



PIENO ŽVAIGŽDĖS

Environmental, Social, and Governance Report

for 2019.

Prepared in accordance with Nasdaq's ESG Reporting Guide

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About Us

We are a modern, advanced Lithuanian company that has been operating successfully for 25 years:

- ◆ We follow deep-rooted dairy production traditions;
- ◆ We are one of the largest dairy processors in the Baltic States;
- ◆ We have four specialised factories;
- ◆ We produce a wide range of products to meet the needs of even the most demanding customers;
- ◆ We export our products to more than 40 countries;
- ◆ We have been awarded for the highest quality both in Lithuania and abroad;
- ◆ Turnover in 2019 amounted to EUR 171 million;
- ◆ We have our own distribution network, including trucks and warehouses;
- ◆ We are developing our own milk collection network covering the entire country;
- ◆ Over the past 10 years, we have invested more than EUR 100 million.



AB Pieno Žvaigždės was established in 1998 after the merger of AB Mažeikių Pieninė and AB Pasvalio Sūrinė, two dairy processing companies operating independently in Lithuania. This was followed by the merger of AB Kauno Pienas, as well as AB Panevėžio Pienas in 2004. Today, this structure makes it possible to specialise production at separate branches, achieving the highest level of efficiency and evenly distributing raw milk collection capacity in the country.

AB Pieno Žvaigždės is now one of the largest and most modern dairy processing companies in the Baltic States – one that not only takes business aspects into account, but social and environmental aspects as well, and takes responsibility for the short-term and long-term effects of its activities and the consequences of its actions, as a market participant, employer and member of society.

AB Pieno Žvaigždės has been operating successfully for 25 years, and not just in the Lithuanian market – it also exports its products to more than 40 countries around the world. Every year, we relish new achievements, awards and excellent consumer ratings. We hold ourselves to the highest standards and strive to anticipate the future needs of the modern consumer – today.

Our motto:

Natural dairy products for healthy living!

Our vision:

To be a modern company with strong positions in Lithuanian and foreign markets.

Our mission:

To anticipate the future needs of the modern consumer – today.



Management Commitments

According to the approved AB Pieno Žvaigždēs quality, food safety and environmental policy, the Company's management undertakes to:

- Promote respect for the person, the employee, the supplier and the partner;
- Continuously improve product manufacturing technologies and logistics solutions;
- Educate and train company employees by constantly improving their qualification, informedness and awareness, updating their knowledge on quality management, environmental management and food safety, and demanding accountability for performance outcome, and to work closely with suppliers and partners;
- Ensure the sustainable use of natural, energy and other resources, proper and responsible waste management, and adequate preparedness for possible emergencies;
- Protect the environment at every step, throughout the entire cycle;
- Comply with the legal requirements that the Company is subject to.

The quality, food safety and environmental policy is available on the AB Pieno Žvaigždēs website at:

<https://pienzvaigzdes.lt/lt/content/22-kokybes-politika>



Quality

Top quality is our top priority. We are certified according to all major quality, management and safety systems and standards:

- 🔥 BRC
- 🔥 EKO
- 🔥 IFS

- 🔥 KOSHER
- 🔥 ISO 9001
- 🔥 ISO 14001

- 🔥 FSSC 22000
- 🔥 HALAL
- 🔥 EKOAGROS



Company Policy

According to the approved AB Pieno Žvaigždės quality, food safety and environmental policy:

- Use the most advanced production technology and work organisation and logistics solutions which ensure the highest production quality, authenticity, hygiene level and safety;
- Ensure that 100% of production meets the Company's quality and food safety standards. Apply at least 30% stricter target values for product safety indicators in the Company's quality standards than those stipulated in legislation and/or regulatory documents;
- Continuously improve the food safety, quality management and environmental management systems;
- Conserve the environment and prioritise clean technology, both company-wide and throughout the entire cycle;
- Deliver the final product to the consumer based on the lowest cost principle.

The quality, food safety and environmental policy is available on the AB Pieno Žvaigždės website at:

<https://pienzvaigzdes.lt/lt/content/22-kokybes-politika>



Export



We export our products to more than 40 countries.

In 2019, exports accounted for 43% of AB Pieno Žvaigždēs revenue. The majority of these countries are in the EU. We aim to grow in export markets every year, so we are constantly looking for innovations, actively interacting with potential partners, and participating in exhibitions.



Production

Our products are inspired by nature and traditions, and made using the latest technology.

We keep up with trends and produce products that meet consumer needs. Healthy lifestyle is one of the most pressing goals in today's society.

AB Pieno Žvaigždės was the first company in Lithuania to start producing Bios and Biola organic yoghurt, which appeared on the market in the summer of 2006. The BIOS EKO product line is special in that the balance of nature and human farming activities is not compromised during the production process. Only organic milk is used for production – no herbicides or pesticides are used, and the cows graze freely and are not treated with antibiotics – and the milk and jam in the natural yoghurt are certified organic products.

In the interest of consumer well-being, AB Pieno Žvaigždės is constantly updating its products. It is important to us that every product carrying the Pieno Žvaigždės brand is natural and has as many essential nutrients as possible.



Product Range

A wide range of products to meet the needs of even the most demanding customers:



Everyday products: milk, kefir, curd cheese, sour cream and butter.

Organic dairy products: milk, yoghurt, curd, string cheese.



Greek-style yoghurt: plain or with jam in a separate compartment.





Products with increased protein content.

Yoghurt drinks: Greek-style, lactose-free, plain or with fruit.



Ice cream: on a stick or in cones, buckets or boxes.

Desserts: Belgian Chocolate-glazed curd bars, porridges, cheese snack.



Awards

Due to its high product quality and good customer ratings, AB Pieno Žvaigždės wins various awards every year:



Business Risks

The Company's core business is milk processing. This business is risky due to potential changes in the markets for raw materials and products, competition, as well as possible legal, political, technological and social developments that are directly or indirectly related to the Company's business, which may adversely affect the Company's cash flows and operating results.

The Company's primary raw material is milk, the supply of which is relatively limited due to its short shelf life. Raw material supply restrictions may lead to a shortage of raw materials or an increase in raw material prices. These changes may adversely affect the Company's cash flows and operating results. This risk is managed by diversifying the purchase of raw milk from different (different sized) suppliers in Lithuania and by additionally importing raw milk from other countries (mainly from Latvia and Estonia).

The Company's business (especially milk collection and delivery) is a labour-intensive activity. Staff shortages and increases in their salaries may adversely affect the Company's operating results. The risk is managed by investing in modern equipment, which makes it possible to reduce the number of employees. Remuneration and employee motivation systems are constantly reviewed in order to retain existing employees and attract new ones. We keep up with trends and produce products that meet consumer needs. Healthy lifestyle is one of the most pressing goals in today's society.





Environmental Protection



Environmental Protection

AB Pieno Žvaigždės follows sustainable production criteria.

In the quality, food safety and environmental policy, the Company's management is committed to ensuring the sustainable use of natural, energy and other resources, proper and responsible waste management, and adequate preparedness for possible emergencies. New products are developed and new technologies are adopted based on these provisions.

At AB Pieno Žvaigždės, energy consumption control, water conservation, packaging production control, wastewater control, control of stationary sources of ambient air pollution, waste management, and transport fuel consumption control are conducted, and action plans are drawn up to reduce the use of these resources.

Monitoring of significant environmental aspects is conducted at AB Pieno Žvaigždės branches:

Type of monitoring	Industrial wastewater	Surface runoff	Emissions from stationary sources of ambient air pollution
Frequency	1 time per month	4 times per year	1 time per year

AB Pieno Žvaigždės only purchased 100% renewable energy from UAB Ignitis.

An emission inventory was taken for the AB Pieno Žvaigždės compressor room, boiler room and mechanical workshops on 7 April 2017 and is valid for five years.

A general energy audit has been conducted at AB Pieno Žvaigždės. Renovation of the administrative building heating substation and the commercial building heating substation is planned.

An audit of energy, energy resources and water consumption in the technological processes and facilities has been conducted at AB Pieno Žvaigždės. After the audit, measures were suggested for conserving energy and water, and recommendations were made for improving the technological processes.

An economiser system has been newly installed in the AB Pieno Žvaigždės steam boiler room, allowing for more efficient use of the heat that has already been produced and, as a result, a reduction in fuel consumption and related emissions. In 2018, renovation of the ice water treatment equipment made it possible to reduce the amount of ammonia used in the system by about 20%.

Water reuse is practiced in the production process at AB Pieno Žvaigždės branches. All AB Pieno Žvaigždės branches reuse wash/rinse water. Water is conserved in this way. At the Kauno Pienas, Mažeikių Pieninė and Panevėžio Pienas branches of AB Pieno Žvaigždės, the condensate that forms in the equipment is returned to the steam boiler, and clean rinse water is collected in the CIP stations which is then used for initial rinsing of the equipment during the next cycle. An energy water system has been installed at the Pasvalio Sūrinė branch of AB Pieno Žvaigždės, i.e. a heat exchange between raw milk heating/cooling and whey cooling/heating.

The introduction of a milk protein concentration line (UF) has reduced operating costs and reliance on raw materials purchased from other countries. The introduction of an acid whey concentration line has reduced animal by-products, with whey from the production of curd products being concentrated and sent for further processing.

The waste generated at AB Pieno Žvaigždės factories is sorted, accounted for in GPAIS, and taken away for recycling or disposal. There are sorting containers in the administrative premises, and the employees at AB Pieno Žvaigždės have contributed to environmental preservation for years by gladly sorting their waste.



AB Pieno Žvaigždės is taking actions that reduce the emission of greenhouse gases. Economisers have been mounted on the chimney of the steam boiler in the gas boiler room at a branch of AB Pieno Žvaigždės since 2017. This helped generate 684 MWh of extra heat in 2017 and 869 MWh in 2018.

The vehicles used by AB Pieno Žvaigždės comply with the European Union's Euro IV, Euro V and Euro VI standards, according to which CO2 emissions are minimised.

Sorting alone is not enough, so we are constantly initiating various educational projects. For example, the packages for MŪ milk feature information about beautiful places in Lithuania to visit, and animals that we should protect and love.



ESG Compliance

E1. GhG Emissions

The Company does not yet have targets and a procedure for calculating GhG emissions.

E2. Emissions Intensity

The Company is always looking for ways and taking steps to reduce GhG emissions.

E3. Energy Usage

In 2019, the Company consumed 519,246 GJ of energy.

Energy source	Energy, GJ
Natural gas	271,973
LPG	395
Diesel	127,233
Petrol	2,660
Heat	495
Electricity	116,490
Total	519,246

E4. Energy Intensity

Indicator	Unit of measurement	Value
Turnover	GJ/EUR	0.003
Milk purchased	GJ/tonne	2.096
Employees	GJ/employee	310.554



E5. Energy Mix

Energy source	Unit of measurement	Quantity
Natural gas	kWh	75,548,111
LPG	L	15,802
Diesel	L	3,322,843
Petrol	L	79,320
Heat	kWh	137,581
Electricity	kWh	32,359,203

The Company uses only certified green electricity.

E6. Water Usage

In 2019, the Company consumed 1,074,829 m³ of water. All water is purchased from water suppliers.

E7. Environmental Operations

In the Company's approved quality, food safety and environmental policy, the Company is committed to ensuring the sustainable use of natural, energy and other resources, proper and responsible waste management, and adequate preparedness for possible emergencies, and to protect the environment at every step, throughout the entire cycle.

E8. Climate Oversight

In 2019, the Company had no legal disputes concerning negative impact on the environment.





Social Data



Social Data

Employees are our future

The average number of full-time employees at AB Pieno Žvaigždės in 2019 was 1,672.

In 2019, the Company continued to improve its remuneration system, with particular emphasis on reviewing the salaries of its production and production service staff. Compared to 2018, the Company's annual remuneration budget increased by 10%. Looking at just the Company's production and production service units, the remuneration budget was 15% higher than the year before.

Employees are our greatest asset, so we are investing in their continuous growth, safety and well-being:

- 🔥 We organise periodic career development and personal competence development courses for employees;
- 🔥 All employees are insured against accidents (24/7);
- 🔥 In order to incentivise and motivate employees, we provide a significant number of them with health insurance and free access to sports;
- 🔥 We have canteens at all of our factories and subsidise staff meals;
- 🔥 In our branded stores, employees have the opportunity to buy products with a discount;
- 🔥 We give employees gift baskets of the Company's products for various occasions;

Science and Education

We are constantly commissioning research and participating in its development at Lithuanian and foreign institutes. The KTU Food Institute is our long-standing partner.

Consumer awareness is important to us, so we support the educational events and lectures organised for children at schools by the Dietetic Society about the principles of healthy eating.



ESG Compliance

S1. CEO Pay Ratio

The Company has not adopted a policy for the disclosure of salaries for specific positions.

S2. Gender Pay Ratio

In 2019, the ratio of salaries between men and women was 1.2. The difference was due to the employees' qualifications, competences and positions rather than their gender.

S3. Employee Turnover

In 2019, employee turnover at the Company was 34%.

S4. Gender Diversity

At the end of 2019, 52% of the Company's total employees were women. Women held 43% of senior positions, 72% of entry-level and mid-level positions, and 45% of various skilled worker positions.

S5. Temporary Worker Ratio

In 2019, an average of 3.8% of the people working at the Company had fixed-term employment contracts. In 2018, this figure was 4.2%.

S6. Non-Discrimination

According to the code of ethics and business conduct approved by the Company, we do not tolerate any form of direct or indirect discrimination or instruction to discriminate on the basis of gender, race,



nationality, language, origin, social status, belief, convictions or views, age, sexual orientation, disability, ethnic origin or religion.

S7. Injury Rate

In 2019, the Company registered 19 mild injuries. This amounts to 0.01 injury per employee.

S8. Global Health & Safety

According to the rules of procedure and the code of ethics and business conduct approved at the Company, every employee at the Company is provided with safe and healthy working conditions, regardless of the type of employment contract, the workplace, the work environment, the nature of work, the duration of the working day (shift), or the employee's nationality, race, nationality, gender, sexual orientation, age, social status, and political or religious beliefs.

S9. Child and Forced Labour

According to the code of ethics and business conduct approved by the Company, we respect and guarantee the human rights enshrined in international and Lithuanian legislation, and the Company does not tolerate harassment, psychological violence, bullying or abuse of a position that may take any form. We do not employ persons below the minimum age stipulated by the laws of the Republic of Lithuania. We do not use forced or compulsory labour.





PIENO ŽVAIGZDĒS

Company Management



Code of Business Ethics

In carrying out its activities, AB Pieno Žvaigždės takes economic and social aspects into account, and takes responsibility for the effects of its activities and the consequences of its actions, as a market participant, employer and member of society.

The code of business ethics approved by the Company sets out the basic operating principles on which the business is based and which the Company's employees follow in building and maintaining relationships with customers, suppliers, partners and public authorities, as well as in interacting with each other.

The Company's business ethics are based on the following principles:

- 🔥 Respect for human rights and freedoms;
- 🔥 Safe working conditions;
- 🔥 Honesty and transparency;
- 🔥 Avoiding conflicts of interest;
- 🔥 Confidentiality.

In order to ensure the effectiveness of business ethics, the Company's employees can submit reports of breaches of this code as well as questions related to this code of business ethics to their immediate supervisor, the human resources department or management, or put them in special anonymous boxes at the Company's manufacturing branches. The management of the Company is responsible for implementation of the provisions of this code and for not tolerating actions that do not comply with the provisions of this code.

ESG Compliance

G1. Board Diversity

One of the Company's board seats (of seven) is occupied by a woman. This represents 14% of the Company's board members.

G2. Board Independence

There is no separation between the CEO and the board in the Company. There are no independent members on the board.

G3. Incentivised Pay

All employees receiving financial incentives work in accordance with the AB Pieno Žvaigždēs quality, food safety and environmental policy.

G4. Collective Bargaining

A work council is elected at the Company.

G5. Supplier Code of Conduct

The Company does not have an approved supplier code of conduct.

G6. Ethics and Anti-Corruption

According to the code of ethics and business conduct approved by the Company, our relations with employees, customers, partners and the state are based on honesty and transparency. We believe that honest partnerships allow us to build lasting and meaningful relationships. We comply with legislation governing labour relations. We only compete on the market in accordance with legislative requirements, and we do not engage in prohibited anti-competitive activities. We strongly oppose



any form of corruption, bribery and extortion. In conducting business, we do not provide, offer or promise any undue reward to individuals for the purpose of directly or indirectly influencing individuals in performing their functions and taking decisions. In order to ensure transparency and objectivity in our cooperation with suppliers and business partners, we do not accept any commercial offers which cast doubt on their legitimacy. We openly set out the requirements and evaluation criteria for potential partners, and define the principal terms of cooperation in the contracts: the price, quality, and delivery and payment terms of the product or service. The company pays the taxes established by the state, settles accounts with employees in a transparent manner, and encourages other market participants to act in a transparent manner as well. The Company cooperates with public authorities and provides them with information in accordance with legislative requirements.

Having regard to item 12 of the Description of the Procedure for Ensuring the Introduction of Internal Channels for Reporting Irregularities and the Functioning Thereof approved by Resolution No 1133 of 14 November 2018 of the Government of the Republic of Lithuania on Implementation of the Republic of Lithuania Law on Whistleblower Protection, the Company makes the information below regarding the competent person and the whistleblowing procedure publicly available on its website. The entire procedure is available on our website:

<https://pienzvaigzdes.lt/lt/content/23-praneseju-apsauga>

G7. Data Privacy

The Company has an approved employee data retention policy and rules for applying implementing measures for the employee data retention policy.

The Company also adheres to the privacy policy, which establishes the protection of personal data and privacy for its customers, website visitors and other individuals. The privacy policy is available on the Company's website:

<https://pienzvaigzdes.lt/lt/content/18-privatumo-politika>



G8. ESG Reporting

This is the Company's first Environmental, Social and Governance Report. The report was prepared in accordance with the ESG Reporting Guide:

(<https://www.nasdaq.com/ESG-Guide>)

G9. Disclosure Practices

At present, the Company only prepares an Environmental, Social and Governance Report in accordance with Nasdaq's ESG Reporting Guide.

G10. External Assurance

The Company's Environmental, Social and Governance Report is not audited by third parties.



Address:

Perkūnkiemio st. 3, LT-12127,
Vilnius, Lithuania

Telephone number

(+370 5) 246 14 14

E-mail

info@pienzvaigzdes.lt

Website

www.pienozvaigzdes.lt

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