaitis work for the Company and receive wages under employment contracts. It should be noticed that K. Trečiokas, A. Kulvinskas and H. Ader have been recalled from their duties as members of the Supervisory Board since 10 April 2019 under the decision of the General Meeting of Shareholders.

### The Board of the Company

<sup>3</sup> Members of the Supervisory Council (candidates) declared before the appointment (member of the body) that their duties in the company would not cause a conflict of interest, the candidate was obliged to act in the company's interests and interests;

The Board of the Company is a collegial management body representing the shareholders of the Company within the periods between their meetings and making decisions on the most important issues of the Company’s economic activities, the Board of the Company does not perform supervisory functions since these functions are delegated to the Supervisory Board of the Company. The work procedure of the Board is established by the Rules of Procedure of the Board adopted by it. All members of the Board are responsible for the specific economic activity spheres of the Company. Currently, the Board consists of five “*de facto*” members (6 members before 10 January 2020), and seven members of the board are established “*de jure*”. The members of the Board are elected by the Supervisory Council for a maximum four-year period. The number of their cadencies is unlimited. It should be noted that no special rules regulating election, replacement of members of the Board are applied. These actions are taken in accordance with provisions of the Law on Companies and Articles of Association of the Company. No special policies related to age, gender, education, professional experience are applied to election of members. We appreciate personal properties which would be the best for interests of the Group and shareholders. The activities of the Board are managed by the chairman who is elected by the members of the Board. Specific aspects related to the Board and its activity is provided in the Report on Following to the Company Management Code.

In addition to the general and statutory functions, the members of the Board of the Company also carry out delegated special and individual functions directly related to the activities of the Companies, including some functions oriented to prevention in order to avoid various negative external impacts.

#### Data on the Members of the Board

Name, Surname	Office in the Issuer	Number of shares held and part of authorised capital, %	Activity, position held	Education
Robertas <sup>4</sup> Pažemeckas	Chairman of the Management Board	2 540 pcs. or 0.01 per cent	Chief Executive Officer of AB “Žemaitijos pienas”	Vilnius University, Master of Law
Marius Dromantas <sup>5</sup>	Member of the Board	no	Logistics Director of AB “Žemaitijos pienas”	(I) Kaunas Technological University (Bachelor of Transport Engineering); (II) Vilnius Gediminas Technical University (Master of Transport Engineering);
Dalia <sup>6</sup> Gecienė	Member of the Board	475 160 pcs. or 0.98 per cent	Chief Accountant of AB “Žemaitijos pienas” <sup>7</sup>	Kaunas University of Technology (KUT), Engineer- Economist
Alma <sup>8</sup> Bartkienė	Member of the Board	no	Production Director of AB “Žemaitijos pienas”	Kaunas Higher School of Food Industry, Junior Food Industry Engineer

<sup>4</sup> Responsible for procurement, personnel and law areas;

<sup>5</sup> Responsible for logistics area;

<sup>6</sup> Responsible for financial area;

<sup>7</sup> Accountant of AB “Žemaitijos pieno investicija”, 0.2 rate;

<sup>8</sup> Responsible for production and plant and machinery areas;

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Jurgita Petrauskienė <sup>9</sup>	Member of the Board	no	AB Žemaitijos pienas” Sales Manager	Kaunas University of Technology – Bachelor of Management and Business Administration
Jolita Gedgaudienė <sup>10</sup>	Member of the Board	no	AB Žemaitijos pienas” Marketing Manager	(i) Vilnius Gediminas Technical University (Bachelor of Mechanical Engineering); (ii) Vilnius Gediminas Technical University (Master of Management and Business Administration).
Name, Surname	Office in the Board	Independence criterion	Assigned and paid wages in 2019	Cadence beginning/end date
Robertas Pažemeckas	Member of the Board Chairman of the Management Board	Works in Company Administration, Director of UAB "Baltic Holding"	-	12/04/2018 - 12/04/2022
Marius Dromantas	Member of the Board	Works in Company Administration,	-	12/04/2018 - 12/04/2022
Dalia Gecienė	Member of the Board	Works in Company Administration, Chief Accountant of AB “Žemaitijos pieno investicija”, 0.2 rate;	-	12/04/2018 - 12/04/2022
Alma Bartkienė	Member of the Board	Works in Company Administration,	-	25/07/2018 - 10/01/2020 <sup>11</sup>
Jurgita Petrauskienė	Member of the Board	Works in Company Administration, Shareholder of SP Zoo Dziugas Poland 1 per cent	-	18/04/2019 - 12/04/2022
Jolita Gedgaudienė	Member of the Board	Works in Company Administration,	-	18/04/2019 - 12/04/2022

No wages or other sums were paid to the members of the Board of AB “Žemaitijos Pienas” for their work in the Board in 2019. The members of the Board did not received loans, guarantees and assets. All members of the Board work in the Company under Employment Contracts, so they earn wages according to held positions.

The members of the Board did not received loans, guarantees and assets. All members of the Board work in the Company under Employment Contracts, so they earn wages according to held positions (Employment Contracts).

### Manager of the Company

<sup>9</sup> Responsible for sales (Export, Baltic states);

<sup>10</sup> Responsible for marketing;

<sup>11</sup> Alma Bartkienė was dismissed from the position of a member of the Board since 10 January 2020.

2019

The Manager of Company is the Chief Executive Officer, acting on the basis of the Company’s Articles of Association, the decisions of the General Meeting of Shareholders, Board decisions and other Company’s local acts. The Manager shall organise Company’s daily activities and implement the actions required to perform the functions, to implement the decisions of Company’s bodies and to ensure Company’s business. The Chief Executive Officer of the Company is a responsible one and reports to the Board on a regular basis. It should be noted that no special rules, regulating selection or replacement of the Manager of the Company, are applied; when taking these actions the Company shall follow the Law on Companies and the provisions of Articles of Association of the Company.

The members of management, control and supervisory bodies of the Company are elected in accordance with the requirements of the legislation, considering the skills, qualifications and professional experience of these persons; moreover, before being elected to the relevant body each candidate shall fill in a declaration of conflict of interests. The Company believes that such a system of election of candidates for a position fully meets the interests of the Company and the majority of shareholders.

### Data on the Administration of the Company

Name, Surname	Position	Start of work in the company	Education	Number of shares, pcs.	Owned part of authorised capital and votes, %
Robertas Pažemeckas	Chief Executive Officer	26/08/2002	Higher	2540	0.01/0.01
Marius Dromantas	Logistics Director	01/12/2003	Higher	-	-
Benjamina Plauškienė	Acting Director for Personnel and Law	05/08/2019	Higher	-	-
Nijolė Penkovskienė	Head of Sales Department	03/07/2017	Higher	-	-
Alma Bartkienė	Production Director	27/07/1984	Higher	-	-
Robertas Pavelskis	Technical Manager	02/08/1993	Higher	-	-
Jurgita Petrauskienė	Sales Manager	29/08/2005	Higher	-	-
Jolita Gedgaudienė	Marketing Manager	19/09/2005	Higher	-	-
Dalia Gecienė	Chief Accountant	29/07/1986	Higher	475 160	0.98

Administration of the Company consists of the Chief Executive Officer, Production Director, Logistics Director, Technical Manager, Sales Manager, Marketing Manager, Procurement Manager, Director for Personnel and Law, Chief Accountant. Administration of the Company is managed by the Chief Executive Officer. These managers implement objectives and tasks set by the management bodies of the Company, fulfil the functions in accordance with the assigned competencies and supervise subordinate employees.

**Departments of the Company** are structural units of the Company fulfilling and implementing the decisions, orders and other instructions (written or verbal) of both Company’s Board and Director General.

### Audit Committee of the Company

AB “Žemaitijos pienas” has an Audit Committee, which consists of three persons– Angelė Taraškevičienė (chair), Zina Sakalauskiė and Sigita Leonavičienė. Angelė Taraškevičienė was elected to Audit Committee for the second term; Zina Sakalauskiė and Sigita Leonavičienė were assigned instead of previous members of Audit Committee Stanislava Vaičienė and Daiva Katarskiė.

The main functions of Audit Committee is to perform unexpected financial checks, and stock-takings of tangible assets, submit proposals for optimization of processes, and perform other duties established by legal acts.

#### Data on the Members of the Audit Committee

Name, Surname	Position in the Audit Committee of the Company	Independence criterion	Assigned and paid wages in 2019 with taxes, EUR	Cadence beginning/end date
Angelė Taraškevičienė	Chair of the Audit Committee	Independent	5.000	24/10/2017 - 24/10/2021 or until the body, which elected the member, removes him/her from the office
Zina Sakalauskiene	Member of the Audit Committee	Independent	-	24/10/2017 - 24/10/2021 or until the body, which elected the member, removes him/her from the office
Sigita Leonavičienė	Member of the Audit Committee	-	-	24/10/2017 - 24/10/2021 or until the body, which elected the member, removes him/her from the office

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

Members of the Audit Committee did not receive loans, guarantees, assets, premiums, extra fees, bonuses and any other payments, except for the amount paid to the Chair of the Audit Committee under the Service Agreement.

#### Other aspects related to AB “Žemaitijos pienas” management bodies

During the reporting period (2019), AB “Žemaitijos pienas” paid EUR 20.119 to the members of the Supervisory Board for activities in the Supervisory Board, which is EUR 5029.75 per member of the Supervisory Board; no amounts were calculated or paid to the members of the Board for their work on the Board. The directors / managers of the administration have wages of EUR 802.385 and one administration manager has received EUR 89.154.

During 2019 no shares of profit were paid to the members of the Supervisory Board and the Management Board.

During 2019, EUR 5.000 was paid to the Chairlady of the Audit Committee under a service contract.

During the reporting period, no guarantees or warranties were received from the members of the Supervisory Board and the management Board, the Manager of the Company, the Chief Financial Officer / Chief Accountant and Audit Committee members, nor any assets or other property rights were transferred.

Members of the Supervisory Board and the Board, Chief Executive Officer, Chief Financial Officer / Chief Accounting Officer and the members of the Audit Committee have no material liabilities to the Company (Issuer), nor does the Company (Issuer) have any liabilities to these persons.

There were no bonds and guarantees and/or other securities related to the management bodies and Supervisory Board members (Manager, Chief Financial Officer / Chief Accountant the accounting officer and the members of the audit committee) issued on behalf of the Issuer in 2019. The Issuer did not also give loans to these subjects.

#### ABF “Šilutės Rambynas” bodies, General Part Company management aspects

2019

The bodies of ABF “Šilutė Rambynas” are the General Meeting of Shareholders, the Board and the single-person management body - the Manager of the Company (General Director), as well as subordinates of the Company Manager – employees of the Company Administration.

**The General Meeting of Shareholders** acts, and its competence, rights and obligations of shareholders are provided for in legal acts, including the Articles of Association of the Company.

Articles of Association of the Company shall be amended or separate new provisions shall be adopted in accordance with the usual procedure established by legal acts.

The Board is formed in the Company; its members are subject to the same rules as AB “Žemaitijos Pienas”, complies with the requirements of the Law on Companies and the provisions of the Regulations of the Company, nor does it grant the members of the Board different or special powers than the laws provide and the Articles of Association. In ABF “Šilutės Rambynas”, the Board members do not have special functions or powers, for example, are not assigned to certain areas of activity in the Company, except for work under Employment Contracts, if they are employees of the Company.

*The Board of the Company “de facto” and “de jure” consists of five members. The essential data are provided in the table below:*

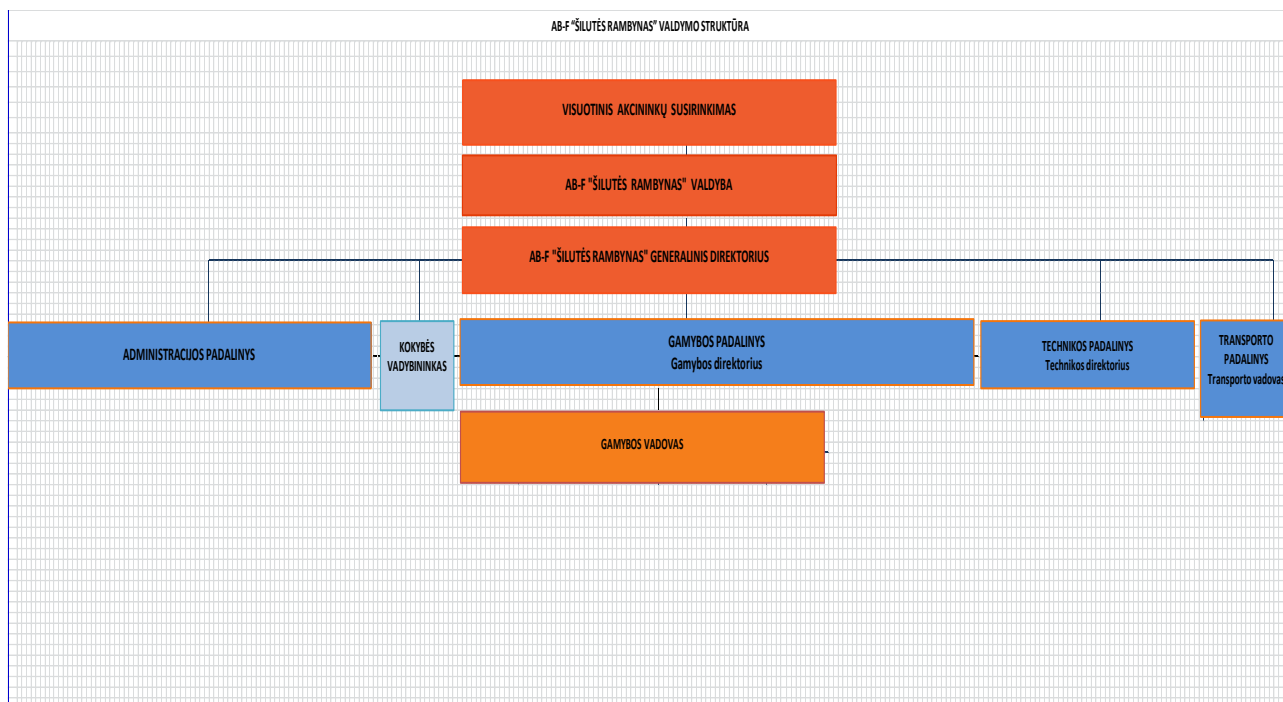
Name, Surname	Office in the Issuer	Number of shares, pcs.	Cadence beginning	Cadence end	Activity, position held	Education.
Algirdas Bladžinauskas	Chairman of the Board	no	30/04/2018	30/04/2023	General Director of ABF “Šilutės Rambynas”	Lithuanian Agricultural Academy (Master of Agricultural Agronomy)
Irena Baltrušaitienė	Member of the Board	no	30/04/2018	30/04/2023	Retired	Kaunas Polytechnic Institute (Master of milk and dairy product technology)
Linas Puskunigis	Member of the Board	2076 pcs. or 0.24 per cent	30/04/2018	30/04/2023	Chief accountant of ABF “Šilutės Rambynas”	Lithuanian Agricultural Academy (Master of Agricultural Economy Organisation)
Robertas Pavelskis	Member of the Board	no	30/04/2018	30/04/2023	AB “Žemaitijos pienas” Technical Manager	Kaunas Academy of Agriculture
Renata Rupšienė	Member of the Board	50 pcs. or 0.01 per cent	29/04/2014	29/04/2018	Production Director of ABF “Šilutės Rambynas”	Kaunas Technological University (Master of Chemical Engineering)

### Manager and Administration of the Company



The company administration consists of the Chief Executive Officer, Production Director, Technical Director, Transport Manager, Sales Manager, Production Manager, Chief Accountant and other employees. Administration of the Company is managed by the Chief Executive Officer. These managers implement objectives and tasks set by the management bodies of the Company, fulfil the functions in accordance with the assigned competencies and supervise subordinate employees.

Management structure of ABF "Šilutės Rambynas":



The Company does not have Supervisory Board and Audit Committee.

During the reporting period (2019) no amounts were assigned to the members of the Board of ABF "Šilutės Rambynas" for their work in the Board. The Company has paid the wages of the administration directors / managers under employment contracts of EUR 268.586, with an average of EUR 38.369 per administration manager.

No guarantees, assets or other property rights have been disposed to the members of the Board, Company Manager, Chief Financial Officer / Chief Accountant during the reporting period.

Members of the Board, Director of the Company, Chief Financial Officer / Chief Accountant have no material liabilities to the Company, and the Company has no liabilities to these persons.

No guarantees and sureties or / and other security for the liabilities of management, security of other entities (manager, chief financial officer) were provided in 2019 on behalf of the Issuer, the Issuer did not grant any loans to these persons/entities.

## OTHER INFORMATION ON MANAGEMENT

### Information on transactions with associated parties and other relevant information

On 18 April 2019 AB "Žemaitijos pienas" and ABF "Šilutės Rambynas" concluded the agreement for sale and purchase of the real property (industrial, administrative, auxiliary and other premises and yard buildings), located at the address Klaipėdos Str. 3, Šilutė, under which the afore-mentioned property was sold to ABF "Šilutės Rambynas". Upon assessment of the transaction terms and conditions, the Audit Committee of AB "Žemaitijos pienas" decided that the transaction complies with the market conditions and does not infringe lawful interests of the shareholders.

On 18 September 2019 AB "Žemaitijos pienas" on the basis of Sale and Purchase Agreement acquired 100 per cents (70 000 pcs.) of ordinary registered shares of UAB "Baltijos mineralinių vandenių kompanija", company code 141763534, office address: Mažeikių Str. 4, Telšiai, nominal value of one share is EUR 30, authorised capital is EUR 2 100 000. The shares were valued by the independent valuator UAB "Verslavita" and it was determined that the market price of one ordinary registered share of EUR 30 is EUR 27.30, market price of all 70 000 shares is EUR 1 912 000.00. AB "Žemaitijos pienas" acquired 100 per cent package of shares, i.e. 70 000 shares, at the price of EUR 1 912 000.00. The Audit Committee of the Company, having assessed the terms of the transaction, concluded that the transaction was in full compliance with the terms of the transaction.

On 31 December 2019 after reorganisation AB "Baltijos mineralinių vandenių kompanija" was merged to AB "Žemaitijos pienas", therefore all assets of AB "Baltijos mineralinių vandenių kompanija" were accepted under the certificate for handover of assets, balance value of rights and obligations, all rights and obligations of AB "Baltijos mineralinių vandenių kompanija" under all transactions of Public Limited Liability Company "Baltijos mineralinių vandenių kompanija" passed to AB "Žemaitijos pienas".

### **Compliance with the Corporate Governance Code for the Companies listed on NASDAQ VILNIUS**

AB "Žemaitijos pienas" strives to comply as far as possible with the provisions of the Corporate Governance Code of the Nasdaq Vilnius Listed Companies and to observe them in principle. However, it should be noticed that the Code-recommended wages and nomination committee has not yet been established. Report of Following to the Corporate Governance Code is published at the Company web page – [www.zpienas.lt](http://www.zpienas.lt), as well as at [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com).