



**AB ŽEMAITIJOS PIENAS
CONSOLIDATED
MANAGEMENT REPORT FOR 2020**

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GENERAL INFORMATION ON THE MANAGEMENT REPORT OF COMPANIES

The consolidated management report of AB Žemaitijos Pienas has been prepared for the reporting financial period of 2020, which coincides with the calendar year. 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, therefore the General (Consolidated) Report is 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 37² 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. other information required by law.

The Consolidated Annual Report for 2020, 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.

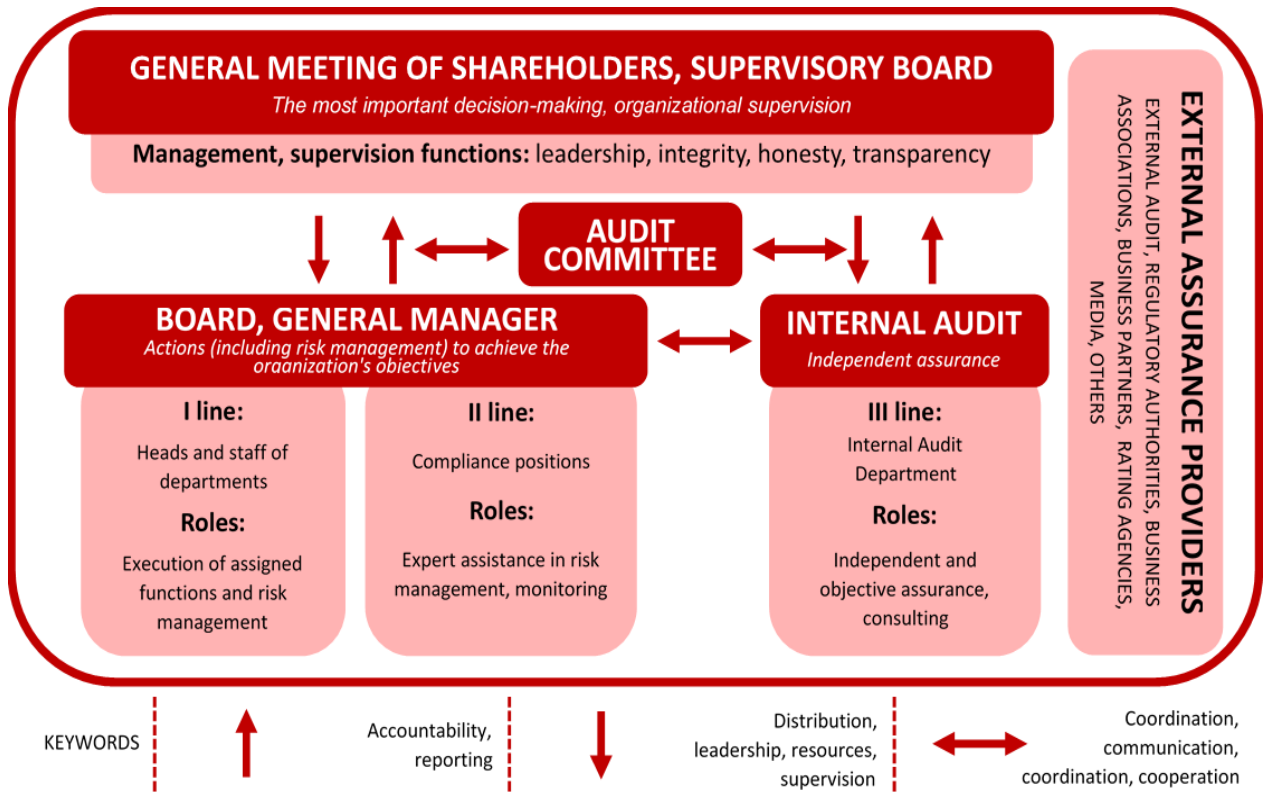
RISK SCOPE, FACTORS AND RISK MANAGEMENT

INTERNAL CONTROL SYSTEM, OBJECTIVES OF RISK MANAGEMENT

The risk management of the Group's companies is based on the principles of COSO ERM (The Committee of Sponsoring Organizations' Enterprise Risk Management (ERM) Framework), which defines ERM as: „Enterprise risk management is not a function or a division, but the culture, capabilities, and practices, integrated with strategy-setting and performance, that organizations rely on to manage risk in creating, preserving, and realizing value “.

Risks are inherent in our business activities and can relate to strategic goals, business performance, compliance with laws and regulations, and those critical to environmental, social and governance priorities. Risk management begins with the individual and collective competencies of the organization's employees; knowledge of risks, their significance and impact on the organization; approach to strong risk management as an important contribution to effective organizational governance. All employees are encouraged to be open, candid and fact-based in discussing risk issues, making all relevant facts and information available so the Company can consider all possible options and make informed decisions.

Risk management organizational structure, roles and responsibilities



The main objectives of risk management:

- Aims to promptly resolve internally identified risks to compliance with laws and regulations to maintain the provision of quality products, protect consumer safety and ensure appropriate relationships with customers.
- Supports strategies to ensure effective use of resources, enables an optimized, proactive approach to auditing and identifying/remediating compliance issues, and promotes reporting and monitoring across compliance functions.
- Enables improved decision making, planning and prioritization through assessments of opportunities and threats.
- Promotes value creation by enabling management to respond in a prompt, efficient and effective manner to future events that create uncertainty and represent a significant threat or opportunity.

Risk management enables the successful business development of the Group's companies in line with our business principles and organizational values.

MAIN RISKS, THEIR FACTORS AND RISK

Risk - the **influence** of unexpectedness, uncertainty **on goals** (deviation from what we expected). The approach of the Group companies is dual: **RISK = THREATS + OPORTUNITIES**. Risks are rarely isolated, so management identifies **risk interactions** when identifying them. Risks are **assessed** according to its **impact** and **likelihood**. Risk management requires a **broad acumen of the business environment (internal and external factors)** that may affect the achievement of strategic and business objectives. As the business environment changes, so do the risks, their impact, and management priorities.

In the Group of Companies, **risks are divided into categories**. Reviewing and categorizing risks is an ongoing, continuous process, the periodicity and extent of which depend on changes in the business environment. The following are selected examples of risks inherent in our industry. A definitive and static definition of all possible types of risks is not possible due to the ever-changing business environment.

Risk categories, description, examples

Risk categories	Description, examples
Strategic	<ul style="list-style-type: none"> ◦ Reduction in business vitality due to competition and increasing pricing pressures ◦ Loss of intellectual property and trade secrets ◦ Increasing geopolitical barriers to trade in the form of protectionism and nationalism ◦ Production quality control, including changes in food safety standards ◦ Negative impact to reputation/loss of public trust
Operational	<ul style="list-style-type: none"> ◦ Supply chain breakdown and / or- insufficient / inappropriate information flow within the organization and / or with suppliers and buyers ◦ Loss of business continuity or resilience ◦ Third party risk - the quality of relations with external business partners and their relations with their partners, including human rights issues ◦ Availability of key materials, labour and other critical resources ◦ Inefficient use of resources/increased product cost
Cybersecurity	<ul style="list-style-type: none"> ◦ Hacking, data loss, breach, fraud ◦ Impact to availability of critical information systems ◦ Security incident at critical third-party affecting business operations
Environmental	<ul style="list-style-type: none"> ◦ Environmental, social and governance perceptions - opportunities to identify strategies to address long-term sustainability ◦ Restriction of labour resources and trade due to the effects of diseases and viruses ◦ Increased severe weather events such as storms, flooding, drought
Social	<ul style="list-style-type: none"> ◦ Human capital development risks, including leadership sustainability, management succession and capability, employee engagement and accountability ◦ Unfair labour practices, including collective bargaining, freedom of association and grievance processes
Compliance	<ul style="list-style-type: none"> ◦ Increasing regulatory changes and enforcement in areas such as: <ul style="list-style-type: none"> - Animal welfare and protection - Protection and handling of personal information in accordance with data protection requirements - Employee health and safety - Selling and promotion of products, including health compliance, healthy eating promotion, climate change programs, anti-corruption trade requirements, other governmental, international programs ◦ Product quality, safety and effectiveness concerns ◦ Significant legal proceedings, including product liability
Financial	<ul style="list-style-type: none"> ◦ Credit risk related with the fulfilment of obligations of customers or other parties to the Group of companies ◦ Liquidity risk related with the fulfilment of the Group's obligations to suppliers and other bound parties ◦ Achievement of the set / planned financial results, economic exponents ◦ Changes in tax laws or exposures to additional tax liabilities ◦ Fluctuating currency exchange rates; inflation and currency devaluation ◦ Impact of interest rates changes ◦ Risk of errors / non-compliances in financial statements ◦ Risk of changes in the value of assets and liabilities ◦ Risk of capital adequacy ratio and maintenance

Depending on the complexity of the risks, their interactions, likelihood, impact and the ability to manage the situation, the behaviour (response) with the risks is different. In general, the Group's risk response approaches are as follows:

- Accept – No action is taken to affect likelihood or impact. This is how risks are treated within tolerance limits (risk appetite). In this case decision to self-insure can be taken against loss because insurance costs and deductibles exceed the cost of replacement.

- Avoid – Action is taken to exit the activities giving rise to risk. Risk aversion is perceived as, for example, a decision not to start a project or to terminate it due to the excessive probability of unstable cash flows.
- Pursue – Action is taken that accepts increased risk to achieve improved performance (seizing the opportunities). Management understands the nature and extent of changes required to achieve improvements, e.g., developing new products and services, expanding operations by adopting more aggressive growth strategies.
- Reduce – Action is taken to reduce the risk likelihood or impact or both. This may involve myriad everyday business decisions, e.g., diversifying product offerings, maintaining large cash reserves, investing in technology upgrades that reduce the likelihood of system failures, etc.
- Share / transfer – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Such examples may be sharing risk through contractual agreements with clients or suppliers; purchasing insurance to protect against significant unexpected loss; entering into joint ventures or partnerships, etc.

The following is a more detailed description of the risks that the Group companies identify as the most important (priority) for the period 2020-2021 and the directions of management of these risks:

Strategic / operational risk category.

Business resilience risk is highly related to the environment in which the Company and the Group operate and which affect the Company's and the Group's performance. This is the competitiveness of the Company and the Group; economic viability of the Company's and the Group's largest customers; the political and economic environment in the European Union and Russia; legal regulations in the purchase of the main raw material.

The biggest risk Žemaitijos pienas AB faces is the **seasonal variation of raw milk supply**: twice as much milk in summer as in winter. Therefore, the production capacity of Žemaitijos pienas AB is utilized unequally: full capacity utilization in summer, and in winter only up to 60% of the capacity is used. In order to secure the supply of raw milk, the Company usually pays slightly higher prices to suppliers (farms) of raw milk than the minimum set by the Government. The main reasons why the Company, as a milk processor, may run out of milk are the following: EU requirements for milk quality and dairy farms, including regulations related to climate change policy; a large part of the milk purchased by cooperatives in Lithuania is exported from the country, whereas dairy processors can no longer pay higher raw material prices due to cheaper dairy products imported more freely by foreign competitors (e.g., Poland) in larger quantities.

The rise in energy prices is affecting the Company and the Group by increasing production costs. Due to **increasing fuel price** the transportation costs of delivery raw materials and distributing products increase. Toward reducing these risks, the Company and the Group streamline production by digitizing and standardizing workplaces, investing in energy cost optimization solutions, and optimizing logistic routes.

Competitive risk. The Company and the Group face competitive risks in the local market, hence the main goal of the Company and the Group is to encourage direct export sales to the shelves. To escape the deficiency of sales specialists, the Company has associated companies in strategic countries, which employ sales specialists in those countries, thus reducing the risk of shortage of specialists. Ambitious goals are equally being set for the development of e-commerce and export distribution channels.

Reputation risk is related to the decisions made by the Company and the behaviour of employees. Reputation and honour in the Company and the Group are valued as the foundation of business and business relationships. In 2018, the Code of Ethics of the Company and the Group was approved. The Code of Ethics sets standards of conduct for all employees, regardless of their position, scope of employment and other conditions. With regard to reduce the risk of corruption and bribery, the Company and the Group have implemented appropriate internal processes. In 2018, the Company's and the Group's equal opportunities policy was approved as well. According to the management assessment, the implemented measures are effective.

Procurement and supplier risks. Purchases of goods (basic, auxiliary materials, parts, equipment, etc.) and services in the Company are carried out through public and private tenders or by sending inquiries to suppliers of services / goods. Supplier selection is generally based on at least three tenders submitted. Procedures for identification and analysis of procurement and supplier risk factors have been implemented in the Company and the Group. Internal audits are performed when selecting key suppliers.

Contracts with suppliers are prepared and signed in accordance with the rules provided for in the approved procedure for concluding, coordinating and approving contracts in the Company and the Group. The Company has a team of jurists who oversee all signed agreements between the Company and the Group with suppliers and buyers.

Environmental / cybersecurity risks category.

The Company and the Group companies, likewise all Lithuanian and World business organizations, act under the conditions of increased threat and impact of these risks. The most important risks in this category currently are the **impacts of the COVID-19 pandemic, climate change matters** and the increased threat of **cyber-attacks and hacking**. Due to their uniqueness and importance in today's context, these risks and their management approaches have been discussed in the Annual Report and the impact on the financial statements in the Explanatory Notes. Therefore, the information in the Management Report was no more duplicated.

Financial risk category.

The Company and the Group are exposed to major financial risks, most of which are market risks. Financial risk management is an integral part of the Group's Financial Management Policy, which in turn is an integral part of the Group's Risk Management System. The main financial category risks faced by the Company and the Group to date are interest rate, exchange rate risk, liquidity and credit risks.

The Company and the Group operate internationally, consequently they are exposed to the **risk of exchange rate fluctuations**. International business involves settlements in foreign currencies, which is related to the exchange rate fluctuations risk of the Polish zloty, the US dollar and other currencies. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations when the recognized assets and liabilities are denominated in a currency that is not the functional currency of the Company and the Group. A functional currency of the Company and the Group is Euro.

The Company's and the Group's operating income and expenses are in essence independent of changes in market interest rates. However, the Company is exposed to **interest rate risk** related to long-term loans. Determining the impact of interest rates on the Company's performance, positions are identified that give rise to interest rate risk. Assets and liabilities that are sensitive to changes in interest rates include the Company's actual transactions, such as: deposits, investments, loans granted, securities held by the Company and any other on-balance sheet and off-balance sheet transactions whose value depends on fixed or variable interest rates and positively correlates with interest rate fluctuations. The Company does not use any financial instruments to hedge against the risk of interest rate fluctuations, yet the situation is constantly monitored to ensure that such decisions are made in a timely manner if necessary.

Credit risk. In pursuance of timely receivables collection, before signing sale agreements with the client / buyer, the buyer's financial and economic situation is checked through available sources (data provided by the client, various databases, registers, etc.). The concentration of customers in the dairy industry determines the overall credit risk of the Company and the Group, as these customers may be similarly exposed to changes in environmental and economic conditions. The Company has procedures in place, including the Credit Risk Management Policy, to ensure that sales do not exceed the accepted credit risk limit. In both cases, the reliability of each business partner is assessed when selling and purchasing goods or services, that's to say - reliability analysis is performed. The sale of products (load of goods) in the Company begins if there is a 90-100% payment guarantee. Various payment guarantees apply, such as: 100% prepayment; pledge of liquid real estate (value is determined by property appraisers); bank guarantee (this is a settlement guarantee, but not a settlement instrument, it is activated when payment is not made); letter of credit (L/C); trade credit limit insurance is most commonly used;

document collection (payment procedure when the bank undertakes to mediate the seller of the goods in order to derive payment for the goods from the buyer).

The Company is among those Lithuanian companies that pay on time for purchased goods and services, and evaluates, rates and determines the reliability of the customers. In every case, it is decided what hedging can and should be required from the client, what credit limit and payment deferral in days are allowed. Customer settlements are constantly monitored and analysed. Since this type of risk is well managed, the Company does not have new large “bad” debts, which makes it easier to plan its cash flows.

Liquidity risk. The Company's policy is to maintain a sufficient amount of cash and cash equivalents and, if necessary, to attract additional external financing in order to fulfil its strategic plans and commitments and maintain an optimal capital structure. As liquidity is determined by the asset-liability ratio, the aim is to have a liquidity ratio close to or higher than 1.

Liquidity risk is managed by planning and forecasting cash flows, which helps to pro-proactively identify potential cash shortages and facilitate the choice of financing method. Cash flow forecasts are prepared for one month, year and long-term - up to 3-5 years. The cash flow forecast anticipates cash receipts and payments and enables to plan short-term borrowing and investing money. Until the end of the current year, the forecast shows the main trends in working capital and cash flow: the need for external financing of activities or the possibility of investing funds is identified, the impact of possible interest rates and currency exchange risk is assessed. At the end of the current year, the monetary budget for the following year is drawn up. Long-term forecasting (over a year) is part of strategic business planning. These cash flow projections provide with information on the extent of the cash surplus or extra need: when the cash surplus or extra need will arise, the extension of the period of the surplus or extra need, how the cash surplus will be used or the need will be financed. For the cash flow projections until the end of the month or the current year the cash payments and receipts method is exploited, and the sources and uses of funds method is embraced for the next year's budget plan or for the next 3-5 years. Cash flow forecasting is necessary due to the uneven distribution of income and expense flows. Payments for goods sold are deferred from 14 to 30 days, in rare cases - up to 60-90 days. Suppliers are paid for services and goods on average within thirty days, and raw milk providers / farmers – within 15-20 days from the end of the decade. Based on these facts, the forecasts for the month, week are quite accurate. There is the aim to agree on a deferral of payments with suppliers of goods and services for up to 60 days.

The company has a loan committee that assesses the risk of loans granted to employees and milk providers / farmers. The Company has approved lending regulations, based on which the members of the loan committee evaluate the applications of borrowers. Loans are not granted if the borrower does not have to offer liquid real estate / movable property as collateral. A conservative approach to liquidity risk management allows the Company to maintain the required amount of cash while maintaining funding flexibility.

Compliance risk category.

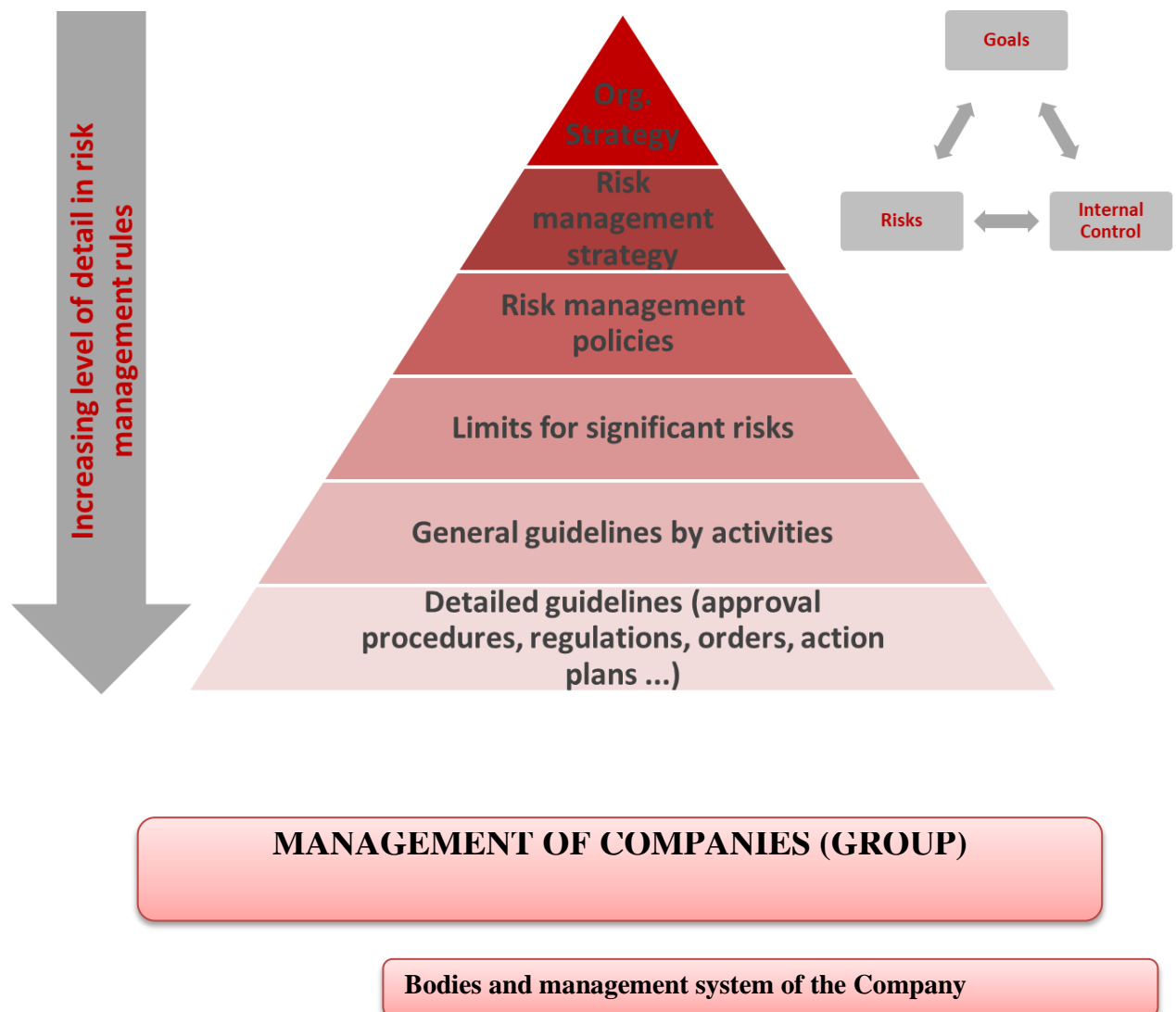
The Company seeks to minimize the risk of legal non-compliance and ensure that the Company's activities comply with applicable legal requirements and standards. For this purpose, the Company's lawyers participate in decision-making, preparation of various procedures and agreements, coordination processes.

Representatives of potential clients, who visited the Company several times with the **independent audit engagements**, positively assessed the conditions of the existing infrastructure, the organization of the main operational and safety processes, cooperation with related third parties and the designed control system.

The Company's Audit Committee supervises the preparation of consolidated financial statements; internal control and financial reporting risk management system; compliance with the legislation governing the preparation of consolidated financial statements. The Company is responsible for the quality and timely preparation of the consolidated financial statements.

The Company's and the Group's risk management is implemented through a Risk Management System with integrated internal policies, procedures and regulations in line with the organization's operating principles, values and business philosophy. The proper functioning of internal control is implemented through the development and maintenance of an appropriate control environment; continuous monitoring and evaluation; horizontal and vertical communication, including information systems supporting business processes. The Company has separated business decision-making and operational functions from controlling functions; the limits of decision-making power are set and their control is provided for; defined collegial decision-making in business processes, etc. The overall logic of the functioning of internal control is presented in the Map of the Risk Management System:

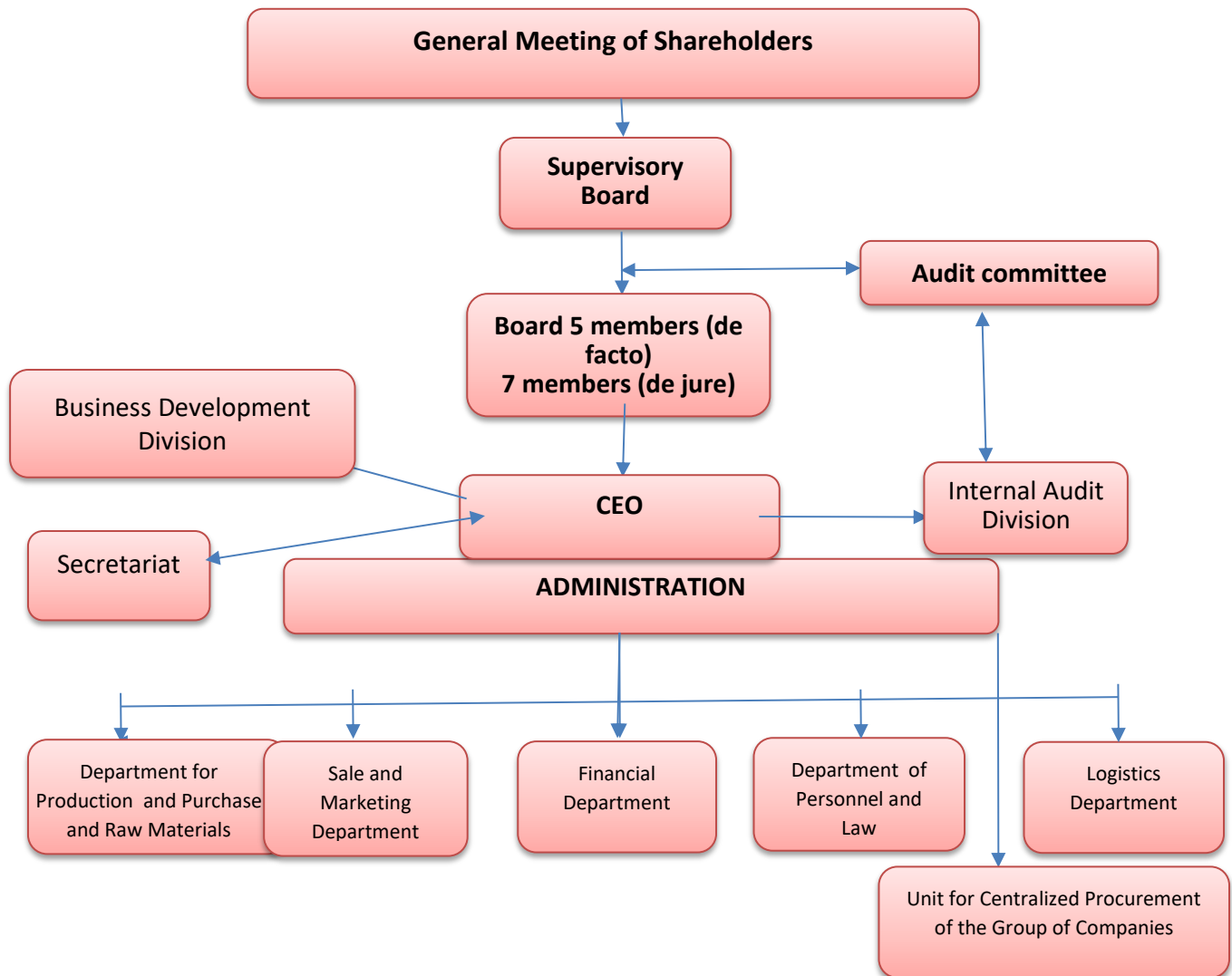
Map of the Risk Management System



Bodies of AB Žemaitijos Pienas are the General Meeting of Shareholders, Supervisory Board, Board and single-person management body - Manager of the Company (CEO), 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 Purchase and (v) Sales and Marketing. The Company has formed and has an operating Audit Committee.

Structural management scheme of the Company is provided below.



General Meeting of Shareholders and Shareholders

The 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.

In 2020, the shareholder structure of the Company has not changed significantly. Major shareholders retained the same shareholdings. It should be noted that due to the fact that the shares of AB Žemaitijos

Pienas are traded on the stock exchange, the number of shareholders and their structure are constantly changing. Taking into account the data received from the intermediary of public trading in securities, the shareholders of the Company as of 31 December 2020 there were 2,847 shareholders (natural and legal persons), while at the beginning of the year 2020, there were 2,863 shareholders, so the number of shareholders decreased slightly during the reporting period. The following persons hold more than 5% of the authorised capital and votes of AB Žemaitijos Pienas¹ by the right of ownership and/or together with a related party:

Shareholder	Number of shares owned, pcs.	Proportion of the authorized capital owned, %	Share of votes owned, %	Proportion of votes held together with related parties, %
Pažemeckas Algirdas*	14 034 581	28.99	28.99	28.99
Pažemeckienė Danutė**	14 014 581 (14 034 581)	57.98	57.98	57.98
AB Klaipėdos Pienas, company code 240026930, Šilutės pl. 33, 91107 Klaipėda	2 901 844	6.00	6.00	6.00
UAB Baltic Holding, enterprise code 302688114, registered office address Vilhelmo Berbomo g. 9-4, Klaipėda	4 713 018	9.74	9.74	9.74
Romusas Jarulaitis	1 870 430	3.86	3.86	6.56
Regina Jarulaitienė	1 303 740	2.70	2.70	6.56

The largest shareholder of AB Šilutės 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 which are raw milk producers. The total number of shareholders is 602. ABF Šilutės Rambynas is not subject to share management and usage restrictions. ABF Šilutės Rambynas does not own shares of any other significant entities either directly or indirectly.

¹ *A. Pažemeckas and D. Pažemeckienė hold 14,034,581 pcs. of shares (votes) under the right of joint ownership. **D.Pažemeckienė holds 14,014,581 pcs. of shares by the right of personal ownership and it is considered that D. Pažemeckienė owns together with her spouse 28,069,162 shares or 57.98 percent (in aggregate) of the shares (votes).

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 property and non-property 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 Association².

Restrictions imposed on voting rights or 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 property 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-property rights:

to attend meetings; according to the rights granted by the shares to vote at the meetings; to receive non-confidential information about the economic activity of the company under the conditions and on the grounds established by legal acts; to elect and be elected to the management and control bodies of the company, to hold any position in the company, unless otherwise provided by the Law on Companies of the Republic of Lithuania; to submit specific proposals for the improvement of the company's financial, economic, organizational, etc. activities, to appeal to the court against the decisions or actions of the shareholders' meetings, the Supervisory Board, the Board and the manager of the company that violate the laws of the Republic of Lithuania, the Company's Articles of Association, shareholders' property and non-property rights. One or more shareholders have the right to claim compensation for damage caused to shareholders without a separate authorisation; other non-property rights established by law. A person acquires all the rights and obligations granted to him by the part of the authorized capital and / or voting rights acquired in the company: in case of increase of authorized capital - from the date of registration of amendments to the Company's Articles of Association related to increase of the authorized capital and/or voting rights, in other cases - from the acquisition of ownership rights to the part of the authorized capital of the Company and/or voting rights.

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

² Conclusions regarding management of shares, rights to shares, disposal or 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;

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 arrangements 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 arrangements the disclosure thereof would cause significant damage to the issuer. The same situation is with ABF Šilutės Rambynas.

The companies have not entered into any unusual agreements with members of the bodies or employees that would provide for compensation in the event of their resignation or dismissal without just cause or if their employment is terminated 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 were also no transactions concluded due to conflicts of interest between the Company's managers, controlling shareholders or other parties' obligations to the Company and their private interests and (or) obligations.

Procedure for the amendment of the 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

The 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 2020 the Supervisory Board was 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.

More detailed 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.

Name, Surname	Position in the Issuer	Number of shares held pcs. and share of authorized capital%	Activities, current positions	Education	Independence criterion
Romusas Jarulaitis	Member of Supervisory Board from 10.04.2019	1 870 430 pcs. or 3.86	AB Žemaitijos Pienas Export Manager	Kaunas Polytechnic Institute, qualification of a mechanical engineer	Employment relations in the company/dependent
Gražina Norkevičienė	Member of Supervisory Board from 10.04.2019	Does not have	Retired	Kaunas Polytechnic Institute, specialty of milk and dairy products technologist-engineer.	Independent
Virginija Vaitkuvienė	Member of Supervisory Board from 10.04.2019	Does not have	Retired	Kaunas Polytechnic Institute, specialty of milk and dairy products technologist-engineer	Independent s

The members of the Supervisory Board perform and supervise the following areas of the Company's activity.

Member of the Board	Supervised area
1. Gražina Norkevičienė	1.1. Quality parameters in production processes; 1.2. Tasting supervision; 1.3. Companies providing raw milk test services supervision / control;
1. Romusas Jarulaitis	1.1. Product sales; 1.2. Purchase of raw milk; 1.3. Company finances.
2. Virginija Vaitkuvienė	2.1. Manufacturing processes; 2.2. Development of new products

No loans were granted to the members of the Supervisory Board, no guarantees were issued, no assets were disposed of.

The Board of the Company and its members

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 were before 10 January 2020).

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. The election of members is not subject to special policies related to age, gender, education, professional experience, and the qualities that would best suit the interests of the Group and shareholders are assessed. 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. Below are the data about the members of the Board of AB Žemaitijos Pienas.

Name, Surname	Position in the Issuer	Number of shares held and share of the authorized capital %	Activities, current positions	Education	Independence criterion
Robertas Pažemeckas	Chairman of the Board, General Manager from 12.04.2018 to 12.04.2022	2,540 pcs. or 0.01 proc	AB Žemaitijos Pienas CEO	Vilnius University, Master of Laws	Working in the Company administration
Marius Dromantas	Member of the Board from 12.04.2018 to 12.04.2022	does not have	AB Žemaitijos Pienas Logistics Director	(i) Kaunas University of Technology (Bachelor of Transport Engineering); (ii) Vilnius Gediminas Technical University (Master of Transport Engineering);	Working in the Company administration
Dalia Gecienė	Member of the Board from 12.04.2018 to 12.04.2022	475 160 pcs, or 0.98 proc	AB Žemaitijos Pienas Chief Accountant	Kaunas Polytechnic Institute (KTU), engineer - economist	Working in the Company administration
Jurgita Petrauskienė	Member of the Board from 18.04.2019 to 12.04.2022	does not have	AB Žemaitijos Pienas Sales Manager	Kaunas University of Technology - Bachelor's degree in Management and Business Administration	Working in the Company administration
Jolita Gedgaudienė	Member of the Board from 18.04.2019 to 12.04.2022	does not have	AB Žemaitijos Pienas Marketing Manager	(i) Vilnius Gediminas Technical University (Bachelor's degree in Mechanical Engineering); (ii) Vilnius Gediminas Technical University (Master's degree in Management and Business Administration)	Working in the Company administration

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. The distribution of the operational functions of the members of the Board is presented below.

Member of the Board	Supervised area
1. Dalia Gecienė	1.1. Finance
2. Robertas Pažemeckas	2.1. Procurements 2.2. Personnel and Law
3. Marius Dromantas	3.1. Logistics
4. Jurgita Petrauskienė	4.1. Sale (Export, Baltic countries)
5. Jolita Gedgaudienė	1.5. Marketing (Export, Baltic countries)

No loans were granted to the members of the Board, no guarantees were issued, no assets were disposed of.

Manager of the Company

The Manager of Company is the CEO, 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 of the Company is elected by the board of the Company. 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 CEO 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

The administration of the Company consists of the CEO, Production Director, Logistics Director, Technical Manager, Sales Manager, Marketing Manager, Procurement Manager, Director for Personnel and Law, Chief Accountant, other staff performing administrative or related functions. Administration of the Company is managed by the CEO. Directors/ 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.

Name, Surname	Position	Start of work in the company	Education	Number of shares held, psc.	Holds the share capital and votes %
Robertas Pažemeckas	General Manager	26.08.2002	Higher	2540	0.01/0.01
Rita Kiguolienė	Director of the Personnel and Law Department	08.05.2019	Higher	-	-
Marius Dromantas	Director of Logistics	01.12.2003	Higher	-	-
Nijolė Penkovskienė	Head of Procurement Department	03.07.2017	Higher	-	-
Monika Jasiulionienė	Production Director	10.08.2010	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	0.98/0.98

Departments of the Company are structural units of the Company fulfilling and implementing the decisions, orders and other instructions (written or verbal) of both, the Board of the Company and the CEO.

Audit Committee of the Company

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

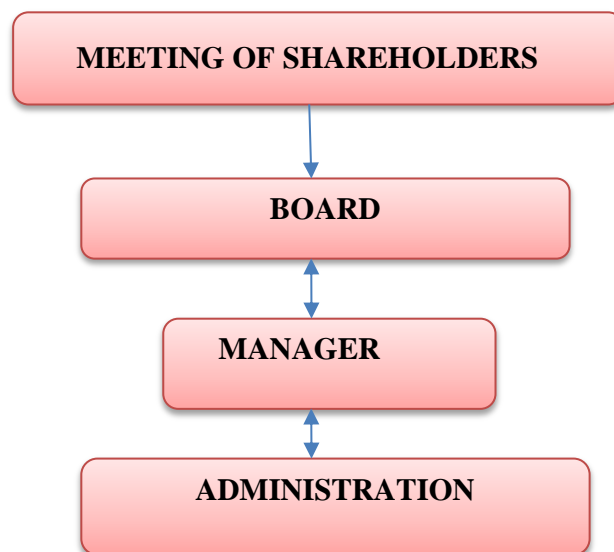
Name surname	Duties in the audit committee	Independence criterion	Gross remuneration with taxes during 2020, Eur	Term start/end date
Angelė Taraškevičienė	Chairperson of the Audit Committee	Independent	5.000	24.10.2017 / 24.10.2021 or until removal from office by the Company body that elected the member
Zina Sakalauskienė	Member of the Audit Committee	Independents	-	24.10.2017 / 24.10.2021 or until removal from office by the Company body that elected the member
Sigita Leonavičienė	Member of the Audit Committee	-	-	24.10.2017 / 24.10.2021 or until removal from office by the Company body that elected the member

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.

ABF Šilutės Rambynas bodies, General Part Company management aspects

The bodies of ABF Šilutės 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 set by 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 and the Articles of Association provide for. The Board members of ABF Šilutės Rambynas, 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.

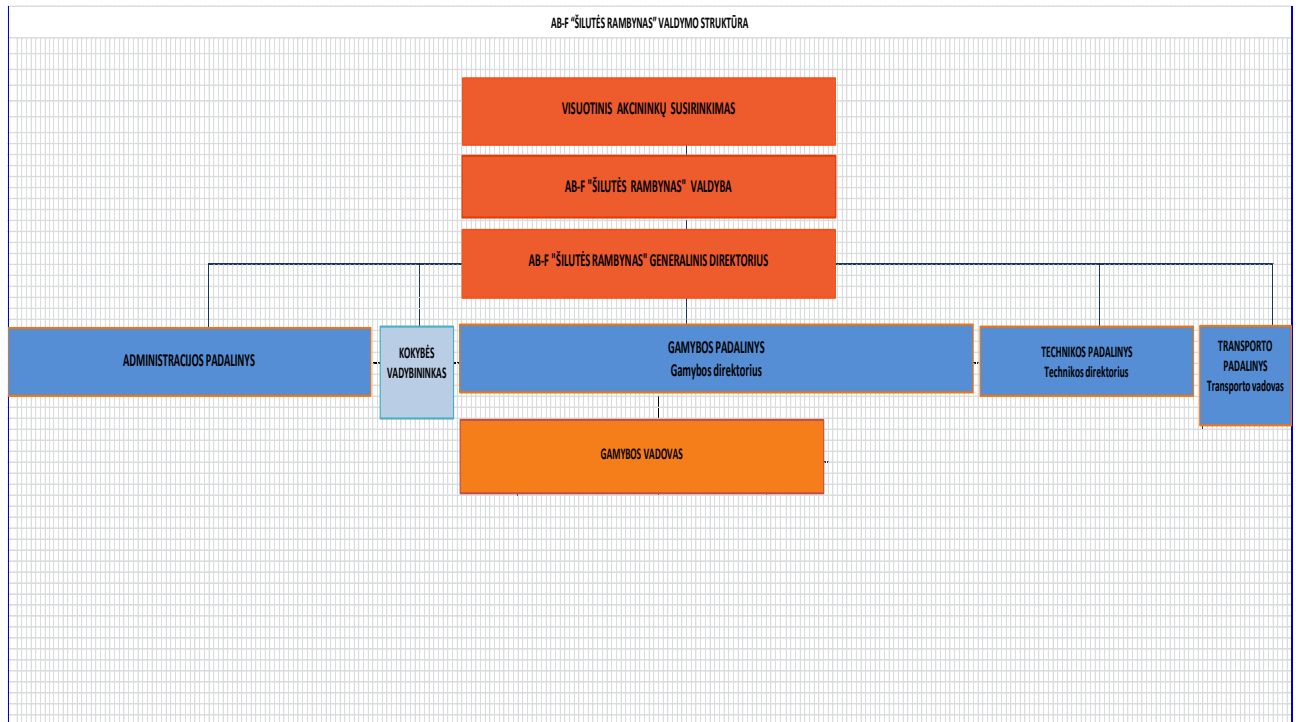
The **Board of the Company** “*de facto*” and “*de jure* ” consists of five members. The essential data are provided in the table below:

Name, Surname	Position in the Issuer	Number of shares held in psc. / per cent.	Start of term	End of term	Activities, position held	Education
Algirdas Bladžinauskas	President of the Board, CEO	does not have	30.04.2018	30.04.2023	ABF Šilutės Rambynas CEO	Lithuanian Academy of Agriculture (Master of Agricultural Agronomy)
Irena Baltrušaitienė	Member of the Board	does not have	30.04.2018	30.04.2023	Retired	Kaunas Polytechnic Institute (Master of Milk and Milk Product Technology)
Linas Puskunigis	Member of the Board	2076 psc. 0.24 proc.	30.04.2018	30.04.2023	ABF Šilutės Rambynas Chief Accountant	Lithuanian Academy of Agriculture (Master of Agricultural Economy Organization)
Robertas Pavelskis	Member of the Board	does not have	30.04.2018	30.04.2023	AB Žemaitijos Pienas Technical Manager	Kaunas Academy of Agriculture
Renata Rupšienė	Member of the Board	50 psc. 0.01 proc.	29.04.2014	29.04.2018	ABF Šilutės Rambynas Production Director	Kaunas University of Technology, Master of Chemical Engineering)

Manager and Administration of the Company

The Company administration consists of the CEO, Production Director, Technical Director, Transport Manager, Sales Manager, Production Manager, Chief Accountant and other employees. Administration of the Company is managed by the CEO. 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 the Supervisory Board and the Audit Committee.

During the reporting period (2020) no sums were assigned to the members of the Board of ABF Šilutės Rambynas for their work in the Board. The Company paid EUR 191.139 in the wages to the administration directors/managers under employment contracts, on average of EUR 38.228 per manager of the administration.

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 2020 on behalf of the Issuer, the Issuer did not grant any loans to these persons/entities.

OTHER INFORMATION ON GOVERNANCE

Information on transactions with associated parties and other significant information

During 2020 no transactions of AB Žemaitijos Pienas and ABF Šilutės Rambynas with related parties as provided for in the standard of Article 37³ of the Law on Companies of the Republic of Lithuania were concluded.

NASDAQ VILNIUS Corporate Governance Code

As every year, AB Žemaitijos Pienas declares and submits a report on compliance with the Corporate Governance Code³, which provides information and data on compliance with the recommendations of the Corporate Governance Code of companies listed on NASDAQ VILNIUS. This report of the Company is published on the website of the Company at www.zpienas.lt, and this report is also available at www.nasdaqbaltic.com. This consolidated management report of AB Žemaitijos Pienas is an integral part of the annual report.

The Company generally complies with the recommendations of the Corporate Governance Code of companies listed on NASDAQ VILNIUS, except for the recommended conditions related to the establishment of nomination and remuneration committees and the assignment of certain functions to the competence of these committees (clauses 5.2 and 5.3). The Company takes the position that the emergence of these bodies would be excessive, disproportionate to the Company's management objectives, increase the Company's administrative costs, besides, the Company's Board and Supervisory Board are responsible for performing these functions (according to their competence). In the company's view, the committees would even duplicate the functions.

³ The latest version was approved at the meeting of the Board of Nasdaq Vilnius AB on 15 January 2019. Minutes No. 19-63.