



**AB “ŽEMAITIJOS PIENAS” CONSOLIDATED MANAGEMENT  
REPORT FOR 2018**

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## GENERAL INFORMATION ON MANAGEMENT REPORT OF COMPANIES

AB “Žemaitijos pienas” Consolidated Management Report is prepared for 2018 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 shareholders and their held (directly or indirectly) share packages, 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, description of management structure, information on following to the Corporate Governance Code for the Companies, review of other information related to the Group management.

Consolidated Annual Report for 2018, 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.

**Business risk.** This is a group of risks related to the environment where the Company operates, and this has impact on financial results of the Company. General risk is the business environment, economic viability of major customers of the Company and Group; political and economic environment in the European Union and Russian Federation, other export markets; insufficient legal regulation of raw milk purchasing.

The major risk faced is raw milk seasonality: in summer one purchases twice as much milk than in winter. Therefore, production capacities of AB “Žemaitijos pienas” 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. Furthermore, actions of majority cooperative companies have negative impact on the Company – purchased raw milk is exported from the country (usually) to Poland, where paying capacity is better (in Poland they apply 5 per cent rate to dairy products) and higher competitive capacity of Polish companies pre-determines weak position of the group in both raw milk purchasing and product sale segments.

High price for energy also has impact of the Company and Group, because product costs increase. Due to high prices for fuel there is increase of raw material and production transportation costs. Growth of prices for fuel in the country results in production capacity of companies referred to the group, because there is increase of raw material transportation costs and the companies are forced to increase prices for their products. 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". There is also lack of employees, especially specialists. In strategic countries the Company manages associated companies, which employ sales specialists of those countries, so reducing risk of lack of "local" specialists.

**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 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.

**Credit risk.** In order to avoid customer / buyer default, the responsible persons of the Company check the financial - economic situation of the buyer in public sources (in various bases, registers, etc.) before signing the sales contract, however, such measures are not effective enough. 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 contractor, and performs analysis. The sale of products in the Company is only carried out with a 90-100% payment guarantee. Various ways of ensuring payment are applied in the company - 100% prepayment, liquid real estate pledge, bank guarantees, letter of credit, most often used credit limit insurance, collection of documents.

**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 enquiries / inquiries to suppliers of services or goods. The supplier of goods or services is usually selected from at least 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 has a group of lawyers that supervises all signatures of 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.

**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 or above 1. 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 reporting period (decades), 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.

**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 Code of Ethics was approved by the Company and the Group 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 size of the position, and so on. To reduce the risk of corruption, the Company and the Group have implemented appropriate internal processes. In 2018 The company and the Group have confirmed the equal opportunities policy.

**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 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 aims to minimize the risk of legal non-conformance and to ensure that the activities performed would comply with applicable legal requirements and standards. 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. The Company is preparing a description of the Financial Risk Management Policy, which will regulate the Company's financial risk management and risk reduction process and ensure the internal control system.



## MANAGEMENT OF COMPANIES (GROUP)

### Data on shareholders, their directly and indirectly owned packages of shares

According to the data available by 31 December 2018 shares of AB “Žemaitijos pienas” were owned by 2893 shareholders (natural persons and legal entities). Persons/entities holding more than 5 per cent of authorised capital of AB “Žemaitijos pienas” and votes:

| Row No. | Shareholder  | Number of owned shares, pcs. | Owned part of authorised capital, % | Owned <sup>1</sup> part of votes, % | Part of votes owned together with <sup>2</sup> associated persons/entities, % |
|---------|--|------------------------------|-------------------------------------|-------------------------------------|---|
| 1.      | Pažemeckas Algirdas  | 14 014 581                   | 28.97                               | 30.37                               | 79.46   |
| 2.      | Pažemeckienė Danutė  | 14 014 581                   | 28.97                               | 30.37                               | 79.46   |
| 3.      | AB “Klaipėdos pienas”, company code 240026930, office address Šilutės pl. 33, 91107 Klaipėda     | 2 901 844                    | 6.00                                | 6.29                                | 79.46   |
| 4.      | UAB „Baltic Holding“, company code 302688114, office address Vilhelmo Berbomo Str. 9-4, Klaipėda | 5 738 449                    | 11.86                               | 12.43                               | 79.46   |
| 5.      | AB „Žemaitijos pieno investicija“, company code 300041701, office address Sedos Str. 35, Telšiai | 0.0                          | 0.0                                 | 0.0                                 | 79.46   |
| 6.      | Romusas Jarulaitis*  | 1 870 430                    | 3.86                                | 4.05                                | 7.91  |
| 7.      | Regina Jarulaitienė*   | 1 303 740                    | 2.70                                | 2.82                                | 7.91  |
| 8.      | Dalia Gecienė*   | 475 160                      | 0.98                                | 1.03                                | 7.91  |
| 9.      | Robertas Pažemeckas*   | 2 540                        | 0.01                                | 0.01                                | 7.91  |
| 10.     | Other shareholders   | 8 053 675                    | 16.65                               | 12.63                               | 12.63   |
|         | <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 cent of shares. The remaining shares are held by minor shareholders, the majority of 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.

<sup>1</sup> By the end of the reporting period the Company owned 2 227 228 own shares, which according to item 1 of paragraph 4 of Article 27 and paragraph 7 of Article 54 of the Law on Companies of the Republic of Lithuania do not grant the Company the right to realise property and non-property rights (including voting right), so the shares issued by the Company totally grant 46 147 772 votes.

<sup>2</sup> Danutė Pažemeckienė owns 14 014 581 shares, 28.97 per cents of shares and 30.37 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 30.37 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 30.31 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 6.29 per cents of votes), UAB “Baltic Holding” (holding 5 738 449 shares, 11.86 per cents of shares and 12.43 per cents of votes) and AB “Žemaitijos pieno investicija” (0 shares, 0.00 per cent), which holds 86.47 per cents of shares of AB “Klaipėdos pienas”, and A. and D. Pažemeckai holds by the right of ownership by 36.715 per cents of shares and votes of AB “Žemaitijos pieno investicija”;

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

### **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>3</sup>.

**Restrictions imposed on voting rights and other rights<sup>4</sup>.** 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>3</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;

<sup>4</sup> AB “Žemaitijos pienas” has 2 227 228 own shares, which according to paragraph 7 of Article 54 of the Law on Companies of the Republic of Lithuania do not grant the Company the right to realise property and non-property rights (including voting right).

### Information on the agreements drawn up between shareholders, 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.

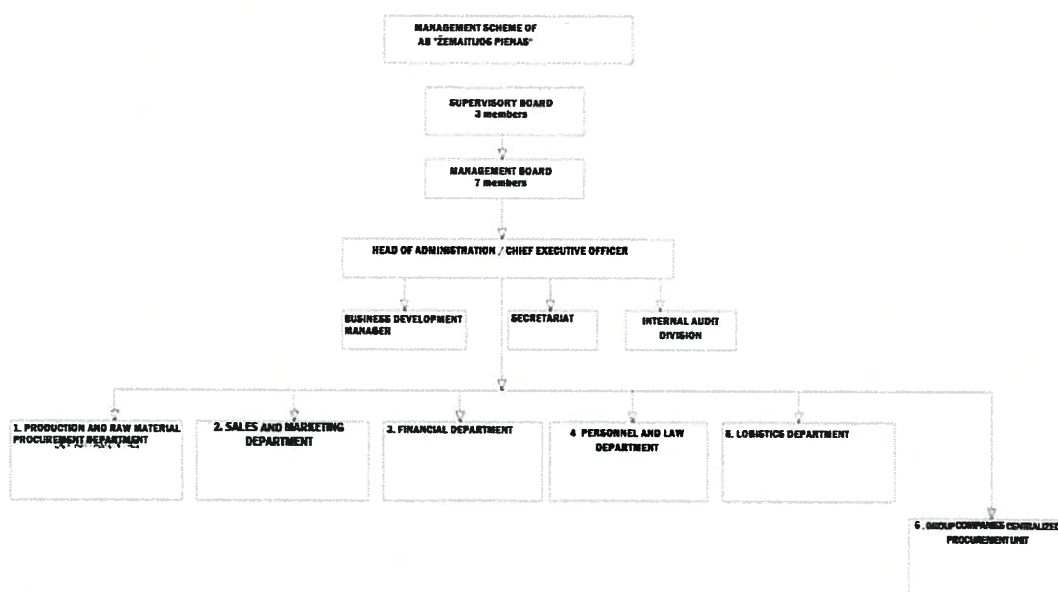
During the reporting period, there have been no harmful transactions which: fail to comply with the aims of the Company or the Group, or with regular market conditions; violate the interests of the shareholders or other groups of persons; and have had any negative impact on the operations of the Company 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. The Company in its activities shall follow laws of the Republic of Lithuania, resolutions of the Government, legal acts regulating activities of companies and Articles of Association of the Company.

### Bodies of AB “Žemaitijos pienas” and other aspects related to the Company management

Management and organisational structure of the Company:





Bodies of the Company 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.

*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.

*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 2018 the Supervisory Board is totally independent – members of the Supervisory Board (i) do not have employment relationships with the Company; (ii) do not have relationships with the major shareholders of the Company; (iii) do not have any relationships which could affect independence or impartiality of members of the Supervisory Board. 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. Specific powers are assigned to each member of the Supervisory Board according to separate fields of activities of the Company. Functioning of the Supervisory Board is regulated in the Work procedure of the Supervisory Board.

**Data on Members of the Supervisory Board**

| Name, <sup>5</sup> Surname        | Office in the Issuer <sup>6</sup> | Number of shares held and part of authorised capital, % | Activity, position held  | Education   |
|-----------------------------------|-----------------------------------|---|--|---|
| Kęstutis <sup>7</sup> Trečiokas   | Chairman of the Supervisory Board | no  | Member of Telšiai District Municipality Council                      | (i) Kaunas Technological University, (Electrical and Mechanical Engineer), (ii) Vilnius University, (Economist) |
| Hugo Ader <sup>8</sup>            | Member of the Supervisory Board   | no  | Advisor of the Chief Executive Office of UAB “Lemininkainen Lietuva” | Leningrad Music and Cinematography Institute, (Drama Editor)  |
| Aristydas <sup>9</sup> Kulvinskas | Member of the Supervisory Board   | no  | Businessman  | Lithuanian Agricultural Academy, (Hydro-technical Engineer)   |

<sup>5</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;

<sup>6</sup> Members of the Board (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;

<sup>7</sup> Responsible for personnel and financial issues of the Company;

<sup>8</sup> Responsible for dairy product sale, marketing and logistics issues;

<sup>9</sup> Responsible for production, raw materials and purchase issues;

| Name, surname        | Position in the Supervisory Board | Independence criteria | Assigned and paid wages in 2018 with taxes, EUR | Cadence beginning/end date |
|----------------------|-----------------------------------|-----------------------|---|----------------------------|
| Kęstutis Trečiokas   | Chairman of the Supervisory Board | Independent           | 21 433  | 29-12-2016 / 29-12-2020    |
| Aristydas Kulvinskas | Member of the Supervisory Board   | Independent           | 22 012  | 29-12-2016 / 29-12-2020    |
| Hugo Ader            | Member of the Supervisory Board   | Independent           | 21 433  | 29-12-2016 / 29-12-2020    |

The amounts specified in the Table were assigned to the members of the Supervisory Board in 2018 according to the Supervisory Board Member Contracts. The members of the Supervisory Board did not received loans, guarantees, assets, they have not employment relationships.

*The Board* of the Company is a collegial management body representing the shareholders of the Company within the periods between their meetings and making decisions on the most important issues of the Company's economic activities. The work procedure of the Board is established by the Rules of Procedure of the Board adopted by it. Currently, the Board consists of five “*de facto*” members, and seven members of the board are established “*de jure*”. The members of the Board are elected by the Supervisory Council for a maximum four-year period. The number of their 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. 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.

#### 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>10</sup><br>Pažemeckas | Member of the Board, Chief Executive Officer | 2 540 pcs.<br>or<br>0.01 per cent                       | Chief Executive Officer of AB “Žemaitijos pienas”        | Vilnius University, Master of Law  |
| Marius<br>Dromantas <sup>11</sup>    | Member of the Board                          | no  | Logistics Director of AB “Žemaitijos pienas”             | (i) Kaunas Technological University (Bachelor of Transport Engineering);<br>(ii) Vilnius Gediminas Technical University (Master of Transport Engineering); |
| Dalia <sup>12</sup><br>Gečienė       | Member of the Board                          | 475 160 pcs.<br>or<br>0.98 per cent                     | Chief Accountant of AB “Žemaitijos pienas” <sup>13</sup> | Kaunas University of Technology (KUT), Engineer-Economist  |
| Alma <sup>14</sup><br>Bartkienė      | Member of the Board                          | no  | Production Director of AB “Žemaitijos pienas”            | Kaunas Higher School of Food Industry, Junior Food Industry Engineer   |

<sup>10</sup> Responsible for procurement, personnel and law areas;

<sup>11</sup> Responsible for logistics area;

<sup>12</sup> Responsible for financial area;

<sup>13</sup> Accountant of AB “Žemaitijos pieno investicija”, 0.2 rate;

<sup>14</sup> Responsible for production and plant of machinery areas;

| Romusas <sup>15</sup><br>Jarulaitis | Member of the Board        | 1 870 430 pcs.<br>or<br>3.86 per cent | Export Manager of AB “Žemaitijos pienas”         | Kaunas University of Technology (KUT), Mechanic Engineer |
|-------------------------------------|----------------------------|---------------------------------------|--|--|
| Name, Surname                       | Position in the Board      | Independence criteria                 | Assigned and paid management bonuses with taxes* | Cadence beginning/end date                               |
| Robertas Pažemeckas                 | Member of the Board        | Works in the Company Administration   | 20 000   | 01-04-2018 / 12-04-2022                                  |
| Marius Dromantas                    | Member of the Board        | Works in the Company Administration   | 20 000   | 01-04-2018 / 12-04-2022                                  |
| Dalia Gečienė                       | Member of the Board        | Works in the Company Administration   | 20 000   | 01-04-2018 / 12-04-2022                                  |
| Ramūnas Dargis                      | Former member of the Board | Works in the Company Administration   | 20 000   | 12-04-2018 / 24-07-2018                                  |
| Alma Bartkienė                      | Member of the Board        | Works in the Company Administration   | -  | 25-07-2018 / 12-04-2022                                  |
| Romusas Jarulaitis                  | Chairman of the Board      | Works in the Company Administration   | 20 000   | 12-04-2018 / 12-04-2022                                  |

The members of the Board did not receive 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).

*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.

#### Data on the Company Administration

| Name, Surname                  | Position                       | Start of work in the Company | Education | Number of owned shares, pcs. | Owned part of authorised capital and votes, % |
|--------------------------------|--------------------------------|------------------------------|-----------|------------------------------|---|
| Robertas Pažemeckas            | Chief Executive Officer        | 26-08-2002                   | Higher    | 2 540                        | 0.01/0.01                                     |
| Marius Dromantas               | Logistics Director             | 01-12-2003                   | Higher    | -                            | -   |
| Rūta Katkauskaitė - Čičirkienė | Director for Personnel and Law | 08-09-2017                   | 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 Gečienė                  | Chief Accountant               | 29-07-1986                   | Higher    | 475 160                      | 0.98/1.03                                     |

<sup>15</sup> Responsible for export (sales at foreign markets), marketing and raw milk procurement areas;

\* Bonuses paid to former members of the Board, Supervisory Board by 31-12-2016, allocated at the General Meeting of Shareholders of 14-04-2017.

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.

When performing their activities, the Bodies of the Company follow the laws of the Republic of Lithuania and other legal acts, and requirements established in Articles of Association of the Company. The bodies are elected, assigned and dismissed in accordance with the provisions of abovementioned documents.

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 has not established any specific rules for election of bodies or specific electoral policies related to the aspects such as age, gender, etc. 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.

#### **Audit Committee of the Company**

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

| Row No. | Name, surname         | Position in the Audit Committee | Independence criteria   | Assigned and paid wages in 2018 with taxes, EUR | Cadence beginning/end date   |
|---------|-----------------------|---------------------------------|---|---|--|
| 1.      | 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 |
| 2.      | Zina Sakalauskienė    | 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 |
| 3.      | Sigita Leonavičienė   | Member of the Audit Committee   | Chief Accountant of UAB “Baltijos Mieralinių Vandenų Kompanija” | -   | 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" bodies**

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 Management Board, Company Chief Executive Officer, Chief Financial Officer / Chief Accountant and the members of the Audit Committee have no material substantive obligations to the Company (Issuer), as the Company (Issuer) has no liabilities to these persons, except for unpaid assigned bonuses.

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

#### **ABF "Šilutės Rambynas" bodies and other Company management aspects**

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", which, in addition to collecting or changing its members, 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 this Company, the Board members do not have special functions or powers, for example, are not assigned to certain areas of activity in the Company, except 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 is provided in the table below:

| Name,<br>Surname          | Office in the<br>Issuer                             | Number of<br>shares held,<br>pcs./per cent | Cadence<br>beginning | Cadence end | Activity,<br>position held                             | Education  |
|---------------------------|---|--|----------------------|-------------|--|--|
| Algirdas<br>Bladžinauskas | Chairman of<br>the Board<br><br>General<br>Director | no   | 30.04.2018           | 30.04.2023  | General<br>Director of ABF<br>“Šilutės<br>Rambynas”    | Lithuanian<br>Agricultural Academy<br>(Master of<br>Agricultural<br>Agronomy)                  |
| Irena<br>Baltrušaitienė   | Member of the<br>Board                              | no   | 30.04.2018           | 30.04.2023  | -  | Kaunas Polytechnic<br>Institute (Master of<br>milk and dairy product<br>technology)            |
| Linas<br>Puskunigis       | Member of the<br>Board                              | 2076 pcs.<br>or<br>0.24 per cent           | 30.04.2018           | 30.04.2023  | Chief<br>Accountant of<br>ABF “Šilutės<br>Rambynas”    | Lithuanian<br>Agricultural Academy<br>(Master of agricultural<br>economy<br>-<br>organisation) |
| Robertas<br>Pavelskis     | Member of the<br>Board                              | no   | 30.04.2018           | 30.04.2023  | Technical<br>Manager of AB<br>“Žemaitijos<br>pienas”   | Kaunas Academy of<br>Agriculture   |
| Renata<br>Rupšienė        | Member of the<br>Board                              | 50 pcs.<br>or<br>0.01 per cent             | 29.04.2014           | 29.04.2018  | Production<br>Director of ABF<br>“Šilutės<br>Rambynas” | Kaunas Technological<br>University (Master of<br>Chemical<br>Engineering)                      |

### Manager and Administration of the Company

The Company Manager (General Director) - Algirdas Bladžinauskas, Chief Accounting Officer Linas Puskunigis (see data of these persons in the afore-mentioned table). It should be noticed that the election, amendment of the Manager of the Company, which regulates the special rules, is not applicable, the Company follows the requirements of the Law on Companies, the Articles of Association of the Company, and other legal acts. During the reporting period, the Director General (member of the Board) has been charged EUR 7000 (payments related to employment relationships, "gross"). EUR 3500 was paid to a member of the board - Linas Puskunigis (payments related to employment relationships, “gross”). EUR 3500 (“gross”) was paid to the Production Director (member of the Board) Renata Rupšienė 3500 Eur. (“gross”). No payments were made to the rest members of the Board.

ABF “Šilutės Rambynas” elects the members of bodies based on professional experience and abilities, evaluates personal qualities, various other characteristics of the candidate, among other things, the candidate fills in a declaration of conflict of interests; the company does not apply diversity policy related to the age, gender, etc. The Company believes that this system allows electing the best members of bodies of the Company.

## OTHER INFORMATION ON MANAGEMENT

### Information on transactions with associated parties

During the reporting period AB “Žemaitijos pienas” concluded a transaction in accordance with Article 37<sup>2</sup> of the Law on Companies of the Republic of Lithuania with the associated party - AB “Klaipėdos pienas” (legal entity code 240026930, office address Klaipėda City Municipality, Klaipėda City, Šilutės pl. 33)<sup>16</sup>, amending the Loan Agreement No. 273/ No. Con-14-2743 of 31 October 2014 with the mortgage object agreed in the Mortgage Contract – instead of the land plot mortgaged in favour of AB “Žemaitijos pienas” one mortgaged the shares of AB “Žemaitijos pienas”<sup>17</sup> owned by AB “Klaipėdos pienas” (2 901 844 pcs.)<sup>18</sup>. Detailed information is provided in paragraph 29 of the Explanatory Note attached to the Financial Statements.

### Following to the provisions of the Corporate Governance Code

AB “Žemaitijos pienas” according to its capacities, as well as considering objective circumstances (upon reasons beyond control of the Company) seeks to follow the provisions of Corporate Governance Code for Nasdaq Vilnius Listed Companies as much as possible, but it should be noted that especially strict following to the provisions (related to members of bodies) is limited with lack of high-qualified, Professional specialists who know the field of activity, for example, items 3.7, 4.6, 4.12 and 4.13 of the Report of Following to the Corporate Governance Code are not implemented in full scope due to the reasons mentioned afore. Report of Following to the Corporate Governance Code is published at the Company web page – [www.zpienas.lt](http://www.zpienas.lt)<sup>19</sup>, as well as at [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com). It should be noted that the Report of Following to the Corporate Governance Code for 2018 was developed in accordance with the revision of Corporate Governance Code for Nasdaq Vilnius Listed Companies valid in 2018.

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<sup>16</sup> <http://www.registrucentras.lt/jar/p/index.php?pav=Klaip%C4%97dos+pienas&p=1>

<sup>17</sup> Transaction value complies with the price of shares of AB “Žemaitijos pienas” at the Stock Exchange AB Nasdaq Vilnius on the moment of conclusion of transaction, i.e. pledged number of shares x price of shares (at the Stock Exchange) = transaction value;

<sup>18</sup> <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=858152&messageId=1079751>

<sup>19</sup> The Report on Following to the Corporate Governance Code contains detail cause of failure (partial failure) to follow to some articles.