ŽEMAITIJOS PIENAS®

CONFIRMATION BY RESPONSIBLE PERSONS

March 2020

Telšiai

We, AB "Žemaitijos pienas" general director Robertas Pažemeckas and senior accountant Dalia Gecienė, hereby confirm that, in so far as we are aware, the attached 2019 AB „Žemaitijos pienas" consolidated audit report and company financial statements prepared in accordance with International Financial Reporting Standards adopted in the European Union are true and correctly reflect the assets, liabilities, financial status, income or losses, and cash flows of the company and the group of enterprises while the consolidated annual statement provides proper overview of business development and activities and status of the company and the group of enterprises as well as description of the main encountered risks and uncertainties.

General director Robertas Pažemeckas

Senior accountant Dalia Gecienė

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ŽEMAITIJOS PIENAS AB

Independent Auditor’s Report,
Consolidated Annual Report,
Financial Statements,
and Consolidated Financial statements
for the year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AB Žemaitijos pienas

Report on the Audit of the Company's and Consolidated Financial Statements

Opinion

We have audited the accompanying separate financial statements of AB Žemaitijos pienas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Žemaitijos pienas and its subsidiaries (hereinafter the Group), which comprise the statements of financial positions as of 31 December 2019, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company and the Group as at December 31, 2019, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public – interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Inventory net realizable value and allowance for obsolescence

Inventories of the Company and the Group amount to EUR 30 971 thousand and EUR 32 617 thousand, respectively, before impairment allowance and to EUR 30 760 thousand and EUR 32 327 thousand, respectively, after impairment allowance as of 31 December 2019 (Note 9). This is significant to our audit since it is a material figure for the Company and the Group comprising 26 % or the Company's and 26 % the Group's total assets, and requires management judgment in assessing whether the carrying value of some inventories is not higher than their net realizable value at the balance sheet date. There is also management judgment required in determining the inventory obsolescence allowance, as it is based on management's assessment of historical and forecast of particular inventory sales, physical obsolescence rates and other relevant factors.

Among other audit procedures, we have gained an understanding of how management evaluates inventory net realizable value and calculates allowance for obsolescence. We have reviewed the calculations of inventory net realizable value, which was performed by the management of the Company and the Group based on review of subsequent sales after the year-end. We have also tested the ageing of the inventories and the computation of the obsolescence level. Further, we have also analyzed various obsolescence related information and management's forecast of future sales, applied in the calculations of impairment allowance. Finally, we have evaluated the adequacy of the Company's and the Group's disclosures included in Note 9.

Assessment of the recoverability of a related party receivable

As of 31 December 2019, the Company / Group had a receivable from related party Čia Market UAB of EUR 2 668 thousand (31 December 2018 – EUR 2650 thousand) before impairment, and the impairment allowance recorded for it of EUR 265 thousand (31 December 2018 – EUR 339 thousand) as of 31 December 2019 (Note 10). Even though the Company / Group has been and continues trading with this company for a number of years, there is an ongoing uncertainty over the collectability of the receivable balance from this specific customer, because the financial position of Čia Market UAB has not been strong for several years, it has been periodically late with payments due to the Company / Group. We believe that this is a key audit mater due to the high individual amount materiality level and also because the determination as to whether this receivable is recoverable and the assessment of the appropriate level of allowance for it involves significant management judgment.

Among other audit procedures, we have reviewed historical payment patterns by Čia Market UAB, the amount of payments that have been received subsequent to year end, the information available to the Company / Group about the historical and latest financial position and results of operations of this company, as well as management's assessment of the anticipated time over which the outstanding amount is expected to be repaid, and the related present value estimates that are the basis for the allowance assessment. We have also assessed the adequacy of the Company's / Group's disclosures included in Note 4 in relation to the management's key judgments and estimates related to assessing the recoverability of and related allowance for this receivable as of the year-end (Note 10).

First year audit

This is the first-year audit for Grant Thornton Baltic, UAB. Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include, among others:

- Gaining an initial understanding of the Company / Group and their business including their control environment and information systems sufficient to make audit risk assessments and develop the audit strategy and plan;
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and
- Communicating with the previous auditors.

After being appointed as the Company's / group's auditors in 2019, we developed an appropriate audit strategy and audit plan for this initial audit engagement. These included, but were not limited, to:

- Obtaining an initial understanding of the Company / Group and their business including background information, strategy, business risks, IT systems used and their financial reporting and internal controls framework, to assist in performing risk assessment procedures;
- Obtaining sufficient appropriate audit evidence regarding opening balances and the appropriateness of selection and application of key accounting policies;
- Close interaction with the previous auditors regarding key accounting and audit matters, as well as the audit procedures performed by them in the key financial statements' areas;

- Discussions with the management and relevant other employees of the Company / Group and the Audit Committee, to understand their perspectives on the business, identified key risks and other areas of the importance

Other matter

The financial statements of the Company and the Group for the year ended 31 December 2018 were audited by another auditor who expressed a qualified opinion on the Company's financial statements and the Group's consolidated financial statements on 15 March 2019.

Other information

The other information comprises the information included in the Group's annual report, including Company's Corporate Governance Code Compliance Report and Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as specified below.

In connection with our audit of the separate and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the Group's consolidated annual report, including Corporate Governance Code Compliance Report, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Group's consolidated annual report, including Corporate Governance Code Compliance Report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Group's annual report, including Corporate Governance Code Compliance Report, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the separate and the consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and the consolidated financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and Business Accounting Standards/International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's responsibilities for the audit of the separate and the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and the consolidated financial statements, including the disclosures, and whether the separate and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the separate and the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the decision made by shareholders meeting on 7 June 2019 we have been chosen to carry out the audit of Company's financial statements and Group's consolidated financial statements. Our appointment to carry out the audit of Company's financial statements and Group's consolidated financial statements in accordance with the decision made by shareholders meeting has been renewed every two years and the period of total uninterrupted engagement is 1 year.

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Arvydas Ziziliauskas.

Auditor
Arvydas Ziziliauskas
March 16, 2020
Goštauto g. 40B, Vilnius

Auditor's certificate No. 000467
Grant Thornton Baltic UAB
Audit firm certificate No. 001445

(All amounts in EUR thousands unless otherwise stated)

CONSOLIDATED AND COMPANY'S ANNUAL REPORT

1. GENERAL INFORMATION

Reporting period for which the Report is developed

Consolidated annual report and financial statements are prepared and submitted for the year 2019. Moreover, the report contains important events after the end of the financial year. The report is submitted under the conditions, requirements and procedure established in legal acts, as well as in accordance with the incorporation documents of the Issuer and associated company and other legal acts.

This document refers to AB "Žemaitijos pienas" (hereinafter referred to as the Company or Issuer), ABF "Šilutės Rambynas" (hereinafter referred to as the Group Company or Associated Company), and in cases when facts on both Companies are described and/or specified, the Companies shall refer to as the Enterprises of the Group or the Companies of the Group.

Brief history of the Company

The beginning of AB "Žemaitijos Pienas" dates back to 1924, when Telšiai dairy plant of high capacity was incorporated. In the end of 1984 Telšiai dairy plant activity moved to new premises and operated until opening and privatization of Telšiai cheese plant which was one of the largest in the Baltic States. AB "Žemaitijos pienas" was registered in the Register of Legal Entities on 23 June 1993 in Telšiai District Board and on 16 October 1998 it was re-registered in the Ministry of Agriculture of the Republic of Lithuania.

On 1 May 2004 under the decision of the General Meeting of Shareholders, the Company was reorganized by way of division, separating a part of assets, rights and obligations and establishing AB "Žemaitijos Pienas Investicija". On 18 December 2019 upon the decision of the General Meeting of Shareholders the Company was reorganized by merging with the Public Limited Liability Company "Baltic Mineral Water Company".

Basic data on the Company

Name	AB ŽEMAITIJOS PIENAS
Legal form	Public Limited Liability Company
Company code	180240752
VAT number	LT802407515
Authorised capital	EUR 14 028 750
Office address	Sedos Str. 35, Telšiai, Lithuania
Telephone	+ 370 444 22201
Fax	+ 370 444 74897
E-mail	info@zpienas.lt
WEB	www.zpienas.lt
ISIN number	5299005U9E85Y55OHK45

Data on AB "Žemaitijos pienas" are collected and stored in Telšiai Office of the Department of Legal Entities of the Service for management of Registers of Entities of the Centre of Registers.

Goals and nature of the main activity of the Company

Seeking for benefit for themselves and their shareholders, the Companies of the Group are engaged in economic and commercial activities (production, sale, provision of services, etc.). Goals of the activities are the organization and pursuing of the activities prescribed by the Articles of Association for the purpose of earning income and profit, satisfying the property interests of the shareholders and the interests of the employees.

Main activities of the Company are development, production (NACE: 10.5. Manufacture of dairy products; 10.51. Operation of dairies and cheese making) and sale of dairy products (fermented cheese and cheese products, pre-packaged cheese and cheese products, processed cheese and cheese products, cream, cream cheese, butter, dairy spreads, mixed spreads, milk fat, pasteurised cream, buttermilk, whey, dried milk products, fresh dairy products (milk, cream, curd, cheese products, yoghurt, desserts, curd cheese, glazed curd cheese, and fermented dairy products)) in Lithuanian and foreign markets.

Information of the Associated Companies and branches

ABF "Šilutės Rambynas" - a controlled company – managed by the Company:

Name	ABF "Šilutės Rambynas"
Legal form	Public Limited Liability Company (Firm)
Registered in the Register of Legal Entities on	09/12/1992
Company code	277141670
VAT number	LT714167015
Authorised capital	EUR 2 493 028.50
Office address	Klaipėdos Str. 3, Šilutė, Lithuania
Telephone	+ 370 441 77442
Fax	+ 370 441 77443
E-mail	info@rambynas.lt
WEB	www.piknik.lt

Main activities of ABF "Šilutės Rambynas" are the production and sale of fermented cheese and cheese products, as well as the production and sale of pasteurized cream, pasteurized whey and concentrated whey (NACE: 10.5. Manufacture of dairy products; 10.51. Operation of dairies and cheese making). Moreover, the company provides lease, transportation, storage services, services related to servicing of milk-buying points and other services.

In September 2019 AB "Žemaitijos pienas" acquired 100 per cent shares of UAB "Baltijos mineralinių vandenų kompanija", which until the end of the year was considered an associated company.

AB "Baltijos mineralinių vandenų kompanija" - a controlled company – managed by the Company:

Name	AB "Baltijos mineralinių vandenų kompanija"
Legal form	Public Limited Liability Company
Registered in the Register of Legal Entities on	20/01/1999
De-registered from the Register of Legal Entities on	**10/01/2020**
Company code	141763534
VAT number	LT 417635314
Office address	Mažeikių Str. 4, Telšiai
Authorised capital	EUR 2 100 000
Number of shares	70 000 pcs.

Nominal value of one share	EUR 30
Class of shares	Ordinary registered shares
Type of shares	Intangible shares
ISIN cvode of shares	LT0000115685

On 31 December 2019 AB "Žemaitijos Pienas" successfully completed the reorganization process, during which AB "Baltijos mineralinių vandenų kompanija" was merged with the Company. The main activities of the controlled company were the production and sale of soft drinks. These activities are continued by the Company from 1 January 2020.

By incorporating well-known trademark "Tichė" and other trademarks of AB "Baltijos mineralinių vandenų kompanija" into the range of already existing products, AB "Žemaitijos pienas" will be able to successfully develop popularity of these trademarks by using its contacts, skills and experience in Lithuanian and foreign markets thereby increasing the Company's income.

Detail information on the acquisition of UAB "Baltijos mineralinių vandenų kompanija" is provided in Chapter 21 "Business Combinations" of the Explanatory Note of the Consolidated Financial Statements.

Branches of the Company

Branches of AB "Žemaitijos Pienas" fulfil the functions related to sale of goods (dairy products) within the set territory of the branch and take other actions or fulfil orders of the Company.

Branches of the Company:

- Vilnius Branch, address: Algirdo Str. 40/13, Vilnius
- Kaunas Branch, address: Europos Ave 36, Kaunas
- Telšiai Branch, address: Sedos Str. 35, Telšiai
- Panevėžys Branch, address: J. Janonio Str. 9, Panevėžys

On 21 November 2019, the name and registered office of Klaipėda Branch changed in the Register of Legal Entities and the legal entity became Telšiai Branch, registered office at Sedos g. 35, Telšiai.

AB "Žemaitijos pienas" has no representative offices. ABF "Šilutės Rambynas" has no branches or representative offices.

II. INFORMATION OF THE ISSUER`S SALE OF SECURITIES IN THE REGULATED MARKET

Contracts with intermediaries of public trading in securities

On 16 July 2004 the Company concluded a contract with AB "Šiaulių bankas", under which management of securities accounts of the Company was delegated to AB "Šiaulių bankas" as of 23 July 2004.

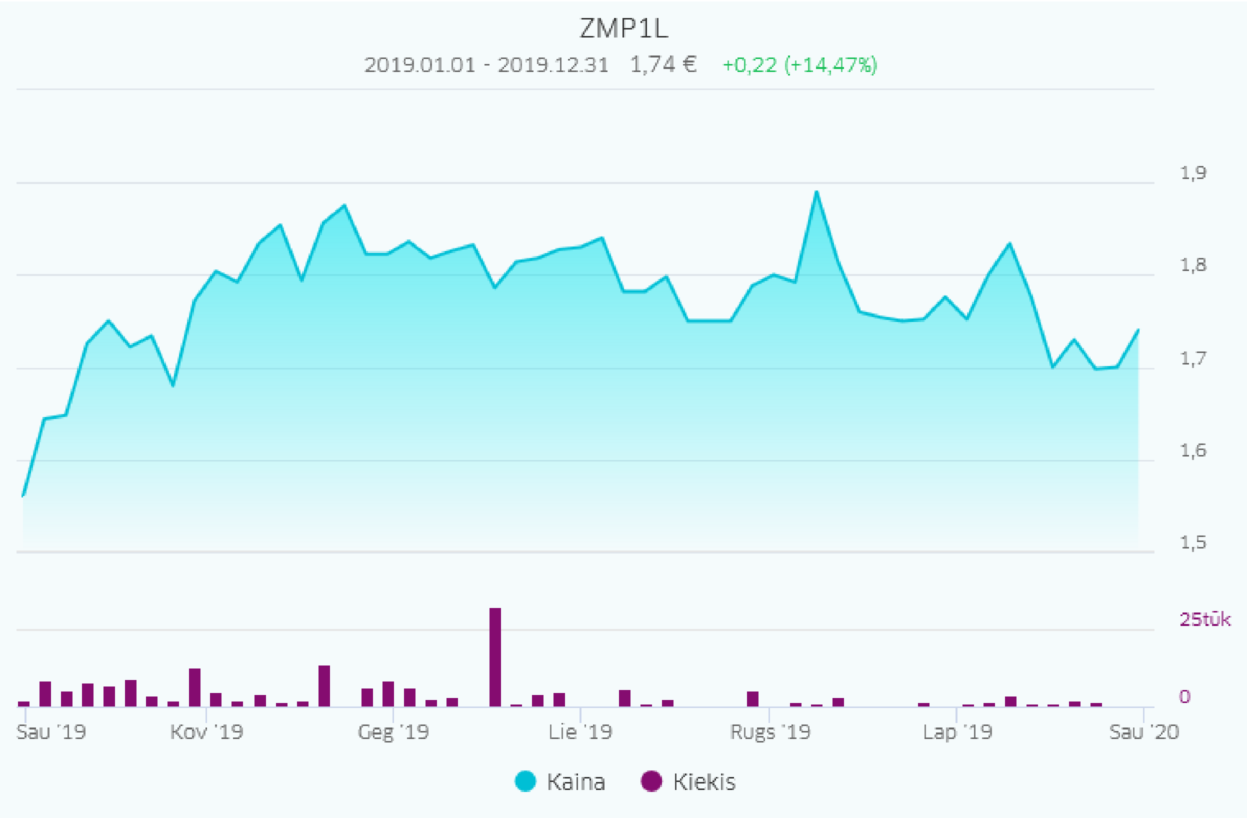
The register (accounting) of securities of ABF "Šilutės Rambynas" is kept by AB "Šiaulių bankas" under the contract as of 16 July 2004.

Data on securities and sale of securities

AB ŽEMAITIJOS PIENAS	
ISIN number	LT0000121865
Abbreviation	ZMP1L
List/segment	BALTIC SECONDARY LIST
Nominal value	EUR 0.29

Name of securities	Ordinary registered shares
Issued number (pcs.)	48 375 000
Listed issued number (pcs.)	48 375 000
Listing start date	13/10/1997
Shares listed in supplementary list	13/10/1997
Total number of voting rights granted by shares	48 375 000
Number of shares held by the Company	3 416 763

Only the shares issued by the Company are quoted on the supplementary list of "NASDAQ OMX Vilnius" (hereinafter referred to as Vilnius Stock Exchange) (Ticker symbol: ZMP1L). Securities of AB "Žemaitijos pienas" were listed for the first time at Vilnius Stock Exchange on 13 October 1997. ISIN code of the securities (ZMP1L): LT0000121865. Below one can find the information on the transactions carried out at Vilnius Stock Exchange with AB "Žemaitijos pienas" shares over the course of 2019 and price change dynamics[1].



During the sale (reporting) period the price of the Company`s securities in the public trade market changed slightly and increased from 1.56 EUR / pcs. (beginning of the reporting period) up to 1.74 EUR / pcs. (end of reporting period) and the price change was - 14.47 per cents (see diagram above).

The results of sale of securities (purchase and sale prices of the Company`s securities) demonstrate that the capitalization of the Company's shares during 2019 amounted to more than 84.17 million Euros. It should be noted that in 2018 this indicator was 72.56 million Euros. In 2019 only 194 835 shares of AB "Žemaitijos

1 http://www.nasdaqbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt&currency=0&date=&start=2017.01.01&end=2017.01.31

Pienas" were sold on the Vilnius Stock Exchange, and this indicator was significantly lower than in 2018, when the turnover was 412 420 shares.

Below one can find the information of sale of securities of the Company in 2016-2020.

Price	2016	2017	2018	2019	2020
Opening price €	0.64	1.07	1.74	1.52	1.74
Max €	1.15	1.99	2.16	1.89	1.8
Min €	0.617	1.07	1.42	1.51	1.7
Final price €	1.07	1.74	1.5	1.74	1.79
Turnover pcs.	6 213 064	521 664	412 420	194 835	4 114
Turnover €	6.4	0.82	0.71	0.35	0.01
Capitalization €	51.76	84.17	72.56	84.17	86.59

It should be noticed that sale of the Issuer`s securities at other stock exchanges and in other organised regulated markets was not carried out.

ABF ŠILUTĖS RAMBYNAS	
ISIN number	LT LT0000109217 LT 0000118945 LT 0000125668
Nominal value	EUR 2.90
Name of securities	Ordinary registered shares
Issued number (pcs.)	859 665
Listed issued number (pcs.)	Not listed
Total number of voting rights granted by shares	859 665
Number of shares held by the Company	0

ABF "Šilutės Rambynas" does not sell the shares at Vilnius Stock Exchange Market and other organised regulated markets. ABF "Šilutės Rambynas" does not hold securities of AB "Žemaitijos pienas".

Authorised capital

Data on authorised capital of AB "Žemaitijos pienas" available by 31 December 2019:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Authorised capital share (%)
Ordinary registered shares [2]	48 375 000	0.29	14 028 750	100

All shares of the Company are fully paid up and were not the subject to restrictions on stock reassignment (in so far as the Issuer knows) over the course of the reporting period. The Issuer is unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and (or) voting rights. According to the data available to the Company there are no shareholders who would have special control rights.

[2] Ordinary registered shares shall mean ordinary shares of the Company that grant no special privileges nor impose any restrictions on rights. These are company share Capital shares whose owners (shareholders) become members of the Company who have the right to vote in annual meetings, receive dividends from Company profits as well as have other rights and obligations provided for in the laws.

Data on authorised capital of ABF "Šilutės Rambynas" available by 31 December 2019:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Authorised capital share (%)
Ordinary registered shares	859 665	2.90	2 493 028,50	100

All ABF "Šilutės Rambynas" shares are fully paid up and are subject to no restrictions on stock reassignment (in so far as the Issuer knows). The Issuer is also unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and (or) voting rights. According to the Company's knowledge there are no shareholders who would have special control rights.

Acquisition and disposal of own shares

During the financial year 2011, AB "Žemaitijos Pienas" purchased 10 ordinary registered shares of AB "Žemaitijos pienas" in the public offering market through NASDAQ OMX Vilnius Stock Exchange, nominal value of LTL 1 (one) Litas (EUR 0.29), for LTL 18.00 (EUR 5.21). In December 2012 at NASDAQ OMX Vilnius Stock Exchange, the Company purchased 1 360 010 shares on the basis of an order for the amount of LTL 2 992 000 (EUR 86 6543.10). The Company bought 710 611 own shares during 2013.

On 25 June 2018 the Company purchased 62 223 shares and on 23 July 2018 - 34 827 shares. On 27 May 2019 the Company purchased 89 596 shares for EUR 165,752.60, on 11 June 2019 - 23 963 shares for EUR 43,133.40 and on25 June 2019 the Company purchased 1 075 976 own shares for EUR 1,990,555.60. The Company now owns 3 416 763. (7.06%) own shares. One of the reasons that led to the purchase of own shares is the opportunity to transfer these shares to the Company's employees and thereby encourage them to create maximum added value for the Company and its shareholders.

Official offers and purchases of own shares within the period from **01/01/2000** to **31/12/2020**.

No.	Abbreviation	Purchased	Min purchase	Start	End	Offered	price[3]	Number	Turnover	Transf. (%)	Currency
1.	ZMP1LTO2	1 176 470	1	2010.12.20	2011.01.18	10	1,7	10	17	100	LTL
2.	ZMP1LTO3	1 000 000	1	2011.08.22	2011.09.20	-	1,8	-	-	-	LTL
3.	ZMP1LTO4	1 360 000	1	2012.11.02	2012.12.14	3 777 532	2,2	1 360 000	2 992 000	36	LTL
4.	ZMP1LTO5	1 000 000	1	2013.03.25	2013.03.28	710 611	2,2	710 611	1 563 344,2	100	LTL
5.	ZMP1LOS	2 766 879	1	2016.07.04	2016.08.02	-	0,67	-	-	-	EUR
6.	ZMP1LOS1	742 857	1	2018.06.12	2018.06.25	62 223	1,75	62 223	108 890,25	100	EUR
7.	ZMP1LOS2	742 857	1	2018.07.09	2018.07.23	34 827	1,75	34 827	60 947,25	100	EUR
8.	ZMP1LOS3	742 857	1	2018.08.20	2018.09.03	59 557	1,75	59 557	104 224,75	100	EUR
9.	ZMP1LOS4	540 540	1	2019.05.06	2019.05.27	89 596	1,85	89 596	165 752,6	100	EUR
10.	ZMP1LOS5	300 000	1	2019.06.04	2019.06.11	23 963	1,8	23 963	43 133,4	100	EUR
11.	ZMP1LOS6	1 100 000	1	2019.06.18	2019.06.25	1 075 976	1,85	1 075 976	1 990 555,6	100	EUR

Shareholders of AB "Žemaitijos pienas" have set the main objectives of the share purchase - (i) to ensure the opportunity for the shareholders to sell the shares in order to increase, maintain and / or stabilize the liquidity of the Company`s shares; (ii) increase, maintain and / or stabilize the market price of the Company`s shares;

[3] Share price - the price of one share if paid in cash. In the case of a securities payment or a combination of securities and cash, the sum of the market prices of each securities paid for the shares at the date of the offer and the product of the quantity of the securities plus a premium.

(iii) be able to allocate their own shares for the purpose of promoting the Company`s employees in order to contribute to the better performance of the Company and sell them to Company employees other than employees who are members of the Company`s Supervisory Board or Board, Shareholders of the Company; (iv) be able to use their own shares in potential exchanges related to the Company`s acquisition or sale of shares in other companies; (v) in order to hold a reserve of their own shares which, if necessary, may be used for any of the following purposes (or one or more of them) by decision of the Board of the Company.

The company has not disposed any of its shares during the reporting period and has not entered into any other transactions, e.g. no shares were pledged and no rights granted by the shares were any way restricted, the shares are not the subject to any disputes or claims.

ABF "Šilutės Rambynas" has not purchased any of its shares and owns none thereof under any other circumstances.

Information on harmful transactions

During the reporting period, no harmful transactions, which would not comply with the Issuer`s objectives or violate the rights or interests of the shareholders, were concluded by AB "Žemaitijos Pienas".

III. OVERVIEW AND PERSPECTIVES OF ACTIVITIES OF THE GROUP OF COMPANIES

Product safety and international acknowledgement

One of the main goals of the Group of Companies is to provide high quality and safe products. Realising the goals, in 2019 AB "Žemaitijos pienas" was assessed according to the requirements of international standards for food safety and quality management and compliance with such requirements[4].

In 2019 the Company continued paying special attention to the needs of 'niche' export markets and to the production of products intended for these markets, as well as to their assessment and certification for Islamic (Halal) and Jewish (Kocher) requirements:

1. In September 2019 "Total Quality Halal Correct Certification" (Netherlands) auditors successfully audited processes of production of powdered dairy products, cheese and butter and issued "Halal" Certificate.
2. In May 2019 and November 2019 "Orthodox Union Kosher Certification Centre" (Israel) auditors successfully audited processes of production cheese-butter, powdered dairy products and raw milk products and issued "Kosher" Certificate.

The Company was also assessed in accordance with the requirements of international standards for food safety and quality management:
1. In January 2019 auditors of UAB "Bureau Veritas" carried out an audit of all processes of AB "Žemaitijos Pienas" according to the requirements of BRC 7 revision.
2. In March 2019 auditors of UAB "Bureau Veritas" carried out an audit of all processes of AB "Žemaitijos Pienas" according to ISO 22000 "Food Safety Management System. Requirements for any organization in the food production chain" + ISO / TS 22002-1 "Food Safety Essentials. Part 1: Food production and additional requirements under FSSC 22000".
3. In October 2019 auditors of UAB "Bureau Veritas" carried out an audit of all processes of AB "Žemaitijos Pienas" according to the requirements of BRC 8 revision.

Audit conclusions - the Company complies with the requirements of certified standards. The audits were carried out without prior approval of the audit date and schedule. The Company has met the requirements of the above international food safety standards, which are recognized by the International Food Safety Initiative (GFSI).

[4] Audits performed confirm that the produced products are of high quality and meet all international quality standards, they can be sold at all markets worldwide.

In 2016 the Company signed a contract with National Paying Agency regarding assignment of support within the scope of the "Investments in processing of agricultural products, in marketing and (or) development" field of activities under Lithuania`s 2014-2020 Rural Development Program measure "Investment in tangible assets". In the first half of 2019 the Company successfully completed all remaining investments related to the EU support, achieved targets and indices, and even exceeded some.
The main objective of the investments was to increase the Company`s competitiveness, solve environmental problems, improve quality of products and working conditions and safety of employees. The main investments were directed to fresh milk products division and logistics. Investments were also made to improve product quality, occupational safety and the technical level of equipment, considering complex workplaces, reducing pollution discharged into wastewater and efficient use of energy costs. The aim was also to ensure that equipment and technological processes would meet customer expectations and that the end product would be safe for the customer and of high quality.

Products and trademarks

Vision of AB "Žemaitijos pienas" in 2019 – by creating tasty and unique products to foresee future needs of customers today. Represent Žemaitija Region all over the world. Be attractive for employees, public and environment. Mission of the Company in 2019 - seeking for leader positions in Lithuanian dairy product market the Company follows a priority to produce only high quality, healthy and safe products, which would become the standard of exclusive taste for even the most eager customers and thus develop the consumers` habit of choosing products with the brand "Žemaitijos pienas" only. We are constantly seeking not to disappoint our customers` expectations, to seek new markets, not only by establishing excellent products, services and other developments, but also by attracting professionals who represent the interests of the Company in cooperation with our customers and market partners. Continuously create added value for a Customer and Company, by keeping existing Customers and attracting new ones while ensuring the highest quality of products.

Following the chosen strategy and implementing the tasks set, in 2019 AB "Žemaitijos Pienas" got a lot of awards and was evaluated not only in Lithuania, but also abroad.

Since 2009, AB "Žemaitijos Pienas" products have been among the winners of the competition "Most Popular Product" organized by the Lithuanian Trade Association (LPEA). "Magija Vanilla" glazed curd cheese has been recognized by buyers for 10 years as a favourite cheese, "Džiugas" grated cheese - for 7 years, and "Pik-Nik Classic" cheese strings 280 g - for 6 years, "Žemaitijos pusriebė" curd, 9% - for 6 years, mixed fat spread "Saulutė", 72%, 200 g - for 3 years, and "Žemaitijos" butter, 82 %, 200 g - for 1 year. Such ratings further encourage AB "Žemaitijos Pienas" to improve and delight its customers with perfect product quality and innovation.

In May 2019 at the "Business Brand Awards 2019" organized by "Verslo žinios", the jury awarded "Džiugas" brand with a diploma "For tradition and long-term work".

In 2019, at the Duma Serowara competition in Poland (Warsaw), the gold medal in the "GOOD CHEESE" cheese category was awarded to 36 month "Džiugui Gourmet", 180 gr. Moreover, in the Baltic Branding Competition held in Latvia in 2019 "Džiugas" was recognized a unique brand in the Baltic States in terms of its reputation and marketing strategy.

On 3 June 2019 an exhibition of the finest cheeses took place in Rome, Italy - the "Premio Roma" competition with real Italian cheeses, while only Spain and Lithuania with hard cheese "Džiugas" represented foreign countries. AB "Žemaitijos pienas" presented 100 months or 8 years matured "Džiugas Special Aged" to the jury and visitors. "Džiugas" hard cheese won the highest prize in the innovation category - the gold medal. This once again proves that this cheese is among the world leaders and can bring innovations and surprises that the world does not yet know.

In June 2019 the European Commission has granted "Džiugas" cheese with the status of protected geographical indication. To give the product a protected indication sign justifying its direct connection with a particular geographical region and distinguishing it from products produced in other areas. The product of the guaranteed traditional category must be produced by a traditional production method which has been passed on for at least 30 years or from traditional raw materials. Evidence must include: historical sources, technological documentation or other information. The link between "Džiugas" cheese and its geographical area is based on the reputation of the product, the masters` experience and the legend. The received indication sends a signal to the consumer that what he or she has taken into hands is a special, exceptional and high quality product that constitutes product confidence, adds value and helps manufacturers of regional specific products remain competitive in the market.

In 2019 September Quality Food Fest (Lithuania) was organized by VšĮ "Sveikatai palankūs". During this Fest "Džiugas" cheese won in the category of products with the EU protected indications.

In 2019 the Company participated in various arrangements: Wine Festival in Hungary (Budapest), Wine and Cheese Festival in Poland (Katowice), International Food and Beverage Exhibition Anuga 2019 in Germany (Cologne), Gourmet Product Fair in Savim, France (Marseille). The purpose of participating in exhibitions and arrangements is to present the Company, its products, meet potential and existing customers, expand the number of target shelves, range and teach customers to use the Company`s products.

In summer 2019 the Company implemented a project in children's summer camps all over Lithuania. 52 camps in the Baltic States for about 20 thousand children were organized. In 2019 not only Klaipėda, Telšiai, Vilnius, Panevėžys and Kaunas branches carried out a fun educational program for children, children from camps in Latvia and Estonia could also enjoy the educational programs of AB "Žemaitijos pienas".

The Company continues the tradition and commemorates "Džiugas" day on the first Friday of May each year. In 2019 "Džiugas" day has been held for the 17th time already. Network owners, shoppers, journalists from Poland, Germany, France, United Kingdom and Azerbaijan visited "Džiugas" assessment and certification festival.

Improvement and target orientation predetermine the opportunities to provide the consumers with new products. New products of 2019:

- Mixed fat spread Saulutė with onion, 100 g;
- Mixed fat spread Saulutė with baked hemp seeds, 100 g;
- Melted butter Saulutė Golden Ghee, 500g;
- Cheese with low salt content Germanto Junior 45 % fat d.m., 150 g (sliced);
- Ecologic kefir Dobilas 2.5 %, 0.9 kg;
- Ecologic natural sour cream Dobilas 30 % fat, 330 g;
- Ecologic drinking yogurt Dobilas with peach 2.2 % fat, 330 g;
- Ecologic drinking yogurt Dobilas with mango and apples 2.2 % fat, 330 g;
- Ecologic drinking yogurt Dobilas with banana 2.2 % fat, 330 g;
- Ecologic yogurt Dobilas with peach, amaranth and linen seeds 2.5-3.0 % fat, 300g;
- Ecologic yogurt Dobilas with banana and pear 2.5-3.5% fat, 125g;
- Ecologic yogurt Dobilas with pine apple, mango and peach 2.5-3.5% fat, 125g.
- Ecologic cheese Dobilas 45% fat d.m., 150 g;
- Glazed curd cheese Magija Tallinn with blueberry filling, 45g;
- Glazed curd cheese Magija Tallinn with cocoa and caramel, 45g;
- Glazed curd cheese Magija Magija Riga with caramel, 45g.

Therefore, many years of work experience and unique recipes today enable the Company to present to its consumers a wide range of products with perfect taste and high quality.

Existing and potential risk types, their factors and uncertainties, their management in the activities of the Group of Companies

Risks of the group company include: fluctuations in raw milk prices, high competition, restrictions on sales of manufactured products (due to the Russian Federation`s ban on Lithuanian dairy products and other reasons), decreasing population in Lithuania, information security.

One of the main factors causing business risk and operational uncertainties is changes in raw milk prices. Long-term planning of economic activity is particularly difficult in this segment of the business, since the price of raw milk fluctuates not only during the winter and summer period, but also because of unforeseeable significant changes in the prices of purchased milk in the world markets. In order to ensure steady raw milk flows and to balance seasonality, the Company pays various bonuses to milk producers: for long-term cooperation (annual supplements); for higher quality indicators of raw milk; provides long-term loans for farm expansion. Lacks of raw milk are compensated by buying milk in neighbouring countries.

The outcomes of the activities of the Group of Companies are determined by the sales of products, the volume of which directly determines the production potential of the products, which is currently not fully realised. Strong competition of dairy products in the sales markets (local and export markets), applied ban of the Russian Federation on Lithuanian dairy products, low prices for Polish products due to higher production capacity and other reasons lead to restrictions and specific uncertainties in the sales of the Company`s products. The Companies of the Group specialize in the production of fresh dairy products and cheeses, the majority of their income is generated by the sale of these products in the local market, but constantly decreasing Lithuanian population negatively affects the income, profits and general financial situation of the Companies. The risk of decreasing sales is being managed by finding new sales markets and expanding the product range. In strategic countries such as Germany, France, Poland, Hungary, employees of associated companies are looking for new sales niches and are participating in product tastings. The ultimate goal is to supply the product straight to the "shelves" of retail networks.

Another more important risk is that liquidity of receivables is managed through trade credit or other forms of insurance for almost whole export turnover, and customers with higher financial risks are subject to a prepayment system. Moreover, AB "Zemaitijos pienas" has formed an Audit Committee which assesses the kay risks and their factors, makes proposals to the management and monitors their implementation.

The Companies of the Group are constantly looking for modernization of production and cost reduction and seek to avoid or minimize any operational risks.

Financial and other risks and their management are disclosed in more detail in Chapter 29 "Financial Risk Management" of the Explanatory Note to the Annual Audited Report for 2019. Information on the risk extent and risk management - a description of the risk management associated with the financial statements, the risk mitigation measures and the internal control system installed in the Company is provided in the Corporate Governance Report in issue 3. The Company and the Company of the Group have Operational and Product and Executive Liability insurance.

Financial information of the Group of Companies

While comparing the financial results of the Company and the Associated Company with the previous year (2018), the financial results did not change substantially, however, it should be noted that the financial results of 2019 are slightly better and are presented below.

The Company selects the main Standard financial parameters used by many companies when analysing financial data. Main financial indices reflecting activities of the Group and Company in the first half of 2018-2019 are as follow:

Financial indices	Group			Company		
	2019	2018	Change,%	2019	2018	Change, %
Turnover, thousands of EUR	185 550	177 878	**4.31**	184 163	176 799	**4.17**
Gross profitability, %	22.12	20.41	**8.4**	21.73	19.77	**9.9**
Net profitability, %	5.81	6.02	**-3.5**	7.20	5.89	**22.2**
EBITDA, thousands of EUR	17078	12 501	**36,6**	19 408	11 996	**61.8**
EBITDA profitability, %	9,20	7.03	**31,0**	10.54	6.79	**55.2**
ROE profitability, %	12.43	13.2	**-5.8**	16.85	14.69	**14.7**
ROA profitability, %	8.61	9.32	**-7.6**	11.21	9.39	**19.4**
General liquidity ratio	3,12	2.05	**52,2**	2,73	1.54	**77,3**

Quick ratio	1,52	0.95	**60,0**	1,32	0.70	**88,6**
Debt-to-equity ratio	0.44	0.42	**4.8**	0.50	0.56	**-10.7**
Debt ratio	0.31	0.29	**6.9**	0.33	0.36	**-8.3**
Total investment into non-current assets, thousands of EUR	9 371	13 799	**-32.1**	6 400	19 201	**-66.7**

The above indices are calculated using the following formulas:

Gross profitability = gross profit / sales revenue. *Gross profitability (or gross margin) is the ability of a company to earn a profit from its main business, to control the level of sales revenue and cost of sales. The higher the gross margin earned for each euro of sales revenue, the more efficient the company.*
Net profitability = net profit/ sales revenue. *Net profitability ratio is the financial result of a business, one of the most important (if not the most one) size for a business owner. Net profitability, as a ratio of sales revenue and net profit, properly describes ultimate profitability of the company. The monetary value demonstrates the net profit for one euro of sales. A higher value indicates higher profitability of the company.*
EBITDA = Net profit + income tax + interest expense + depreciation and amortisation expenses. *Earnings before interest, taxes, depreciation and amortization (EBITDA) are easily calculated by adding income tax and interest expense to net profit, and the amount of depreciation and amortization. This amount is important to separate the cost of financing an entity's operations and the impact of amortization and depreciation. EBITDA profit is often used near or even in place of cash flow.*
EBITDA profitability = EBITDA / sales revenue
ROE profitability = net profit / equity. *The return on equity (ROE), also known as the index of return on equity, is a measure of the efficiency of use of the funds invested by owners. It helps to decide how to use the funds effectively. It mainly depends on the company's capital structure. ROE shows how much the company management has earned through the use of company capital owned by shareholders.*
ROA profitability = net profit / assets. *Return on Assets (ROA) is a measure of how well the assets are used. Return on assets describes the ability to use all assets in a more profitable manner. It shows the share of total assets recovered in the form of profit. ROA shows how much the company management has been able to earn from the total assets used.*
Gross liquidity ratio = short-term assets / short-term obligations. *General liquidity ratio, also known as current liquidity ratio, shows the company's ability to meet current liabilities with its current assets. It determines how much current assets exceed liabilities. It defines the company's ability to meet current liabilities using current assets. The value shows how much current assets cover a single euro of current liabilities.*
Quick coverage (solvency) ratio = (current assets - inventories) / current liabilities. *Critical liquidity ratio, also known as quick coverage ratio, shows the company's ability to use promptly (quickly) selling current assets to meet current liabilities, which is why reserves as subtracted from the current assets as low-liquidity assets. It determines how much the most liquid assets exceed current liabilities. Critical liquidity determines the company's ability to meet current liabilities using its most agile (quickly monetizable) assets.*
Debt-to-equity ratio = sums payable and liabilities / equity. *Debt-to-equity ratio, also known as leverage ratio, shows how much debt there is for each euro of equity. This parameter is also used as an indicator of the Capital structure and financial leverage group. In this case, in contrast to the gross solvency ratio, the higher the value of the ratio, the worse the company`s solvency position.*
Debt (indebtedness) ratio = sums payable and liabilities / assets. *Indebtedness ratio, also known as debt ratio, shows how much debt there is for each euro of assets. The lower the value of this parameter, the more the assets cover the debts, which is why banks and other creditors value low debt ratio. This parameter is also used as an indicator of the capital structure and financial leverage group.*

Calculating financial indices for 2019 and in 2018, all changes in the statement on financial position were assessed in accordance with IBAS 16 specifying the amount of depreciation and amortization in the calculations, depreciation of support received and depreciation of managed assets were assessed.

Net profitability of the Company in 2019 compared to 2018 increased from 19.77% to 21.73%. Gross profit increased in 2019 due to lower average purchase price of raw material. Gross profitability of the Group increased in 2019 by a smaller percentage, as ABF "Šilutės Rambynas" gross profit in 2019, comparing with 2018, decreased due to unfavourable situation in the world dairy market, wages, increase of fuel costs.

Increase in gross profit of the Company reflects the Company`s ability to earn profit from operating activities and the ability of the managers to sell the products manufactured by the Company and the Group, and the appropriate orientation of the price competition policy, growth of production efficiency.

Calculating net profit, all expenses of the Company and the Group, even those that may not be related to direct activities or may be single, are estimated, as well as expenses, such as accruals, depreciation, etc. Net profit of the Company for 2019 has grown due to the sale of real estate to ABF "Šilutės Rambynas". ABF "Šilutės Rambynas" used the real property for many years by leasing from the Company. The property was sold for the purpose of keeping all the real property in Šilutė in one balance sheet, i.e. so that there would be one owner. Net profit of the Group increased slightly. The net sales profitability ratio reflects the true profitability of sales, considering all income and expenses.

EBITDA of the Company in 2019 increased by 62% compared to 2018; EBITDA of the Groups in 2019 increased by 37%.

Gross liquidity ratios of the Company and the Group for the year 2019 are higher than they were in 2018, because the entire loan balance to the bank by 31/12/2018 was included into short-term liabilities of the Company for 2018. Although the loan was granted until June 2023, but due to failure of some non-financial indicators (investment in non-current tangible assets) to the Bank, the Company moved the loan balance from non-current liabilities for 2018 to current liabilities. In 2018 gross liquidity ratio of the Company was 1.54, compared to 2.73 in 2019. In 2018 gross liquidity ratio of the Group was 2.05, compared to 3.12 in 2019. Gross liquidity ratio is the number of times current assets of the company exceed its current liabilities. The most acceptable change of the indicator is in the range of 1.2-2.0. The ranges of the intervals vary in industrial sectors.

In 2019 quick coverage (solvency) ratio of the Company and the Group increased compared to 2018 for the same reasons as the gross liquidity ratios. In 2018 quick coverage (solvency) ratio of the Company was 0.70, and in 2019, respectively – 1.32. In 2018 quick coverage (solvency) ratio of the Group was 0.95, and in 2019 – 1.52. Quick coverage (solvency) ratio is an indicator of whether a company could quickly pay off its current liabilities from its mobile (potentially cash) assets. Normal value is from 0.5 to 1.5, value below 0.5 is considered unsatisfactory.

In 2019 debt-to-equity ratio of the Company and the Group changed insignificantly, compared to 2018. Debt-to-equity ratio, otherwise known as financial dependency ratio, reveals capital structure of a company. This occurs by comparing the company's debt with the company`s equity. This solvency ratio is close to the gross solvency ratio (constant solvency ratio), the only difference being that it is inverse, i.e. the numerator and the denominator change their places. As a rule, if the value of the indicator does not differ significantly from the unit, then the company`s financial position is considered normal, the value at 0.5 is good. It should be noted that the interpretation of the meaning of this indicator is highly dependent on the economic sector in which the company operates. For example, in industries that require large capital investments, even the value of 2 can be considered good.

In 2018 debt ration of the Company was 0.36, compared to 0.33 in 2019. In 2018 debt ration of the Group was 0.29, compared to 0.31 in 2019. This indicator shows the proportion of borrowed funds used in the formation of company assets. The lower value of this indicator is considered better because the company is considered less risky.

Whereas the company had financial liabilities in 2019, the Company calculated the *interest coverage ratio*. Interest servicing ratio - a financial indicator that compares EBIT profit of a company with interest expense. This ratio indicates the ability of the company to pay off its debts. The lower the ratio, the lower the position of the company is. The higher the ratio, the easier it is for the company to cope with its financial leverage. An interest coverage ratio close to or below 1 would signal a critical situation for the company. The interest rate is calculated as follows:

Interest ratio = EBIT / Interest expense.
In 2019 interest (coverage) ratio of the Company is over 100 and the interest (coverage) ratio of the Group for the year 2019 is 90.

In 2019 operating expenses the Company (27.68 million euros) accounted for 15.03 % of turnover, when in 2018 (26.2 million euros) it was 14.82 % of turnover. Turnover of the Company increased by 4.17 % and operating expenses of the Company grew up by 5.65%. Wage costs and marketing costs, which grew up in 2019, make up the largest percentage in operating expenses. In 2019 operating expenses of the Group (29.2 million euros) accounted for 15.71 % of net sales, while in 2018 (26.8 million euros) accounted for 15.1 % of net sales.

AB "Žemaitijos pienas" economic indices

Comparison of amounts and prices of raw milk purchased by AB "Žemaitijos pienas" **Company** in 2018 and 2019:

Purchase of raw milk (recalculated to basic indices *)	2019	2018	Difference between 2019 and 2018, %
Amount of purchased milk, thousands of tons	404	386	4,66 %
Milk purchase price, EUR/t	244	256	-3,56 %

* Milk purchased is recalculated to the basic using an appropriate factor calculated from the content of fat and protein.

AB "Žemaitijos Pienas" has been paying farmers a competitive price for high quality milk production for many years. In 2019 average amount of natural milk purchased in 2019 was 404thousand tons, it is 4.66 per cent more than in 2018 (in 2018 - 386 thousand tons). In 2019 average price of the purchased milk was 244 EUR/t, it is 3.56 per cent lower than in 2018 (In 2018 average price of the purchased milk was 253 EUR/t). The increase in raw milk purchase is related to the expansion of dairy farms. In 2019 the decrease of the price of raw milk purchased was influenced by the decrease of milk fat value in the world market, whereas the value of raw milk protein started to rise only in the end of 2019. In 2019 average price of raw milk purchased was 303.3 EUR/t and it is 2.66 per cent lower than in 2018 (In 2018 average price of raw milk purchased was 311.6 EUR/t). AB "Žemaitijos Pienas" for many years based its activities with milk producers on a fair partnership and promoted the owners of farms reaching the best milk quality indicators. Associated Company ABF "Šilutės Rambynas" does not buy raw milk directly from dairy farms, as it buys raw milk from AB "Žemaitijos pienas".

In 2018-2019 distribution of the products sold by AB "Žemaitijos pienas" by product type was as follows:

Name of the group of products	Turnover, thousand euros		Difference between 2018 and 2019, %
	2019	2018	
Fermented and processed cheese	82 736	73 246	12,96 %
Fresh milk products	59 535	56 825	4,77%
Butter and mixed fat spreads	15 087	15 028	0,39%
Dry milk products	14 108	12 799	10,22%
Other products	12 697	18 901	-32,82%
Total	**184 163**	**176 799**	**4,17%**

In 2018-2019 distribution of the products sold by AB "Žemaitijos pienas" **Group** by product type was as follows:

Name of the group of products	Turnover, thousand euros		Difference between 2018 and 2019, %
	2019	2018	
Fermented and processed cheese	85 921	76 207	12,75%
Fresh milk products	59 776	57 006	4,86%
Butter and mixed fat spreads	15 087	15 028	0,39%
Dry milk products	14 108	12 799	10,23%

Other products	10 658	16 839	-36,71%
Total	**185 550**	**177 878**	**4,31%**

In 2019 sales of AB "Žemaitijos Pienas" amounted to 184 million euros (184 163 thousand euros). That is 4.17 per cent more compared to 2018 (in 2018 sales amounted to 176.799 thousand euros).

Other products include sales of raw milk, raw cream, kastinys, water products and ice cream. Comparing 2019 with 2018 sales of other products decreased by 32.82 per cents. This was influenced by the fall in the price for raw cream. The decrease in turnover was also influenced by the failure to sell raw milk to the Polish market and the decrease of sales of mineral water and lemonade to the Lithuanian market.

Sales of fermented and processed cheeses, comparing 2019 with 2018, increased by 12.96%. Sales of weighed fermented cheeses, Pik Nik cheeses and grated cheeses increased in 2019.

AB "Žemaitijos pienas" sales by geographic segments (secondary segments) in 2018-2019:

Sales by geographic segments	Turnover, thousand euros		Per cent from total income	
	2019	**2018 m**	**2019**	**2018**
Lithuania	95 888	92 618	52.07%	52.38%
Other Baltic Countries and CIS countries	31 568	26 171	17.14%	14.80%
Other European Countries	43 944	48 012	23.86%	27.16%
Other	12 763	9 999	6.93%	5.66%
Total	**184 163**	**176 799**	**100%**	**100%**

Sales of the **Group** by geographic segments (secondary segments) in 2018-2019:

Sales by geographic segments	Turnover, thousand euros		Per cent from total income	
	2019	**2018 m**	**2019**	**2018**
Lithuania	94 068	90 726	51%	51%
Other Baltic Countries and CIS countries	34 193	28 544	18%	16%
Other European Countries	43 952	48 188	24%	27%
Other	13 337	10 420	7%	6%
Total	**185 550**	**177 878**	**100%**	**100%**

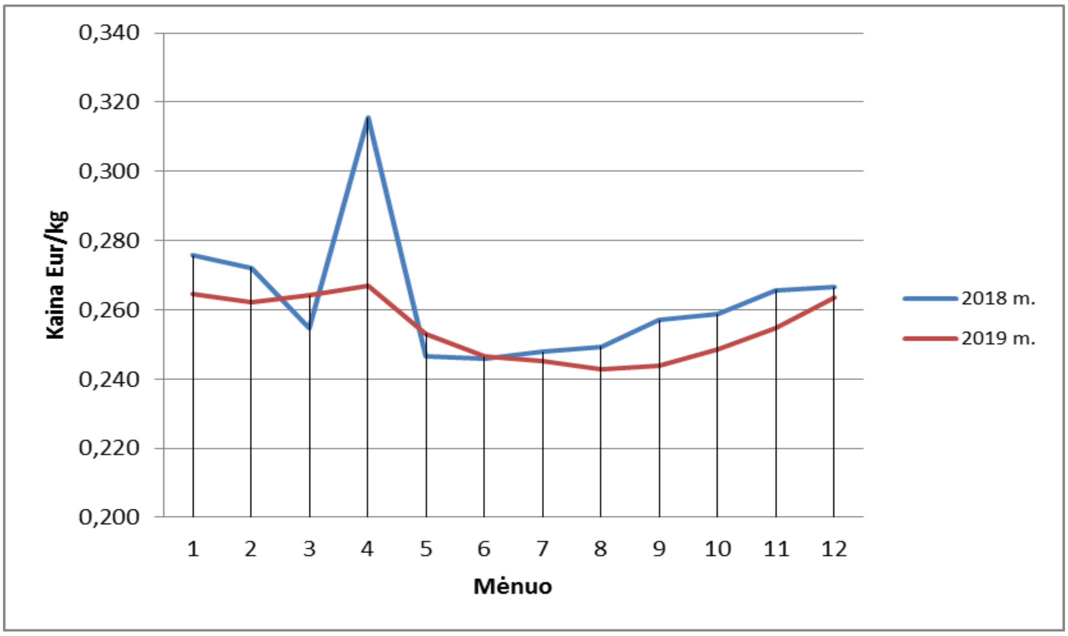
Whereas sales of AB "Žemaitijos Pienas" in 2019 compared to 2018 increased by 4.17%, there is a slight change in the structure of sales by geographical segments. AB "Žemaitijos Pienas" receives the largest share of its income from Lithuania, which accounts for more than half of total income (about 52.07% in 2019, about 52.38% in 2018); other Baltic Countries and CIS Countries -17.14 % (14.80 % in 2018); other European Countries – 23.86 % (27.16 % in 2018) and other countries made about 6.93 % (5.66 % in 2018) from total income. The export countries with the highest turnover in 2019 were Poland, Latvia and Germany. The products of the company are well known all over the world!

ABF "Šilutės Rambynas" activity indices

The main activity of the company is production of dairy products. Moreover, the company provides lease, transportation, storage, servicing of milk purchase points and other services.

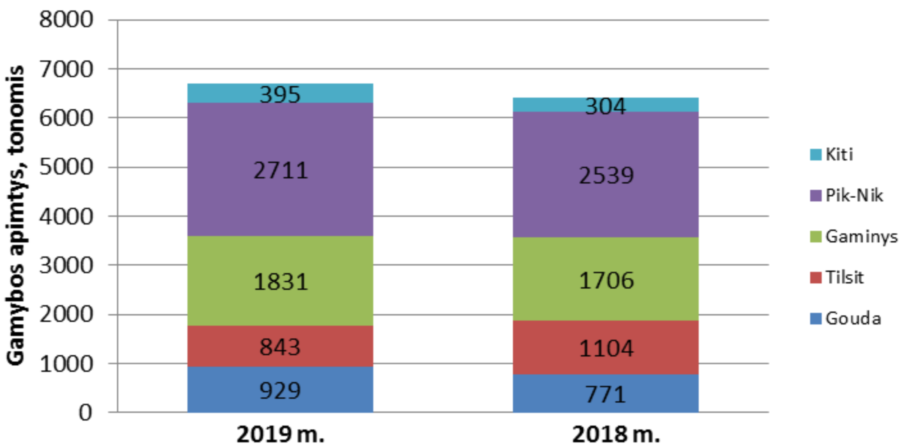
The company does not buy raw materials directly from the producers, the milk required for production is purchased from AB "Žemaitijos pienas". The purchase price of the raw material is determined according to the formula: milk price plus collection costs of AB "Žemaitijos pienas" excluding transportation costs.

Changes in the price of milk purchased from 2018 to 2019 recalculated according to the basic parameters are shown graphically:



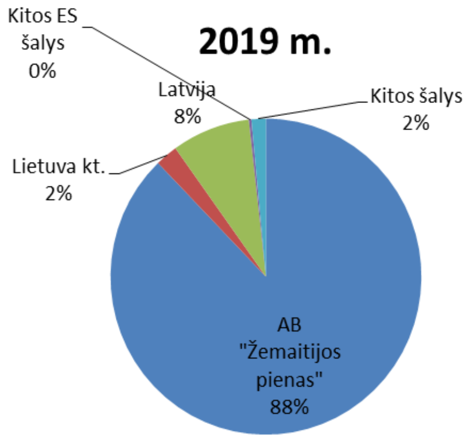
In April 2018 the increase in the price of raw milk was determined by the payment of single bonuses to milk producers. Almost 74.5 thousand tons or 3 thousand tons less than in 2018. The average price of recalculated raw milk during the period decreased from 261.43 EUR/t to 253.65 EUR/t (- 3%).

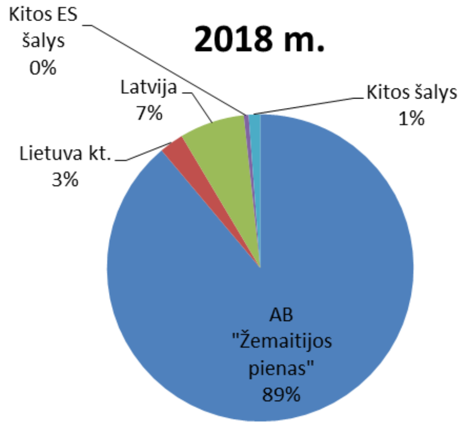
The Company specializes in production of cheese. Production volumes in 2018-2019 are demonstrated on the diagram provided below:



In 2019 6709 tons of cheese or 285 t (4,4 proc.) more than in 2018 were produced. Production growth was limited by unfavourable market conditions, i.e. low prices. The production of fermented cheeses (Gouda and Tilsit) was reduced to 1772 t, while in 2018 the production reached 1875 t (decrease of 5.5%). The production of fermented cheese product increased by 7.3 % from 1706 tons to 1831 tons. Meanwhile, the production of string cheese sticks increased by 6.8 % and production of other cheeses - by 29.9 %. In 2019 all raw materials were processed into cheeses, whereas in 2018 a part of them was processed into skimmed milk and sold as raw products to AB "Žemaitijos pienas" or UAB "Laktopolis" (exported to Poland).

The majority of the products produced in the Associated Company are sold through the parent company AB "Žemaitijos Pienas". The structure of sales by markets is graphically represented:





During the year 2019 production was sold for 32.191 thousand euros or 7.1 % less than in 2018, when sales amounted to 34.669 thousand euros. The decrease in sales was predetermined by lower production volumes due to unfavourable prices and lower raw cream prices.

The major part of sales of ABF "Šilutės Rambynas" is carried out through AB "Žemaitijos Pienas", therefore the company does not need to invest in marketing separately. In 2018 insignificant amounts were allocated for sales development in the Middle Eastern markets.

Business plans of the Group of Companies and forecasts

The management of the Company, considering its business plans and strategy, has confirmed that 2020 will be the year of DEVELOPMENT of the Company. The main goal is to sell the products produced by the Company and the Group directly to the shelves of strategic foreign retail networks under their own brands and to ensure that the products of the Company and the Group are of the highest quality in their segment and organic food. The Company has been seeking for optimal use of the opportunities for rapid development in a competitive environment.

Long-term goals of the Group of Companies are the same to become and be a strong, technically modem, and reliable company attractive to investors, to make corporate returns to shareholders one of the highest among similar companies. To find and maintain the most profitable markets for our products in the European Union, the Baltic and other countries of the world by giving priority to the closest markets, as well as to the markets of Germany, France and England. To make maximum possible use of the existing production capacities, in addition, the consumer market studies are carried out continually, the consumer demand for new products is taken into account, tastings are carried out, and dairy products are perfected and new products. One more goal is to become as close as possible to a consumer by providing and selling the products directly to a customer.

Key current goals of the Company:

- To purchase raw milk in accordance with market conditions but not at a higher price than that paid for raw milk by other market participants in Lithuania and purchase high-quality milk only;
- To increase sales at the prices favourable to the Company;
- To focus on the sales of higher value-added products on export markets;

The lack of skilled labour forces the Company to focus on human resources, so special attention is paid to team building, development of competence and qualification, formation of special skills, revision and improvement of promotion systems.

Regularly changing and dynamic market of the sale of products and the purchase of raw milk, as well as other factors, force the Group of Companies to refrain from publishing the turnover and profit forecasts for the upcoming activity periods.

Information of research and development activities of the Company

The Company and its subsidiary (jointly or separately) continuously make investments and seek ways to ensure continuous growth of income and improvement of activity effectiveness. In 2020 the Company plans to spend for investments about 5.6 million euros. 1 million euros of the planned amount will be allocated to the Fresh Dairy Production Unit, the remaining investment shall be allocated to the units of Butter-Cheese, Information Technologies and Logistics. In 2020 we expect logistics investments to reduction of milk transportation and product distribution costs by buying new Euro6 standard vehicles at the price of 1 million euros. Goals remain the same - route optimization, reducing fuel consumption. Great attention will be paid to training for safe and cost-effective driving.

The goal of the companies is to ensure production and supply of products complying with the highest possible quality standards and creating maximum possible added value and satisfaction of consumers, that is why the production technologists continue cooperation with scientists from Lithuanian University of Health Sciences, Vilnius University, Kaunas University of Technology as well as experts from Lithuania and abroad. During cooperation with scientific institutions and foreign laboratories, the Company creates new products, adapts to needs of a modern consumer. During creation of products the Company seek to consider reliable raw materials and technologies, search for added values aimed for functionality of products (protein products, fibre, vitamins containing products, etc.). Specialists of the Companies of the Group regularly go to probation to foreign countries, participate in exhibitions and improve their qualification in trainings and seminars.

The Company carries out laboratory tests in laboratories of National Food and Veterinary Risk Institute, Eurofins, Hamilton, KTU MI, LSMU Veterinary Academy and other laboratories. Uninterruptible tests are mainly oriented to improvement of available product cart.

Activities of the Group of Companies in the field of environmental protection [5]

AB "Žemaitijos Pienas" is a company that produces and sells dairy products, which, in accordance with the criteria laid down in the Regulations for the issue, amendment and revocation of Integrated Pollution Prevention and Control Permits, refers to companies that use the equipment subject to a special permit for the performance of its activities in accordance with the above rules . Still in 2006 the Company received an Integrated Pollution Prevention and Control Permit, which is not limited in time, but is the subject to adjustment due to changes. The Company does not have a negative impact on the environment, which should be mitigated by immediate measures, however, the Company constantly monitors its performance indicators, plans and implements the latest technologies that would reduce production and operating costs and energy costs, and improve the Company`s environmental condition in every way.

The Company regularly improves the integrated quality and food safety management system, meeting the requirements of BRC, ISO 22000, FSSC (ISO 22000, ISO/TS 22002-1) international standards.

The Company aims to maximize the use of natural resources by various means. As we know, natural resources determine the economic development of countries. Countries that conserve natural wealth have much greater opportunities to develop production, trade and the social sphere. The Company is well aware that its activities can cause significant damage to the environment, and only the complex use of economic, legal, technical, and biological tools can guarantee the rational use of natural resources now and in the future, so environmental impacts are controlled by harmonized monitoring programs. As the Company expands or upgrades its facilities and technology, an environmental impact assessment is carried out to ensure that the Company`s development does not exceed the permissible environmental norms, as well as the production wastewater, the quality of biofuels and other factors that may affect the surrounding environment. The Company is constantly updating its fleet to reduce air pollution from mobile sources. In order to ensure the reduction of pollution from stationary pollution sources, the Company uses the best available production methods.

The waste is managed in accordance with the established environmental requirements, through the through the environmental electronic data collection system GPAIS (waste product package information system).

[5] Detail information on environmental issues is provided in the social responsibility report of AB "Žemaitijos pienas", which was published on the website of AB "Žemaitijos pienas" – www.zpienas.lt;

Moreover the Company provides (forms) quarterly waste accounting reports and shipped-exported waste package accounting reports. Within the territory, hazardous and non-hazardous waste is stored and handled in a way that does not adversely affect the environment; Waste is shipped to waste recycling and timely disposal companies. AB "Žemaitijos Pienas" carries out sorting of packaging at the place of waste generation, presses it and prepares it for recycling. It also separates packaging waste for recycling but is suitable for energy recovery and systematically transmits this waste to collectors and processors.

AB "Žemaitijos Pienas" holds an important place in the packaging process. The products are packed in glass, PET, plastic, paper, composite, wooden and other packaging. For effective packaging waste management in 2019 The Company cooperated with the public institution "Žaliasis taškas", which took care of the collection and recycling of packaging. Public institution "Žaliasis taškas" received for remuneration from AB "Žemaitijos pienas" (for the submitted documents proving that the waste was disposed of) is obliged to educate the public on the management of packaging (garbage), as well as to contribute to the collection of packaging from consumer infrastructure (for sorting to supply the population).

The Company is constantly implementing investment projects, which introduce new modern technologies that allow more efficient use of energy renewable resources, reduce emissions to the environment, and apply other environmental measures.

The Company is constantly researching and expanding to find new, environmentally friendly operating models. In 2018 it has installed a new version of AXAPTA business management system, which will help the Company to record, prepare and report and transfer data to other systems more accurately.
During 2019 the Company implemented investments planned for 2019-2020 aimed at production development, which increased competitiveness of the Company, level of automation, technical assurance, improved product quality, employee conditions and safety, and implemented measures that allowed reduction of wastewater pollution and ensured sustainable fulfilment of environmental requirements.

In order to reduce gas emissions leading to greenhouse effect, the Company seeks to avoid using equipment that uses Freon gas or to purchase equipment that uses more environmentally friendly types of gas.

The Company is constantly improving its environmental management structure. It is believed that all employees and their managers, not just one person, one ecologist-engineer, should contribute to saving energy costs and reducing pollution. At the same time, the Company started measuring wastewater pollution in each unit, which also allowed to control, analyze and carry out preventive works on prevention of discharge of polluted wastewater into the unitilities, so improving general communication between the units, to see where investment or organisational means are needed for solving of problems.

The company is actively implementing and promoting the use of renewable resources. AB "Žemaitijos Pienas" has a 10MW biofuel boiler house, which uses renewable energy resources - wood chips (SM2) instead of natural gas. In 2019 AB "Žemaitijos Pienas" consumed 1.140.881 m3 of gas; it is 32 % more than in the previous year due to increased production volumes. In 2019 the Company consumed 4.564,561 t of biofuel; it means that comparing with 2018 biofuel consumption decreased by 1.97 %.

The company, being socially responsible and caring for the environment and preserving it, buys electricity from renewable energy sources. In 2019 AB "Žemaitijos pienas" consumed 21.317.402 kWh of electricity, which means that compared to 2018 electricity consumption increased by 5.29%. Considering indirect electricity consumption data, the major part of the electricity consumed in 2019 was used for ripening and storage of cheese, i.e. 926.546 kWh.

In 2019 AB "Žemaitijos Pienas" spent 832.615 m^3 of water; it is 16.17% more than in 2018. The increase in energy resources was determined by the higher amount of recycled raw material, which is 8.74% more than in 2018.

The Company respects and complies with the laws of the Republic of Lithuania related to environmental protection and pays all mandatory pollution taxes on time. When selecting suppliers, AB "Žemaitijos Pienas" considers how they apply environmental strategies, whether they comply with environmental requirements and require guarantees that the waste transferred will be properly managed.

In future, AB "Žemaitijos Pienas" will continue its efforts to become a company more friendly to the environment. Increased use of energy generated using renewable sources and reduction of emissions to the environment is expected.

ABF "Šilutės Rambynas" has been paying great attention to environmental protection for a number of years, and its main goal is to reduce production waste and protect the natural environment:
- by concentrating the whey, the remaining whey water is purified by a membrane system to a water suitable for equipment washing, thus reducing the use of water and wastewater;
- The Company has installed sewage collection and mixing tanks, which prevent instant contamination and control the quality of wastewater discharged to Šilutė water treatment plant;
- high concentration wastewater is collected in a separate container and depending on the volume of production it is transported to Tytuvėnai 1-2 times a week and delivered to biogas producers.

The production wastewater treatment system, operating in the Associated Company, gives its results, which are reflected in the table below and are significantly lower than required by legal regulation.

Parameters	Maximum permissible content	Basic content	Average actual content in 2019
TOD7 mgO2/l	800	350	310
Reaction in pH units	6.5-8.5	6.5-8.5	7.8
Suspended materials mg/l	350	350	113
Total nitrogen mg/l	50	50	35.5
Total phosphorus mg/l	10	10	8.7

Aspects on management of staff and human resources of the Group of Companies

Increase of highly-qualified employees is observed, however there is still lack of highly-qualified employees. These issues are being solved by creating and developing long-term relationships with employees by adapting and training them, encouraging them to grow professionally. Opportunities are provided for employees to deepen their knowledge and skills, improve their qualification by participating in various seminars. Programs are prepared for training and certification of specialists, production workers, hardware technicians, operators, fitters, foremen, and skilled workers. Particular attention is also paid to knowledge of foreign languages. Employees are trained in foreign languages in courses organized by the Company. The aforementioned trainings are also conducted in other training and advancement forms, including improvement of foreign language skills abroad.

During the reporting period particular attention was paid to several fields of training: improvement of employee qualification in order to ensure compliance with work quality requirements and to address the recently evident need for employees to be able to substitute for one another and to have diverse skill sets to which end employees are trained to fulfil the functions of another occupation or to undertake additional functions. To make this possible training programs are prepared and training specialists are appointed and promoted.

AB "Žemaitijos pienas"

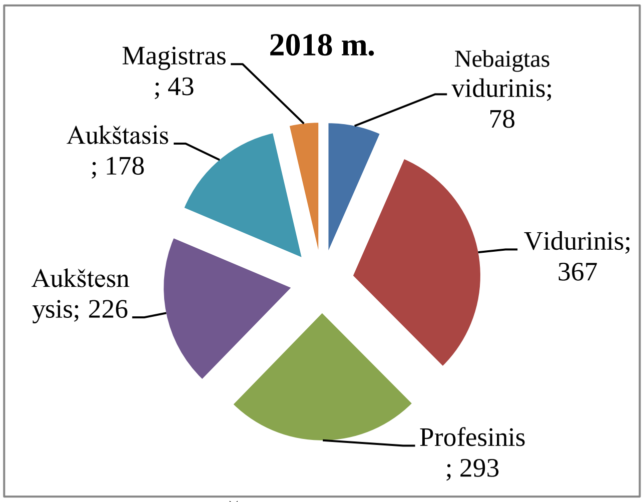
According to the data available by 31 December 2019, AB "Žemaitijos pienas" had 1210 employees.
According to the data available by 31 December 2018, AB "Žemaitijos pienas" had 1185 employees.
According to the data available by 31 December 2017, AB "Žemaitijos pienas" had 1163 employees.
Comparing to the previous year the number of employees increased slightly.

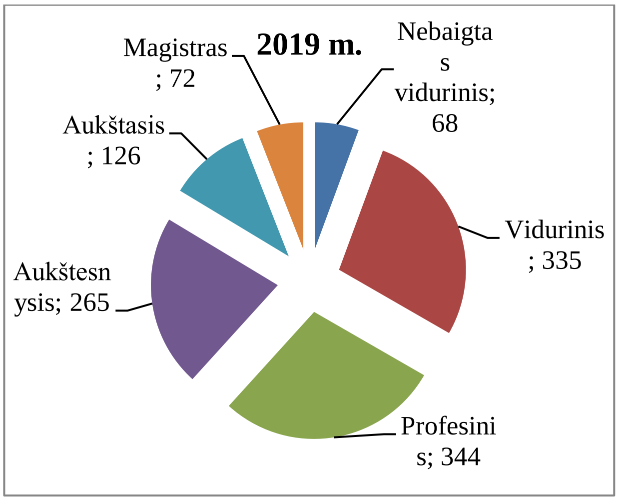
Groups of employees of AB "Žemaitijos pienas" by education (2017, 2018, 2019):

Number of employees	31/12/2017	31/12/2018	31/12/2019
With Master`s Degree	35	43	72
With University Degree	192	178	126
With College Degree	225	226	265
With Vocational Education	270	293	344

With Secondary Education	363	367	335
With incomplete Secondary Education	78	78	68
Total:	1163	1185	1210

Groups of employees of AB “Žemaitijos pienas” by education (2018 and 2019):

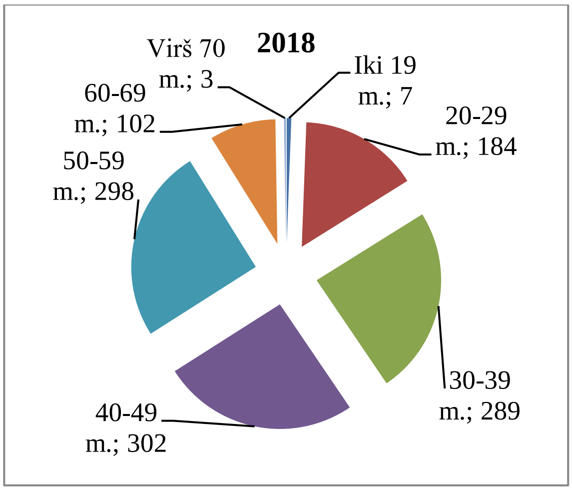


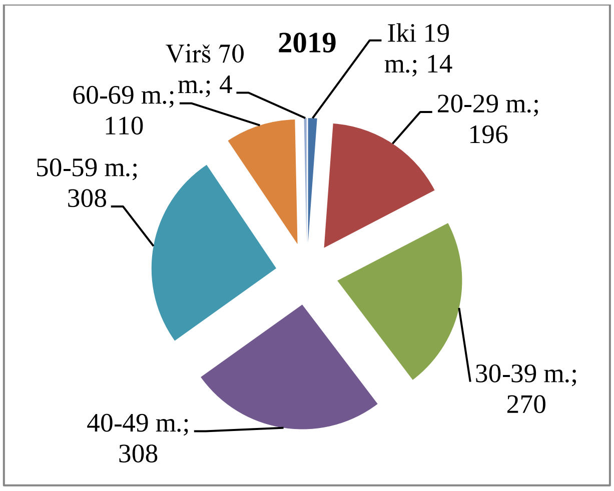


Number of AB “Žemaitijos pienas” employees by their corresponding groups and their average wages in EUR for corresponding employee work groups makes up

Number of employees by groups	31/12/2017		31/12/2018		31/12/2019	
	Number of employees	Average wage, EUR	Number of employees	Average wage, EUR	Number of employees	Average wage, EUR
Managers	9	6154	9	7180	9	7429
Specialists	261	1423	258	1917	288	2246
Workers	893	842	918	926	913	1194
Total:	1163		1185		1210	

Number of employees by age groups in 2018 and 2019:





In AB “Žemaitijos pienas” rights and obligations of employees are provided for in their job descriptions. Employment contracts do not provide special employee rights or obligations and the Company does not have a collective agreement, but has formed a labour board.

In the end of 2019 **ABF "Šilutės Rambynas"** had 191 employees, their number, comparing with 2018, increased by 3 employees (1.6 %). Changes in groups of employees by education are provided in the Table below:

With Master`s Degree	**31/12/2019**	**31/12/2018**
With University Degree	9	7
With College Degree	26	23
With Vocational Education	27	26
With Secondary Education	69	63
With incomplete Secondary Education	48	50
Total:	12	19
With Master`s Degree	**191**	**188**

The average wage in 2019 was 1554 EUR/month, or 3.6 % higher than in 2018. Changes in wages by employee groups are given in the Table below:

Number of employees by groups	**31/12/2019**		**31/12/2018**	
	Number of employees	Average wage, EUR/month	Number of employees	Average wage, EUR/month*
Managers	7	3064	7	3741
Specialists	30	1843	25	2052
Workers	154	1429	156	1312
Total:	**191**	**1554**	**188**	**1500**

*- for data comparison due to changed tax rates, wages for 2018 were calculated applying 1.289 rate.

The Company of the Group seeks to develop and maintain long-term relationships with its employees, especially when the labour market is not satisfying - the lack of highly qualified employees. Therefore, employees are constantly encouraged to develop in the professional field. The Company employees have the opportunity to improve their knowledge and skills in seminars and courses. There are training programs that train and certify specialists, production workers, technicians, operators, locksmiths, brigades, masters, and masters.

On 30 September 2019 **UAB "Baltijos mineralinių vandenų kompanija"** had 22 employees. On 31 December 2019 AB "Baltijos mineralinių vandenų kompanija" disposed the rights and obligations arising from the employment contracts to the Company under a Handover Certificate. Thus, according to Article 51 of the Labour Code of the Republic of Lithuania employment relationships of 16 employees of BAB "Baltijos mineralinių vandenų kompanija" since 1 January 2020 continue in the Company under the same terms and conditions as set forth in their employment contracts.

Information on the most important events in 2019

AB "Žemaitijos pienas" has published all essential information through Nasdaq Vilnius Stock Exchange System; there are 61 publications in total.

The most important events to shareholders during 2019 are the decision taken by ordinary General Meeting of Shareholders on 10 April 2019, one of the decisions - to allocate dividends to shareholders (0.08 EUR per one share).

In 2019 there were ongoing litigation in the courts of the Republic of Lithuania and other courts, but they do not have any impact of financial outcomes of the Company by their nature and effect and do not otherwise affect the Company, so they are not disclosed in this report.

Information on important events after the end of the financial year

After the end of the reporting period there were no important events.

Information on the audit

In 2019 consolidated annual information of AB "Žemaitijos Pienas" is audited/ was audited by Grant Thorton Baltic, UAB under the service agreement.

Parts of this annual report:

1. Consolidated Financial Statements of the Company and Group;
2. Consolidated Management Report;
3. Report on Compliance with the Code of Ethics;
4. Social Liability Report;

This Consolidated Annual Report (for 2019) is signed on 16 March 2020.

Robertas Pažemeckas
Chief Executive officer

Dalia Gecienė
Senior Accounting Officer

(All amounts in EUR thousands unless otherwise stated)

		The Group			The Company		
ASSETS	**Notes**	**As at 31 December 2019**	**As at 01 January 2019***	**As at 31 December 2018**	**As at 31 December 2019**	**As at 01 January 2019***	**As at 31 December 2018**
Non-current assets							
Intangible assets	5	335	170	170	327	157	157
Property, plant and equipment	5	55.624	49.130	49.130	49.247	45.480	45.480
Investment property	6	3.610	2.847	2.847	3.534	3.668	3.668
	7	395	641	-	395	641	-
Investments in subsidiaries and associates	1	-	-	-	3.150	3.150	3.150
Loans granted	8	1.771	1.804	1.804	1.771	1.804	1.804
Other financial assets		-	6	6	-	6	6
Deferred income tax asset	27	548	2.111	2.111	448	2.064	2.064
Total non-current assets		**62.283**	**56.709**	**56.068**	**58.872**	**56.970**	**56.329**
Current assets							
Inventories	9	32.327	31.058	31.058	30.760	29.415	29.415
Prepayments		268	292	292	229	279	279
Trade accounts receivable	10	18.330	17.545	17.545	18.216	17.405	17.405
Other accounts receivable	11	2.075	2.711	2.711	1.471	2.507	2.507
Cash and cash equivalents	12	9.901	6.499	6.499	8.835	4.352	4.352
Total current assets		**62.900**	**58.105**	**58.105**	**59.512**	**53.958**	**53.958**
TOTAL ASSETS		**125.183**	**114.814**	**114.173**	**118.384**	**110.928**	**110.287**
EQUITY AND LIABILITIES							
Capital and reserves							
Share capital	13	14.029	14.029	14.029	14.029	14.029	14.029
Own shares (-)	13	(3.801)	(1.597)	(1.597)	(3.801)	(1.597)	(1.597)
Legal reserve	13	1.401	1.401	1.401	1.401	1.401	1.401
Other reserves	13	10.274	5.000	5.000	10.274	5.000	5.000
Retained earnings		63.204	60.640	60.640	56.839	52.101	52.101
Equity attributable to equity holders of the Company		**85.107**	**79.473**	**79.473**	**78.742**	**70.934**	**70.934**
Non-controlling interest	16	1.611	1.656	1.656	-	-	-
Total Equity		**86.718**	**81.129**	**81.129**	**78.742**	**70.934**	**70.934**
Non-current liabilities							
Grants received	14	3.357	1.327	1.327	3.192	1.142	1.142
Loans received	19	11.000	-	-	11.000	-	-
Obligations under finance lease	18	505	312	98	505	312	98
Long term provision for defined employee benefits	15	3.438	3.681	3.681	3.158	3.441	3.441
Total non-current liabilities		**18.300**	**5.320**	**5.106**	**17.855**	**4.896**	**4.682**
Current liabilities							
Loans received	19	2.998	9.000	9.000	2.998	9.000	9.000
Obligations under finance lease	18	490	442	15	490	442	15
Trade accounts payable	20	11.365	12.344	12.344	13.566	19.673	19.673
Income tax payable		-	-	-	-	-	-
Accrued expenses and other current liabilities	15, 22	5.311	6.579	6.579	4.733	5.983	5.983
Total current liabilities		**20.165**	**28.365**	**27.938**	**21.787**	**35.098**	**34.671**
Total liabilities		**38.465**	**33.685**	**33.044**	**39.642**	**39.994**	**39.353**
TOTAL EQUITY AND LIABILITIES		**125.183**	**114.814**	**114.173**	**118.384**	**110.928**	**110.287**

**Note. Due to IFRS 16 "Leases" effective for periods beginning on or after 1 January 2019, Financial Position for 1 January 2019 is restated in line with IFRS 16.*

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 16 March 2020 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Chief accountant

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2019
(All amounts in EUR thousands unless otherwise stated)

	Notes	The Group 2019	The Group 2018	The Company 2019	The Company 2018
REVENUE FROM CONTRACTS WITH CUSTOMERS	23	**185.550**	**177.878**	**184.163**	**176.799**
SALES	23		-		-
Cost of sales		(144.499)	(141.566)	(144.152)	(141.840)
GROSS PROFIT		**41.051**	**36.312**	**40.011**	**34.959**
Operating expenses	24	(29.145)	(26.793)	(27.684)	(26.203)
Other operating income and expenses	25	236	329	2.349	686
PROFIT (LOSS) FROM OPERATIONS		**12.142**	**9.848**	**14.676**	**9.442**
Financial income and expenses	26	205	136	210	169
PROFIT (LOSS) BEFORE TAX		**12.347**	**9.984**	**14.886**	**9.611**
Income tax benefit (expense)	27	(1.568)	721	(1.618)	810
NET PROFIT (LOSS)		**10.779**	**10.705**	**13.268**	**10.421**
ATTRIBUTABLE TO:					
Equity holders of the Company		10.824	10.640	13.268	10.421
Non-controlling interest		(45)	65	-	-
		10.779	**10.705**	**13.268**	**10.421**
Basic and diluted earnings per share (EUR)	17	**0,24**	**0,23**	**0,30**	**0,23**
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods					
Actuarial gains (losses) from long term provision for defined employee benefits, less deferred income tax		259	80	259	28
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**259**	**80**	**259**	**28**
Total comprehensive income (loss) for the year, net of tax		**11.038**	**10.785**	**13.527**	**10.449**
ATTRIBUTABLE TO:					
Equity holders of the Company		11.083	10.714	13.527	10.449
Non-controlling interest		(45)	71	-	-
		11.038	**10.785**	**13.527**	**10.449**

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 16 March 2020 and signed by:

Robertas Pažemeckas
General Director

Dalia Gečienė
Chief accountant

(All amounts in EUR, in thousands, unless otherwise stated)

The Group	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interest	Total equity
Balance as of 1 January 2018	**14.029**	**(1.323)**	**1.401**	**5.000**	**56.872**	**75.979**	**1.585**	**77.564**
Net profit	-	-	-	-	**10.640**	**10.640**	**65**	**10.705**
Other comprehensive income	-	-	-	-	74	74	6	80
Total comprehensive income	-	-	-	-	**10.714**	**10.714**	**71**	**10.785**
Dividends	-	-	-	-	(6.946)	(6.946)	-	(6.946)
Acquisition of own shares	-	(274)	-	-	-	(274)	-	(274)
Transfer to/from reserves	-	-	-	-	-	-	-	-
Balance as of 31 December 2018	**14.029**	**(1.597)**	**1.401**	**5.000**	**60.640**	**79.473**	**1.656**	**81.129**
Net profit	-	-	-	-	**10.824**	**10.824**	**(45)**	**10.779**
Other comprehensive income	-	-	-	-	259	259	-	259
Total comprehensive income	**-**	**-**	**-**	**-**	**11.083**	**11.083**	**(45)**	**11.038**
Dividends	-	-	-	-	(3.692)	(3.692)	-	(3.692)
Acquisition of own shares	-	(2.204)	-	-	-	(2.204)	-	(2.204)
Goodwill/merger result					91	91		91
Tantiems					354	354		354
Used of reserves				(4.726)	4.726	-		-
Transfer to/from reserves				10.000	(10.000)	-		-
Balance as of 31 December 2019	**14.029**	**(3.801)**	**1.401**	**10.274**	**63.204**	**85.107**	**1.611**	**86.718**

(All amounts in EUR thousands unless otherwise stated)

The Company	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings	Total equity
Balance as of January 2018	**14.029**	**(1.323)**	**1.401**	**5.000**	**48.598**	**67.705**
Net profit	-	-	-	-	10.421	10.421
Other comprehensive income	-	-	-	-	28	28
Total comprehensive income	-	-	-	-	**10.449**	**10.449**
Dividends	-	-	-	-	(6.946)	(6.946)
Acquisition of own shares	-	(274)	-	-	-	(274)
Balance as of 31 December 2018	**14.029**	**(1.597)**	**1.401**	**5.000**	**52.101**	**70.934**
Net profit	-	-	-	-	13.268	13.268
Other comprehensive income	-	-	-	-	259	259
Total comprehensive income	-	-	-	-	**13.527**	**13.527**
Dividends	-	-	-	-	(3.692)	(3.692)
Acquisition of own shares	-	(2.204)	-	-	-	(2.204)
Goodwill/merger result					(179)	(179)
Tantiems					354	354
Used of reserves				(4.726)	4.726	-
Transfer to/from reserves				10.000	(10.000)	-
Balance as of 31 December 2019	**14.029**	**(3.801)**	**1.401**	**10.274**	**56.839**	**78.742**

Please refer to Note 17 for dividends paid information.

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 16 March 2020 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Chief accountant

(All amounts in EUR thousands unless otherwise stated)

	Notes	The Group		The Company	
		2019	**2018**	**2019**	**2018**
Cash flow to operating activities					
Profit (loss) for the period		10.779	10.705	13.268	10.421
Adjustments:					
Depreciation and amortization	**5,6**	4.207	2.590	3.984	2.433
Amortization of grants received	**14**	(299)	(130)	(279)	(105)
Depreciation right-of-use assets	**7**	687	-	687	-
Gain (loss) on disposal and write offs of non-current assets		49	183	(1.872)	165
Decrease (increase) in deferred tax asset	**27**	1.565	(795)	1.618	(867)
Impairment (reversal) of accounts receivable	**10**	(94)	203	(94)	203
Net financial expenses (income)		58	(136)	54	(169)
Impairment (reversal) of inventories to net realizable value	**9**	(1.582)	(2.669)	(1.309)	(2.477)
Elimination of non-cash items		705	56	614	32
Net cash flows from ordinary activities before changes in working capital		**16.076**	**10.007**	**16.671**	**9.636**
Changes in working capital:					
(Increase) decrease in inventories	**9**	592	1.112	243	519
(Increase) decrease in trade receivables	**10**	(257)	(603)	2.513	(519)
(Increase) decrease in prepayments		24	(81)	49	(80)
(Increase) decrease in other receivables		750	(299)	1.155	(344)
(Decrease) increase in trade payables	**20**	(1.153)	2.349	(6.282)	8.240
(Decrease) increase other accounts payable	**21,22**	(378)	(967)	(411)	(1.035)
Bonus to board members (paid)		-	(200)	-	(200)
Net cash flows from operating activities		**15.654**	**11.318**	**13.938**	**16.217**
Cash flows from (to) investing activities					
(Acquisition) of intangible assets and property, plant and equipment.	**5**	(9.371)	(19.799)	(6.400)	(19.201)
Proceeds on sale of property, plant and equipment		127	207	127	207
(Acquisition) of subsidiaries, disposal of shares	**21**	(1.912)	28	(1.912)	28
Goodwill	**21**	(28)	-	(207)	-
Acquisition of right-of-use assets	**7**	(442)	-	(442)	-
Repayment of loans granted	**8**	1.020	857	1.020	857
Loans granted	**8**	(1.054)	(800)	(1.054)	(800)
Interest received	**26**	84	103	83	103
Net cash flows (to) investing activities		**(11.576)**	**(19.404)**	**(8.785)**	**(18.806)**
Cash flows from (to) financing activities					
Dividends (paid)	**17**	(3.692)	(6.946)	(3.692)	(6.946)
(Acquisition) of own shares	**13**	(2.204)	(274)	(2.204)	(274)
Grants received	**14**	2.329	488	2.329	400
Financial lease payments	**18**	(967)	7	(967)	7
Loan received	**19**	6.510	10.000	6.510	10.000
Loan (payments)	**19**	(2.510)	(1.000)	(2.510)	(1.000)
Other financial (income) and expenses	**26**	(6)	90	(6)	123
Interest (payments)		(136)	(57)	(130)	(57)
Net cash flows from (to) financial activities		**(676)**	**2.308**	**(670)**	**2.253**
Net increase (decrease) in cash and cash equivalents		**3.402**	**(5.778)**	**4.483**	**(336)**
Cash and cash equivalents at the beginning of the year		**6.499**	**12.277**	**4.352**	**4.688**
Cash and cash equivalents at the end of the year		**9.901**	**6.499**	**8.835**	**4.352**

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 16 March 2020 and signed by:

Robertas Pažemeckas
General Director

Dalia Gecienė
Chief accountant

(All amounts in EUR thousands unless otherwise stated)

1.GENERAL INFORMATION

Reporting entity

AB "Žemaitijos Pienas" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984.

AB "Žemaitijos Pienas" is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius. The nominal value of one share is 0,29 EUR.

As at 31 December 2019 and 2018, its shares are held by the following shareholders:

	31 12 2019		31 12 2018	
Shareholder	**Number of shares**	**Ownership %**	**Number of shares**	**Ownership %**
Pažemeckas Algirdas	14.014 581	28,97%	14.014 581	28,97%
Pažemeckienė Danutė	14.014.581	28,97%	14.014.581	28,97%
AB Klaipėdos pienas, code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
UAB Baltic Holding, code 302688114. Vilhelmo Berbomo g. 9-4, Klaipėda	4.713.018	9,74%	5.738.449	11,86%
Other shareholders	9.314.213	19,26%	9.478.317	19,60%
"Žemaitijos pienas AB	3.416.763	7,06%	2.227.228	4,60%
Total share capital, shares units	**48.375.000**	**100,00%**	**48.375.000**	**100,00%**

The management report provides detailed information about the main shareholders, see p.5-6

As at 31 December 2019 and 2018 the share capital of the Company was EUR 14.028.750. The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 par value each.

In September 2019 AB "Žemaitijos pienas" acquired 100 per cent shares of UAB "Baltijos mineralinių vandenų kompanija", which until the end of the year was considered an associated company. Detail information on the acquisition of UAB "Baltijos mineralinių vandenų kompanija" is provided in Chapter 21 "Business Combinations" of the Explanatory Note of the Consolidated Financial Statements.

As at 31 December 2019 and 2018 the Group consisted of AB "Žemaitijos Pienas" and the subsidiary of the Company ABF Šilutės Rambynas:

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2019	Cost of investment 2018	Net assets as of 31 December 2019	Main activities
Šilutės Rambynas ABF	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	3.150	3.150	13.224	Cheese production and selling

The subsidiary ABF Šilutės Rambynas does not hold any shares of AB "Žemaitijos Pienas" as at 31 December 2018 and 2019.

The Company has sold an associated company Muižas Piens SIA to related party UAB Samogitija on 18 August 2018. The sales proceeds of EUR 27 thousand is accounted as other financial income.

The Company employed 1.210 employees as at 31 December 2019 (1.185 employees as at 31 December 2018). The Group employed 1.417 employees as at 31 December 2019 (1.373 employees as at 31 December 2018).

The Company's management authorized these financial statements on 10 March 2020. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. BASIS FOR DRAWING UP FINANCIAL STATEMENTS

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

Basis of preparation of the financial statements

The amounts in these financial statements are presented in EUR, rounded to thousands. Due to rounding errors, the numbers in the statements may not match.

The financial statements are prepared on the historical cost basis.

The financial year of the Company and other Group companies coincides with the calendar year.

When preparing financial statements in accordance with IFRS adopted for EU application, management is required to make calculations and estimates on the basis of certain assumptions that influence the choice of accounting principles and the amounts of Assets, Liabilities, Income and Costs. Estimates and related assumptions are based on historical experience and factors reflecting current conditions. On the basis of the above assumptions and estimates, the residual values of assets and liabilities are deduced from other sources. Actual results may differ from estimates. The estimates and their assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period in which the estimate is revised if it only affects that period, or in the period of the revision and subsequent periods if the estimate affects both the revision and future periods (Note 4).

The accounting policies set out below have been consistently applied and are in line with those applied last year.

Principles of consolidation and investments in subsidiaries and associates

The consolidated financial statements of the Group include AB Žemaitijos Pienas and its subsidiary and associate. The financial statements of the subsidiary and the associate are prepared for the same reporting period and use the same accounting principles.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date on which control is transferred outside the Group. All intercompany transactions, balances and unrealized profit and losses on transactions between Group companies have been eliminated. Equity and net income attributable to a minority of shareholders, if any, are disclosed separately in the statement of financial position and comprehensive income.

Control is achieved when the Group determines whether it is entitled to variable returns from its involvement in the investment and has the ability to affect that return through its influence on the investment. The Group controls an investment when, and only when, the Group has:

- Impact on the investment (i.e. rights exist that allow the management of the investment activity in question);
- The right to variable returns from its participation in the investment;
- The ability to use its influence on the investment to influence returns.

It is commonly assumed that most voting rights confer control.

The net result of a subsidiary is attributable to a minority of shareholders even if the result is negative.

Acquisitions and disposals of minority interest in the Group are accounted for as an equity transaction: the difference between the net assets acquired/transferred to the minority in the Group's financial statements and the purchase/sale price of the shares is recognized directly in equity.

Investment in an associate

An associate is an entity over which the Company has significant influence, but does not control the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another company.

The Group accounts for investments in associates using the equity method. Under the equity method, an investment in an associate is carried in the statement of financial position at cost adjusted for the change in the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not subject to depreciation or individual impairment. The result of the associate is recognized in the statement of comprehensive income.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined by adding the fair value of the consideration transferred at the acquisition date to the amount of the minority interest in the acquire, if any. For each business combination, the acquirer shall measure the minority interest in the acquire either at fair value or at the proportionate share of the acquire's identifiable net assets. Acquisition costs incurred are written off and included in administrative expenses.

If the business combination is achieved in stages, the acquirer's previously owned interest in the acquire is measured at fair value at the acquisition date through the statement of comprehensive income. A contingent consideration to be paid by the buyer is recognized at fair value at the acquisition date. Subsequent estimates of the contingent consideration that is considered an asset or liability are recognized at fair value through profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent payment is recognized in equity.

Goodwill is recognized at cost and is the amount by which the full amount of the consideration transferred, including the amount recognized as a minority interest, exceeds the net amount of the assets acquired and liabilities recognized. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of comprehensive income.

Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. For the purpose of assessing impairment, goodwill acquired in a business combination from the acquisition date is allocated to those cash generating units of the Group that are expected to benefit from the combination, whether or not the acquire's other assets or liabilities are classified as such.

When goodwill forms part of a cash-generating unit and part of the activities of that unit is sold, the goodwill relating to the sale is included in the carrying amount of the sale of the business for the purpose of determining profit or loss on disposal. In this case, the goodwill sold is measured by the relative value of the activity sold relative to the rest of the cash-generating unit.

Investments (Companies in separate statements)

Investments in an associate

The Company accounts for its investments in subsidiaries using the acquisition cost method. The Company determines at the end of each period whether there are objective reasons that could determine the value of an investment in a subsidiary.

Investments in subsidiaries

In the statement of financial position of the Company, investments in subsidiaries are accounted for at cost less impairment. Accordingly, at initial recognition, the investment is carried at cost, being the fair value of the consideration paid, less any impairment loss. The carrying amount of an investment is measured when events or changes in circumstances indicate that the investment's carrying amount may exceed its recoverable amount (higher of fair value less costs to sell or value in use). In case of such circumstances, the Company makes an assessment of the recoverable amount of the investment. If the carrying amount of an investment exceeds its recoverable amount, the investment is written down to its recoverable amount. Impairment is recognized in the statement of comprehensive income, under general and administrative expenses.

The impact of new accounting standards, amendments to existing standards and new interpretations on the financial statements

Adoption of new and/or changed interpretations of IFRS and International Financial Reporting Interpretations Committee (IFRIC)

The accounting policies of the Group and the Company have not changed, except for the following new IFRSs and/or amendments thereto, which were applied as at1 January 2019:

- **IFRS 16 "Lease"**
  IFRS 16 replaces IAS 17 "Lease" and related interpretations. This Standard eliminates the lessee double-entry model; instead, companies are required to account for most leases in a statement of financial position in a single model, eliminating the distinction between operating and finance leases.
  Under IFRS 16, a contract is a lease or is included if it gives you the right to control the use of the identified asset for a period of time in exchange for consideration. The new model requires the lessee to recognize the right to use assets and lease obligations for such contracts. The right to use the asset is depreciable and the lease liability accrues interest. As a result, in most lease transactions, more expense will be recognized in prior contract periods, even if the lessee pays a steady annual lease fee.
  The new standard introduces a limited exemption for lease transactions, which include: - lease transactions of less than 12 months' duration with no option to purchase; - lease transactions where the underlying assets are of low value.
  The Company applies the new standard using a modified retrospective method, which means that comparatives are not restated. The cumulative effect of applying IFRS 16 was recognized on 1 January 2019. As at 1 January 2019, lease liabilities classified as leases previously classified under IAS 17 are measured at the present value of the remaining discounted lease payments, using the additional borrowing rate. The Company recognizes assets under management at an amount equal to the lease liability adjusted for prepayments with accrued lease payments recognized at 31 December 2018. The Company's non-current operating lease income is recognized in the consolidated statement of financial position as non-current assets and financial liabilities instead of operating lease expenses. The Company recognizes depreciation and interest expense in its consolidated statement of comprehensive income. Lease payments will affect the cash flow statements from operating and financing activities (repayment of lease liabilities).

- **Interpretation of IFRIC 23: Uncertainty over Income Tax Treatments**
  IAS 12 specifies how income tax and deferred tax should be accounted for, but does not specify how to reflect the effects of uncertainty. This interpretation clarifies how the recognition and measurement requirements in IAS 12 are to be applied if there is uncertainty about the treatment of income tax. It is for the entity to determine whether uncertainties about the tax treatment should be assessed individually or in combination with one or more other uncertainties in the treatment of the tax, depending on which method will help the entity better assess the likelihood of the uncertainty disappearing. The entity must assume that the tax authorities will verify the amounts to which it is entitled and will be fully aware of any such information when conducting such checks. The amendments do not have a material impact on the Group's/Company's financial statements.

- **Amendment to IFRS 9: Prepayment Features with Negative Compensation**
  The amendments permit the valuation of financial assets with prepayment that allow or require a party to pay or receive reasonable compensation for an early termination (this may, from the holder's point of view, also constitute "negative compensation"), at amortized cost or at fair value through other comprehensive income. The amendments do not have a material impact on the Group's/Company's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (amendments)**
  The amendments determine whether the measurement of long-term interests in associates and joint ventures, specifically the impairment provisions that are, in substance, part of the "net investments" in associates or joint ventures, should be consistent with IFRS 9, IAS 28, or both. The amendments clarify that before applying IAS 28, an entity applies IFRS 9 to non-equity interests in long-term interests. In applying IFRS 9, an entity shall not consider changes in the carrying amount of long-term interests arising from the application of IAS 28. The amendments do not have a material impact on the Group's/Company's financial statements.

Amendment to IAS 19, Change, Reduction or Execution of a Plan
The amendments require entities to use updated actuarial assumptions to measure the cost of current services and net interest income relating to the remaining period after the change, reduction or settlement in the plan. The amendments also clarify how accounting for a plan change, reduction, or settlement affects the asset ceiling requirements. The amendments do not have a material impact on the Group's/Company's financial statements.

IASB has issued annual improvements to the IFRS for the 2015-2017 cycle, which include a set of amendments to IFRSs.

- IFRS 3 Business Combinations and IFRS 11 Joint Operations: The amendments to IFRS 3 clarify that when an entity obtains control of a business that was a joint venture, it shall reassess its interest in a previously acquired business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that was a joint operation, the entity need not reassess the interest that it previously had in the business.

- IAS 12 Income Taxes: The amendments clarify that the amount of income tax payable on a financial instrument classified as an equity instrument should be recognized according to where the transactions or events that gave rise to the distributable profit are recognized.

- IAS 23 Borrowing Costs: The Amendments clarify paragraph 14 of the Standard, that is, when a long-term preparation asset is prepared for its intended use or sale and there are outstanding outstanding loans related to a long-term asset at that point, such loans must be included in the entity's general loan fund.

The amendments do not have a material impact on the Group's/Company's financial statements.

Standards adopted but not yet in force and not yet applied and amendments thereto

The Group/Company has not applied the following IFRS and IFRIC interpretations, which are already endorsed at the date of adoption of these financial statements but are not yet effective:

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality (Amendments)
The amendments become effective for financial years beginning on or after 1 January 2020, with early application permitted. The amendments clarify the definition of materiality and how it should be applied. The amendments will harmonize the definition of materiality to determine whether information has a material effect on the financial statements. The new definition states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In addition, clarifications supplementing the definition have been improved. The amendments also ensure that the definition of materiality is consistent across IFRSs. These amendments have not yet been adopted in the EU. The Group/Company has not yet evaluated the impact of the application of these amendments.

Amendments to IFRS 3 Business Combinations (amendments) (effective for annual periods beginning on or after 1 January 2020, once not adopted by the EU). The amendment clarifies the definition of a business to assist in determining whether a transaction should be accounted for as an acquisition of an asset or a business combination. The amendments are effective for the first reporting period beginning on or after 1 January 2020 for business combinations and for acquisitions of assets during or after that date. These amendments have not yet been adopted in the EU. The Group/Company has not yet evaluated the impact of the application of these amendments.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, but not yet adopted by the EU).
IFRS 17 solves the comparative problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner and to the benefit of both investors and insurance companies. The Group/Company has not yet evaluated the impact of the application of these improvements.

IFRS 9 Financial Instruments, IAS 39 Financial Instruments. Recognition and Measurement and IFRS 7 Financial Instruments. Amendments: Interest Rate. (effective from or after 1 January 2020, but not before EU approval).
The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 providing for certain interest rate related benefits. The benefits are related to hedge accounting and, as a result, the IBOR reform does not normally have to cease hedge accounting. However, any ineffectiveness of the hedging instrument should continue to be recognized in profit or loss. Given that hedges covering IBOR-based contracts are concessional, concessions will affect companies in all industries.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale of Assets or Contributions between an Investor and its Associate or Joint Ventures (amendment)
The amendments deal with a recognized discrepancy between the requirements of IFRS 10 and IAS 28 in respect of an asset sale or contribution between an investor and its associate or joint venture. The primary consequence of the amendments is that all profit and losses are recognized when the transaction involves a disposal of a business (regardless of whether it is carried out in a subsidiary). Part of the profit or loss is recognized when the transaction involves assets that do not meet the definition of a business, even if those assets are owned by a subsidiary. In December 2015, the IASB postponed the effective date indefinitely, depending on the results of the equity accounting method research project. The EU has not yet approved these amendments. The Group/Company has not yet evaluated the impact of the application of this standard.

Application of the Conceptual Framework to International Financial Reporting Standards (IFRS) (effective for annual periods beginning on or after 1 January 2020)
On 29 March 2018, the International Accounting Standards Board (IASB) conducted a review of the Conceptual Financial Reporting Framework. The conceptual framework provides a comprehensive set of concepts for use in the preparation of financial statements and standards and provides guidance to developers in preparing consistent accounting policies and in helping others understand and interpret the standards. The IASB also issued a separate accompanying document, Amendments to the References to the IFRS Conceptual Framework, which contains amendments to the related standards to update the references to the revised Conceptual Framework. Its purpose is to facilitate the transition to a revised conceptual framework for entities that prepare accounting policies using a conceptual framework where no IFRS applies to a particular transaction. For those preparing an accounting policy on a conceptual basis, it is effective for annual periods beginning on or after 1 January 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property, plant and equipment

Recognition and evaluation
Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of acquisition of an asset of the Company/Group consists of the costs directly attributable to the acquisition of the asset. The cost of an item of property, plant and equipment includes the cost of materials, direct labour, and other costs incurred in producing the asset before it is used, dismantling, removing, and reconditioning the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

Subsequent to initial recognition, any costs incurred in replacing a component of property, plant and equipment or related to its reconstruction are capitalized only to the extent that it is probable that future economic benefits will flow to the asset and the cost of the new component can be measured reliably. All other costs are recognized as an expense when they are incurred.

(All amounts in EUR thousands unless otherwise stated)

Depreciation

Depreciation (amortization) starts on the month following the commencement date of the respective unit of plant, property and equipment. The commencement date is the date when the asset is actually ready for use. The transfer of non-current assets for use is formalized by the transfer and acceptance of non-current assets.

Depreciation (amortization) is no longer calculated from the following month when the non-current asset is classified as held for sale or is written off, sold or otherwise disposed of.

Depreciation (amortization) on property, plant and equipment and intangible assets is calculated using the proportional (straight-line) method of depreciation (amortization) over the estimated useful life of the asset. The amount of depreciation (amortization) accrued during the period is recorded in the depreciation (amortization) expense accounts.

If, after the repair of an item of property, plant and equipment or after an impairment assessment, an asset changes its useful life, the carrying amount of the asset, beginning at the date of adjusting its useful life, shall be depreciated over the restated useful life.

The useful lives of the Company's/Group's property, plant and equipment and intangible assets are determined separately for each asset, taking into account future economic benefits as well as the expected period of use in the Company/Group, the intensity of use, the environment in which the asset is used, changes in its useful life, technological and economic progress, morally aging assets, legal and other factors limiting the useful life of property, plant and equipment.

Based on the resolution of the Company/Group Management Board, as at 1 January 2017, the useful life of newly acquired production lines accounted for in "Machinery and equipment" is 10-15 years.

In 2018, the Company and the Group restated the carrying amounts and useful lives of property, plant and equipment as defined in IAS 16 Property, Plant and Equipment and decided to adjust the carrying amounts and useful lives of those items that were not fully depreciated as at 1 January 2018, prospectively. Based on the assessment made, the amendments became effective on 1 January 2018 (Note 5).

As at 1 January 2019, new non-current assets useful lives/depreciation/amortization rates have been approved.

According to the approved terms of reorganization, after the merger of the company AB Baltijos mineralinių vandenų kompanija with AB Žemaitijos Pienas, non-current assets were taken over. For the transferred non-depreciated property, plant and equipment, new residual values of assets have been determined and the useful life has been extended in accordance with the norms approved by AB Žemaitijos Pienas.

Below are the average useful lives of the Company's/Group's property, plant and equipment by asset class:

• Buildings and structures	20-40	years
• Machinery and equipment	5-15	years
• Production lines	10-15	years
• Vehicles and other assets	3-10	years

Depreciation methods, residual values and useful lives of assets are/will be reviewed at the reporting date to ensure that the depreciation period is consistent with the expected useful lives of the property, plant and equipment.

Construction in progress (non-current assets prepared for use)

Construction in progress is stated at cost less impairment losses. Cost includes design, construction, plant and equipment outsourced and other direct costs. Depreciation on unfinished construction is not calculated. Construction in progress is transferred to the appropriate groups of property, plant and equipment when it is completed and the asset is ready for its intended use.

When property, plant and equipment is derecognised or otherwise disposed of, its cost and related depreciation are no longer recognized in the financial statements and the related profit or loss, calculated as the difference between the proceeds and the carrying amount of the non-current tangible asset disposed of.

Investment assets

Investment property of the Company/Group includes land and buildings that are leased and earns lease income and are not used for the Group's and the Company's operating activities. Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 to 40 years.
Investment property is written off only when the property is sold or permanently discontinued and no economic benefits are expected from its sale. Any profit or loss on disposal or sale of an investment property is recognized in the statement of comprehensive income in the period in which the asset is sold or otherwise disposed of.

Transfers to investment property are made when, and only when, there is a change in use, when the owner discontinues the use of the property for its own use or when the operating lease begins. Transfers from investment property are made when, and only when, there is a change in use through the use of the property by the owner or the beginning of reconstruction with a view to sale.

Property, plant and equipment

Intangible assets with finite useful lives that are comprised of purchased computer software and licenses and trademarks are stated at cost less accumulated amortization and impairment.

Amortization is charged to the statement of comprehensive income on a straight-line basis over its estimated useful life. The useful lives of intangible assets are as follows:

- Software, licenses, acquired rights 3 years

Subsequent expenditure on an intangible asset is capitalized only when it increases the future economic benefits of the asset to which it relates. All other costs are expensed as incurred.

Intangible assets are reviewed for impairment whenever there is an indication that the asset may be impaired.

The useful lives, residual values and amortization method are reviewed annually to ensure that they are consistent with the expected pattern of use of the intangible asset. The Company/Group has no intangible assets with indefinite useful lives.

Leased property

Leases where the Company/Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are recognized as assets of the Company/Group at the commencement date of the lease term and are stated at the lower of fair value of the asset and the present value of the minimum lease payments, less depreciation and impairment losses. All other leases are treated as operating leases.

Assets treated as leases shall be depreciated over the expected useful life on the same basis as the property.

A decision or agreement is a lease based on the substance of the agreement, at the time the agreement is made, to determine whether performance of the agreement is dependent on the use of the particular asset or on whether the agreement grants the right to use the asset.

Stocks

Stocks, including in-progress and finished production, shall be accounted for in the financial statements as the lower of the values (cost or net realised value), after the valuation of impairment for slow-moving and obsolete stocks. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The write-down of stocks to net realizable value below their cost is made when the cost of inventories may not be recoverable through their sale or use. Unrealisable stocks are written off completely. The cost of stocks is calculated using the FIFO method.

Where stocks are produced and in the case of unfinished production, the cost price shall also include an appropriate proportion of the indirect cost of production, allocated at rates calculated on the basis of the utilisation of production capacity. Auxiliary materials and stocks are accounted for as costs when they are put into use or included in the price of finished goods if they are used in production.

Cash and cash equivalents

Cash consists of cash on hand and in bank accounts. Cash equivalents are current, highly liquid investments that are easily converted into a known amount of money. Such investments have a maturity of less than 3 months at the date of the contract and the risk of a change in value is negligible. Bank accounts held for automated payment of taxes and repurchase of overpayments are also considered cash equivalents.

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in bank current accounts, deposits with maturity equal to or less than 3 months at the date of the agreement and tax accounts with the bank.

Government grants related to cost compensation

Grants are accounted for on an accrual basis, i.e. grants received or parts of grants are recognized as being used in the periods in which they are incurred.

Grants related to property compensation

Grants related to assets include grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are recognized as deferred income at the fair value of the non-current assets received or acquired and subsequently recognized as income. Amortization of a grant reduces the depreciation expense of the related non-current assets over the useful life of those non-current assets.

Impairment of non-financial assets

The carrying amounts of the Company's/Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of intangible assets with indefinite useful lives and intangible assets not yet available for use is estimated at the reporting date.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest group of cash-generating assets that generates cash flows that are independent of other assets or groups of assets. Any impairment loss is recognized in the statement of comprehensive income.

Calculation of recoverable amount

The recoverable amount of a non-financial asset is the greater of its fair value less costs to sell and value in use. The value in use of an asset is calculated by discounting the future cash flows from the use of the asset to its present value using a tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment

If there is any change in the events or circumstances that led to the measurement of the recoverable amount of the non-financial asset that indicate that the carrying amount of the non-financial asset may be recovered, an impairment loss is reversed. An impairment loss is reversed so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Dividends

Dividends are recognized as a liability in the period in which they are declared (i.e. approved by the general meeting of shareholders).

(All amounts in EUR thousands unless otherwise stated)

Foreign currency

Valuation of foreign currency amounts in national currency
Foreign currency transactions are translated into euro at the official exchange rate between the euro and the foreign currency (hereinafter referred to as the official exchange rate) published by the Bank of Lithuania on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the euro at the official exchange rate ruling at the date of the statement of financial position. Exchange differences arising on the settlement of these transactions are recognized in the statement of comprehensive income.

The following exchange rates were used for the preparation of the financial statements as at 31 December 2019:

	2019				**2018**	
USD 1	=	EUR 0.893735		USD 1	=	EUR 0.8730574

Financial instruments

A financial instrument is any contract that gives rise to a financial asset between one entity and a financial liability or equity instrument.

Financial assets

Initial recognition and evaluation

Financial assets at initial recognition are classified as subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The designation of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets and the business model of the Group/Company that governs the management of the financial assets. Except for trade receivables and contract assets (if any) that do not have a significant financing component, the Group/Company measures at initial recognition financial assets at fair value plus, when financial assets are not carried at fair value through profit or loss, transaction costs. Trade receivables and contract assets (if any) that do not include a significant financing component are measured at the transaction price in IFRS 15.

For a financial asset to be designated and measured at amortized cost or fair value through other comprehensive income, the cash flows arising from a financial asset need only be the principal and the interest payable (SPPI) on the uncovered principal. This assessment is called the SPPI test and is performed for each financial instrument.

The Group/Company's financial asset management model describes how the Group/Company manages its financial assets to generate cash flows. The business model determines whether the cash flows will be generated by collecting the contractual cash flows, selling the financial asset, or both.

A regular way purchase or sale of a financial asset is recognized on the trade date, i.e. the date on which the Group/Company commits to purchase or sell financial assets.

Subsequent assessment

After initial recognition, the Company evaluates financial assets:
a) Amortized cost (debt instruments);
b) At fair value through other comprehensive income, when the profit or loss on derecognition is transferred to profit or loss (debt instruments). As at 31 December 2019 and 2018, the Group/Company did not have such measures;
c) At fair value through other comprehensive income, when the gain or loss is derecognised, it is not transferred to profit or loss (equity instruments). As at 31 December 2019 and 2018, the Group/Company did not have such measures;
d) At fair value through profit or loss. As at 31 December 2019 and 2018, the Group/Company did not have such measures;

Financial assets at amortized cost (debt instruments)

The Group/Company measures financial assets at amortized cost if both of the following conditions are met:

i) Financial assets are held in accordance with a business model that seeks to hold financial assets for the purpose of collecting contractual cash flows; and
ii) The contractual terms of financial assets may give rise to cash flows at specified dates that are only interest payments on the principal and the principal outstanding.

Financial assets carried at amortized cost are subsequently measured using the effective interest rate method (EIR), less impairment losses. Gains and losses are recognized in the statement of comprehensive income when the asset is derecognised, replaced or impaired.

The Group's/Company's financial assets at amortized cost include trade receivables, other current and non-current receivables, loans issued.

Impairment of financial assets

In accordance with IFRS 9, the Group/Company generally recognizes an expected credit loss (ECL) for all debt instruments that are not measured at fair value through profit or loss. The ECL is based on the difference between the contractual receivable cash flows and the cash flows the Group/Company expects to receive, discounted at the approximate effective initial interest rate. ECLs are recognized in two stages. For credit exposures where the credit risk has not materially increased since initial recognition, the ECL shall be calculated for the credit losses arising from default events occurring within the next 12 months (12-month ECL). For those credit exposures with a significant increase in credit risk since initial recognition, the impairment loss is formed by the amount of credit loss expected to be incurred during the remaining life of the credit exposure, regardless of the default maturity (ECL).

For trade receivables and assets arising from customer contracts (if any), the Group/Company applies a simplified method of calculating ECL. Therefore, the Group/Company does not monitor changes in credit risk, but recognizes impairment at each reporting date based on the effective ECL.
The Group/Company has constructed a matrix of expected loss rates based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment (market macroeconomic factors, employment rate, consumer price index, etc.).

The Company estimates and records the expected credit loss for 12 months when issuing a loan. In subsequent reporting periods, in the absence of a significant increase in the credit risk associated with the borrower, the Company adjusts the expected credit loss balance for the 12 months against the outstanding loan amount at the measurement date. If the borrower's financial position is determined to have materially deteriorated compared to the condition prevailing at the time of the loan issuance, the Company accounts for all expected credit losses over the life of the loan. Loans with expected credit losses during the life of the loan are considered to be credit impaired financial assets.

The Group/Company considers that a debtor has defaulted on a financial asset if the contractual payments are overdue by more than 90 days, or where there are indications that the debtor or group of debtors is in serious financial difficulties, defaulting on payments or interest, it is probable that they will enter bankruptcy or reorganization proceedings, and where observable data indicate that future cash flows are expected, such as changes in debt arrears or changes in economic conditions that correlate with defaults. The total amount of expected credit losses on trade receivables and trade receivables is recognized through profit or loss using a counterpart receivable account. Financial assets are derecognised when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and evaluation

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loans and receivables. All financial liabilities are initially recognized at fair value and, in the case of loans and receivables, less any directly attributable transaction costs. Financial liabilities of the Group/Company include trade and other payables, loans received and finance lease liabilities.

Subsequent assessment

The assessment of financial liabilities depends on their classification as described below.

Financial liabilities

Loans received and similar accounts payable
Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognised or amortized. Amortized cost is calculated by taking into consideration the discount or premium on the acquisition as well as the taxes or expenses that are an integral part of the EIR. Amortization of an EIR is included in financial expenses in the statement of comprehensive income.

Write-offs of financial instruments
Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is an enforceable right to clear recognized amounts and it is intended to be settled on a net basis, i.e. realize assets and fulfil liabilities at the same time.

Contingent non-current liabilities to employees

Social security contributions

The Company and the Group pay social security contributions to the State Social Insurance Fund (hereinafter referred to as the Fund) for their employees in accordance with a defined contribution plan and in accordance with the laws of the country. A defined contribution plan is a plan under which the Company and the Group make a defined contribution and will have no future legal or constructive obligation to continue to pay such contributions if the Fund does not have sufficient assets to pay all employees related benefits in the current or prior periods. Social security contributions are recognized as an expense on an accrual basis and classified as an expense for employees.

Non-current employee benefits

1. Non-current liabilities (Employee benefit plans under company ordinances)

The Company and the Group recognizes a liability and an expense for additional benefits based on the Company's and the Group's additional benefit policy, the amount of which depends on the length of service completed in the Company and the Group under 10, 15, 20, 25, etc. years of service. Such changes to the Order came into effect in 2017.

The liability under the entity's employee benefit orders is calculated on the basis of actuarial estimates using the projected unit credit method. Reassessments of actuarial profits and losses are recognized immediately in the statement of financial position with an appropriate debit or credit in retained earnings in other comprehensive income in the period in which they are incurred. Reassessments are not carried forward to profit or loss in subsequent periods.

The liability is recognized in the statement of financial position and reflects the present value of those benefits at the statement of financial position date. The present value of the employee benefit obligation is determined by discounting the estimated future cash flows based on the interest rate on government securities denominated in the same currency as the benefits and having a payout period similar to the expected payout period.

2. Retirement benefits for employees

In accordance with the requirements of the Labour Code of the Republic of Lithuania, every employee leaving the Company/Group at the age of retirement is entitled to a lump sum of 2 months' salary.

Liabilities to employees are recognized as an expense in the current year in the statement of comprehensive income. Past costs are recognized as an expense on an equal basis over the average period until the benefits become vested. Any gain or loss resulting from a change (decrease or increase) in the benefit terms is recognized immediately in the statement of comprehensive income.

The retirement benefit obligation is calculated on the basis of actuarial assumptions using the projected unit credit method. Reassessments of actuarial profits and losses are recognized immediately in the statement of financial position with an appropriate debit or credit in retained earnings in other comprehensive income in the period in which they are incurred. Reassessments are not carried forward to profit or loss in subsequent periods.

The liability is recognized in the statement of financial position and reflects the present value of those benefits at the statement of financial position date. The present value of the employee benefit obligation is determined by discounting the estimated future cash flows based on the interest rate on government securities denominated in the same currency as the benefits and having a payout period similar to the expected payout period.

Revenue

Revenue from contracts with customers. Sales

The Company and the Group are engaged in the production, sale and distribution of dairy products.

Revenue from contracts with customers is recognized when the control of goods or services passes to the customer, the amount the Group/Company expects to receive in exchange for the goods or services. The Company/Group estimates that the contracts have only one operating obligation. Revenue from contracts with customers is recognized net of value added tax, excise duties and discounts directly attributable to the sale (usually at the time of sale).

Management considers the impact of other items on revenue recognition, such as:

1) Whether the contracts contain several different operational obligations;
2) Whether the contracts provide for variable consideration (other than discounts at the point of sale as described above) and restrictions, if any;
3) Whether the contracts include non-monetary consideration or significant funding components;
4) Whether there other promises in the contracts that should be considered as part of the transaction price;
5) Whether the contractual arrangements (if any) are considered consideration or purchase from the buyer to the customer;
6) Whether the contracts include a non-refundable advance payment to the customer.

The Company sells to its subsidiary raw material (i.e. milk) which is purchased from milk suppliers. The raw material is used by the subsidiary for the production of cheese, which is subsequently purchased by the Company and sold to third parties. Because these raw materials are the major ingredient used in cheese production, the income and expense of such transactions are recorded net in the Company's separate financial statements to avoid artificially inflating revenue as customer contracts are made with the Company and the subsidiary operates as a production unit.

When the Company sells goods purchased from its subsidiary to third parties (retail entities), the Company assumes all risks associated with these transactions, so that income is not offset as stated in IFRIC 15 relating to the assessment of whether the Company is acting on its own account or as an agent.

Due to the Group's/Company's business model, management has not made any significant accounting judgments, estimates or assumptions related to the recognition of contract revenue with customers other than those disclosed in Note 4.

Services rendered, assets transferred, interest income

Revenue from the rendering of services is recognized in the statement of comprehensive income on the basis of the level of performance of the services over the period. Revenue is recognized net of value added tax and discounts.

Lease income is recognized in the statement of comprehensive income on a straight-line basis over the lease term.

Revenue from disposal of assets is recognized in the statement of comprehensive income when the control of goods or services is transferred to the customer, in the amount that the Group/Company expects to receive in exchange for the goods or services.

Revenue is not recognized if there are significant doubts about the recovery of the revenue or the incurrence of the expense associated with the revenue, or when the expected return of the goods or the probable significant risk and the goods cannot be considered as passed on to the buyer.

Interest income is recognized in the statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognized in the statement of comprehensive income using the effective interest method.

Costs

Costs are recognized on an accrual basis as incurred.

Operating lease payments
Operating lease payments under operating leases are recognized in the statement of comprehensive income on a systematic basis over the lease term.

Financial lease payments
Minimum lease payments are apportioned between the finance charge and the outstanding liability, using the effective interest method. Finance charges are spread over the term of the finance lease at a constant periodic rate of interest on the outstanding balance of the liability.

Net financing costs
Net financing costs include interest expense, calculated using the effective interest rate method, interest income on invested funds and the effect of changes in foreign exchange rates.

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of assets that take time to be prepared for their intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The Group capitalizes borrowing costs on assets whose construction commenced after 1 January 2009.

Debts are initially recognized at the fair value of the proceeds received, less the transaction costs. They are subsequently carried at amortized cost (using the effective interest rate method) and the difference between the proceeds and the amount that will be payable on the debt (excluding the capitalized portion) is included in profit or loss for the period.

Segment disclosure

A segment is a significant part of the Company's/Group's operations, distinguished by the products or services being supplied (business segment) or by the provision of products or services in a particular economic environment with specific risks and economic benefits (geographical segment). For the purposes of this financial statements, a business segment is a distinguishable component of the Group's and the Company's operations that are involved in the production of a single product or service or a group of related products or services with different risk and returns.

Income tax

Current and prior tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities, including adjustments for prior years. The tax rates used to calculate this amount are those that are (in principle) applicable before the date of the statement of financial position.

The calculation of the income tax is based on the annual profit, taking into account the calculation of the deferred income tax. Income tax is calculated according to the requirements of Lithuanian tax laws.

In 2019, the corporate tax rate in the Republic of Lithuania is 15 percent (in 2018 – 15 percent).

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income taxes are calculated using the liability method.

Deferred tax assets and liabilities are calculated using tax rates that are expected to apply to taxable profit in the year in which the temporary differences are realized, taking into account the tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized in the statement of financial position to the extent that the management of the Company/Group expects it to be realized in the foreseeable future, based on taxable profit forecasts. If part of the deferred tax is not expected to be realized, this part of the deferred tax is not recognized in the financial statements.

From 1 January 2014, the amount of deductible tax losses carried forward cannot exceed 70 percent of the taxable profit for the current year. Tax losses may be carried forward for an indefinite period, except for losses arising from the disposal of securities and/or derivatives.

Such a transfer is terminated if the Company/Group discontinues operations that caused the loss, unless the Company/Group discontinues operations for reasons beyond its control.

Losses arising from the disposal of securities and/or derivative financial instruments may be carried forward for 5 years and only be offset against profits from transactions of the same nature.

Deferred tax assets and liabilities are offset to the extent that the laws permit the offsetting of the income tax expense and the deferred tax assets of the same enterprise and the same tax authority.

In accordance with applicable tax laws, the tax office may at any time during the 5 consecutive years following the reported tax year carry out a tax audit of the Company and the Group and recalculate additional taxes and fines. The management of the Group believes that all taxes have been correctly calculated and paid in accordance with applicable law and are not aware of any circumstances that could give rise to a potential material liability for unpaid taxes.

Basic and diluted earnings per share

The Company/Group reports basic earnings (losses) per share and diluted earnings (losses) per share. Earnings per share is calculated by dividing the profit/loss attributable to shareholders of the Company/Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by adjusting the profit (loss) attributable to shareholders and the weighted average number of ordinary shares outstanding during the period by all potential ordinary shares. During the reporting period, the Company/Group had not issued any potential ordinary shares.

Post-balance sheet events

Subsequent events that provide additional information about the financial position of the Group and the Company at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

4. MATERIAL VALUATIONS IN THE CONTEXT OF GROUP AND COMPANY ACCOUNTING POLICIES

Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, which reflect the current situation and the reasonably foreseeable future events. The management of the Company/Group, having regard to forecasts and budget, borrowing requirements, performance of its obligations, products and markets, financial risk management, after conducting business continuity assessment, believes that there are no uncertainties and uncertainties regarding the Company's/Group's business continuity.

The Company/Group makes estimates and assumptions about future events, so accounting estimates by definition will not always be consistent with actual results. The preparation of the financial statements of the Group and the Company requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and contingencies at the reporting date. However, the uncertainty about these assumptions and estimates may affect results, which may require a significant adjustment to the carrying amounts of assets or liabilities in the future.

As of the date of these financial statements, there was no material risk that the carrying amounts of assets and liabilities would be materially adjusted in the next reporting year due to changes in the related estimates in the following financial years.

Revenue

The management of the Group and the Company has adopted a significant accounting valuation assumption relating to accounting for marketing services (purchased from customers) (whether considered as consideration payable to the customer or purchase from the customer as noted above). Based on management's assessment, marketing services acquired from customers (retail entities) are treated as a separate service related to various advertising and marketing services provided to the Group, therefore all advertising and marketing expenses incurred during the financial year are accounted as operating expenses in the consolidated and separate reports.

Impairment of loans and receivables

The Company/Group regularly reviews receivables for impairment. As described in the accounting policy, the Company/Group uses the ECL provisioning matrix defined in IFRS 9 for the measurement of impairment, in addition to which individual debtors are individually assessed. The Company/Group has determined that credit losses are less than 0.7% of total receivables, and, considering the effect of future factors, they have been determined to have no impact on the level of losses. The Company/Group used a matrix of expected credit loss provisions for most receivables, and individual estimates were used for a few individual, non-homogeneous cases as described below. In assessing whether an impairment loss should be recognized in the statement of comprehensive income, the Company/Group adopts an estimate of whether there is an indication of a material decrease in expected cash flows from the receivables portfolio and whether the decrease can be related to a separate receivable in that portfolio. Such evidence may include data showing the existence of adverse changes in borrowers' payments or in national or local economic conditions that are directly correlated with the class of receivables.

Impairment losses on receivables are usually recognized in the event of late payment by the debtor by 90 days or more depending on the payment terms that have been set.

Management estimates the expected cash flows from borrowers based on the historical loss experience of borrowers with similar credit risk. The methods and assumptions used to estimate the amount and timing of cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Loans granted by management are rated as having low credit risk. Such an assessment is based on an assessment of the structure of debtors and their ability to repay debt, including historical (very low) default rates and the projected impact of the economic environment. In addition, it is noted that loan repayment is secured by a pledge of assets with a high loan-to-value ratio (LTV). Therefore, the expected credit losses are considered to be insignificant.

An estimate of the impairment of receivables from related parties is disclosed in Note 30.

Net realizable value of inventories and impairment of obsolete inventories

Inventories represent a significant proportion of the assets of the Group and the Company. As at 31 December 2019 and 2018, the management of the Group and the Company had assessed whether the carrying amount of inventories was greater than their net realizable value (summarized in Note 9). Management has also assessed the value of obsolete inventories by applying depreciation rates (based on historical data and projected sales) and assessing whether the amount of depreciation of obsolete inventories was sufficient.

As at 31 December 2019, Impairment losses recognized by the Group and the Company were EUR 287 thousand and EUR 208 thousand, respectively (as at 31 December 2018: EUR 1,869 thousand and EUR 1,517 thousand, respectively). The impairment was based on information such as the date of manufacture, product quality specifications and management's sales forecast calculations. The summarized information related to impairment of stocks is disclosed in Note 9.

Transactions with related parties

The Company and the Group conducts business with related parties in the ordinary course of business. These transactions are mainly aimed at market prices. In the absence of an active market for these transactions, the valuation is used to determine whether the transactions correspond to market prices or not. The basis for measurement is pricing for similar transactions with unrelated parties, if such information is available to the Company or the Group.

Non-current liabilities to employees

As disclosed in Note 3 to the financial statements, the Company and the Group has accounted for non-current liabilities to the employees in accordance with the Labour Code of the Republic of Lithuania and the applicable Company/Group employee benefits policy.

As disclosed in Note 15, the present value of the liabilities includes a range of significant estimates for the assumptions used regarding the level of inflation, the employee turnover rate, the discount rate, etc.

Profit sharing bonuses for milk suppliers

The Company and the Group pay various bonuses to milk suppliers, which are calculated on the basis of the quantity and quality of milk delivered, with regular payments. In addition, the Company/Group may pay additional bonuses to suppliers based on market conditions, annual results of the Company/Group, etc.

The decision as to the fact and the amount of the additional payments to the milk suppliers is a matter of significant appreciation.

As at 31 December 2019 and 2018, the Company and the Group did not recognize any liabilities relating to the payment of additional bonuses as the Company and the Group had no contractual obligation to the suppliers for these benefits. These benefits are a unilateral decision by the Company and the Group.

Contingent liabilities

As disclosed in Note 28 to these financial statements, the Company and the Group have been involved in a number of ongoing legal disputes whose outcome and potential economic loss or gain could not be measured reliably to date. Management estimates that the Company and the Group does not expect to incur material losses in the future due to legal disputes.

The effect of legal disputes on financial statements for the purpose of measuring the amount of a potential liability and its recognition in balance sheet items, and the appropriate disclosure of such disputes in the notes to the financial statements, is within the scope of significant measurement.

Valuation of deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized at the balance sheet date, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Significant amounts of deferred tax assets are recognized based on the Company's and the Group's management's estimates, taking into account the expected periods and amounts of future taxable profits and the Company's/Group's tax planning strategies.

Correction of accounting estimates and errors

Change in accounting estimate is an adjustment to the carrying amount of an asset or liability or the amount of a periodic disposal of an asset by measuring the present condition of the asset or liability, its expected future benefits and future liabilities. Changes in accounting estimates result from new information or new circumstances and are not considered as corrections to errors.

The accounting estimate shall be revised if the circumstances on which it was based change or if new information or experience becomes available. Revisions to the estimate, by their nature, are not related to prior reporting periods and are not a correction of an error. The result of a change in an accounting estimate is recognized prospectively.

In 2018, the Company and the Group reviewed the applicable rates of depreciation of property, plant and equipment for certain classes of property, plant and equipment as disclosed in Note 5.

To the extent that a change in an accounting estimate changes an asset or a liability or relates to an equity item, the result of that change is the adjustment to the carrying amount of the related asset, liability or equity item during the period.

Previous period errors – omissions or misstatements omission or misstatement of the data in the prior period financial statements due to failure to use or misuse reliable information available for the reporting periods for which the financial statements were requested to be published; and could have been received and used properly (and could reasonably have been expected) in the preparation and presentation of the financial statements for that reporting period.

Such errors include the consequences of inaccurate mathematical calculations, misapplication of accounting policies, errors, misinterpretation of facts in the recognition, measurement or presentation of financial statements.

(All amounts in EUR thousands unless otherwise stated)

5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Changes in intangible assets of the Group:

The Group	Aquired rights and patents	Computer software	Licenses	Total
Acquisition cost				
As of 1 January 2018	**105**	**241**	**438**	**784**
-acquisition	85	15	9	109
-sold or written-off assets	-	-	-	-
As of 31 December 2018	**190**	**256**	**447**	**893**
-acquisition	104	-	175	279
-incorporation/mergers	-	21	1	22
-sold or written-off assets	(50)	(135)	(31)	(215)
As of 31 December 2019	**243**	**142**	**592**	**978**
Accumulated amortisation				
As of 1 January 2018	**66**	**226**	**335**	**627**
-amortization	38	10	48	96
-amortization of sold and written-off assets	-	-	-	-
As of 31 December 2018	**104**	**236**	**383**	**723**
-amortization	47	11	49	108
-incorporation/mergers	-	21	1	22
-amortization of sold and written-off assets	(44)	(135)	(31)	(209)
As of 31 December 2019	**107**	**134**	**402**	**643**
Net Book Value				
As of 1 January 2018	**39**	**14**	**103**	**156**
As of 31 December 2018	**86**	**20**	**64**	**170**
As of 31 December 2019	**136**	**8**	**190**	**334**

(All amounts in EUR thousands unless otherwise stated)

Changes in intangible assets of the Company:

The Company	Aquired rights and patents	Computer software	Licenses	Total
Acquisition cost				
As of 1 January 2018	**105**	**226**	**438**	**769**
-acquisition	85	-	9	94
-sold or written-off assets	-	-	-	-
As of 31 December 2018	**190**	**226**	**447**	**863**
-acquisition	104	0	175	279
-incorporation/mergers	0	21	1	22
-sold or written-off assets	(50)	(133)	(30)	(213)
As of 31 December 2019	**243**	**114**	**592**	**950**
Accumulated amortisation				
As of 1 January 2018	**66**	**213**	**335**	**614**
-amortization	38	6	48	92
-amortization of sold and written-off assets	-	-	-	-
As of 31 December 2018	**104**	**219**	**383**	**706**
-amortization	47	6	49	102
- incorporation/mergers	-	21	1	22
-amortization of sold and written-off assets	(44)	(133)	(30)	(207)
As of 31 December 2019	**107**	**114**	**402**	**623**
Net Book Value				
As of 1 January 2018	**39**	**13**	**103**	**155**
As of 31 December 2018	**86**	**7**	**64**	**157**
As of 31 December 2019	**136**	**1**	**190**	**327**

In 2019 amortization of non-current intangible assets of the Group and the Company amounts to EUR 108 thousand and EUR 102 thousand respectively (In 2018 – EUR 96 thousand and EUR 92 thousand, respectively). Amortization expenses of intangible assets are recognized as Operating expenses in the statement of comprehensive income (Note 24).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2019 amount to EUR 279 thousand and EUR 279 thousand, respectively (in 2018 - EUR 109 thousand and EUR 94 thousand). All the acquisitions above are located in Lithuania.

As at 31 December 2019, the Company and the Group have EUR 437 thousand and EUR 441 thousand (EUR 547 thousand and EUR 559 thousand as at 31 December 2018, respectively) of fully amortized non-current intangible assets that are still in use.

(All amounts in EUR thousands unless otherwise stated)

Changes in property, plant and equipment of the Group:

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Acquisition cost						
As of 1 January 2018	**15.724**	**64.106**	**12.164**	**3.076**	**7.814**	**102.886**
-acquisition	867	5.433	382	690	12.290	19.662
-sold or written-off assets	(148)	(619)	(1.750)	(324)	-	(2.841)
-reclassification	5.835	10.831	26	216	(16.908)	-
-transfers to investment property	(719)	-	-	-	-	(719)
-transfers from investment property	210	-	-	-	-	210
As of 31 December 2018	**21.769**	**79.752**	**10.822**	**3.658**	**3.195**	**119.196**
-acquisition	2.005	2.512	1.218	715	3.474	9.924
-sold or written-off assets	(2.972)	(1.485)	(614)	(116)	-	(5.187)
-reclassification	982	2.887	-	234	(4.102)	-
-incorporation/mergers	1.682	4.180	31	447	-	6.341
-transfers to investment property	(1.020)	-	-	-	-	(1.020)
-transfers from investment property	-	-	-	-	-	-
As of 31 December 2019	**22.446**	**87.846**	**11.457**	**4.938**	**2.567**	**129.254**
Accumulated depreciation						
As of 1 January 2018	**8.822**	**48.613**	**10.732**	**2.506**	**-**	**70.675**
-depreciation	420	1.623	178	116	-	2.337
-depreciation of written-off and sold assets	(11)	(517)	(1.708)	(212)	-	(2.448)
-reclassification (subsidiary)	82	(82)	-	-	-	-
-transfers to investment property	(635)	-	-	-	-	(635)
-transfers from investment property	118	-	-	-	-	118
As of 31 December 2018	**8.797**	**49.637**	**9.202**	**2.410**	**-**	**70.046**
-depreciation	668	2.674	298	225	-	3.865
-depreciation of written-off and sold assets	(2.021)	(1.485)	(517)	(106)	-	(4.129)
-incorporation/mergers	1.123	2.315	29	436	-	3.902
-reversals (subsidiary)	-	-	-	-	-	-
-reclassification (subsidiary)	-	-	-	-	-	-
-transfers to investment property	(55)	-	-	--		(55)
-transfers from investment property						
As of 31 December 2019	**8.512**	**53.142**	**9.012**	**2.965**	**-**	**73.629**
Impairment						
As of 1 January 2018	**31**	**-**	**-**	**-**	**2**	**34**
-impairment losses	-	-	-	-	-	-
-transfers to investment property	(12)	-	-	-	-	(12)
-reversal of impairment	(2)	-	-	-	-	(2)
As of 31 December 2018	**17**	**-**	**-**	**-**	**2**	**19**
-impairment losses	-	-	-	-	-	-
-transfers to investment property	-	-	-	-	-	-
-reversal of impairment	(17)	-	-	-	(2)	(19)
As of 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As of 1 January 2018	**6.871**	**15.493**	**1.432**	**570**	**7.812**	**32.176**
As of 31 December 2018	**12.955**	**30.114**	**1.621**	**1.248**	**3.192**	**49.130**
As of 31 December 2019	**13.935**	**34.704**	**2.445**	**1.973**	**2.567**	**55.624**

(All amounts in EUR thousands unless otherwise stated)

Changes in property, plant and equipment of the Company:

The Company	**Land, buildings and constructions**	**Machinery and equipment**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress and prepayments**	**Total**
Acquisition cost						
As of 1 January 2018	**10.767**	**57.573**	**8.994**	**2.601**	**7.184**	**87.119**
-acquisition	867	5.317	620	649	11.528	18.981
-sold or written-off assets	(148)	(578)	(331)	(250)	-	(1.306)
-adding value	-	92	-	8	-	100
-reclassification	5.695	10.300	26	216	(16.235)	-
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	210	-	-	-	-	210
As of 31 December 2018	**17.391**	**72.705**	**9.309**	**3.224**	**2.476**	**105.105**
-acquisition	1.077	2.526	1.194	638	666	6.101
-incorporation/mergers	1.682	4.180	31	447	-	6.340
-sold or written-off assets	(212)	(1.478)	(551)	(116)	-	(2.357)
-adding value	-	-	-	-	-	-
-reclassification	770	1.907	-	234	(2.911)	-
-transfers to investment property	(957)	-	-	-	-	(957)
-transfers from investment property	-	-	-	-	-	-
As of 31 December 2019	**19.750**	**79.841**	**9.983**	**4.427**	**231**	**114.232**
Accumulated depreciation						
As of 1 January 2018	**5.350**	**43.161**	**7.691**	**2.111**	**-**	**58.313**
-depreciation	355	1.498	173	101	-	2.127
-depreciation of written-off and sold assets	(11)	(476)	(290)	(156)	-	(933)
-transfers from investment property	118	-	-	-	-	118
As of 31 December 2018	**5.812**	**44.183**	**7.574**	**2.056**	**-**	**59.625**
-depreciation	624	2.500	305	211	-	3.640
-incorporation/mergers	1.123	2.315	29	436	-	3.902
-depreciation of written-off and sold assets	(145)	(1.477)	(454)	(106)	-	(2.182)
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	-	-	-	-	-	-
As of 31 December 2019	**7.413**	**47.521**	**7.454**	**2.597**	**-**	**64.985**
Impairment						
As of 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**
- impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
As of 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As of 1 January 2018	**5.417**	**14.412**	**1.303**	**490**	**7.184**	**28.806**
As of 31 December 2018	**11.579**	**28.522**	**1.734**	**1.169**	**2.476**	**45.480**
As of 31 December 2019	**12.337**	**32.320**	**2.529**	**1.830**	**231**	**49.247**

For the year ending at 31 December 2019 the depreciation costs of the Group's and the Company's property, plant and equipment amount to EUR 3.865 thousand and EUR 3.640 thousand, respectively (2018 – EUR 2.337 thousand and EUR 2.127 thousand).

The amount of depreciation accounted under the caption 'Cost of Sales' for the financial years 2019 and 2018 amounts to EUR 2.614 thousand and EUR 1.618 thousand by the Company, respectively. By the Group, EUR 2.920 thousand and 1.776 thousand, respectively. The rest of the Company's and the Group's depreciation is accounted under the 'Operating expenses' caption. Part of the depreciation amount is also accounted under the 'Inventory' caption in the value of unsold Inventories as of 31 December 2018 and 2019.

In 2018, the Company and the Group have revised the residual values and useful lives of non-current tangible assets as according to IAS 16 "Property, plant and equipment" and decided to adjust the residual values and useful lives for assets that are not fully depreciated as of 1 January 2018, prospectively. Both the residual values and useful lives were reviewed.

As for the changes in the depreciation assessment, in 2019 depreciation costs for the Group and the Company decreased by EUR 1.250 thousand and EUR 998 thousand respectively, compared to the residual values and useful lives of 2017, in 2018 depreciation costs for the Group and the Company decreased by EUR 1.647 thousand and EUR 1.379 thousand.

All of the acquisitions of non-current tangible and intangible assets made by the Group and the Company during year 2019 and 2018 as disclosed above relate to the Lithuanian segment.

Part of property, plant and equipment of the Company and the Group with the acquisition cost amounting to EUR 39.996 thousand and EUR 47.117 thousand, respectively, was fully depreciated as at 31 December 2019 (EUR 42.410 thousand and EUR 49.450 thousand as at 31 December 2018), but was still in use.

6. INVESTMENT PROPERTY

	The Group	The Company
Acquisition cost		
As of 1 January 2018	**3.313**	**6.071**
- acquisition	26	26
- transfers from property, plant and equipment	719	-
-transfers to property, plant and equipment	(210)	(210)
As of 31 December 2018	**3.848**	**5.887**
-acquisition	35	35
-transfers from property, plant and equipment	1.020	957
-reversals (subsidiary)	(11)	-
-sold or written-off investment property	-	(2.758)
-transfers to property, plant and equipment		
As of 31 December 2019	**4.892**	**4.121**
Accumulated depreciation		
As of 1 January 2018	**292**	**2.123**
- depreciation	179	214
-transfers to property, plant and equipment	(118)	(118)
- transfers from property, plant and equipment	635	-
-reversals (subsidiary)	2	
As of 31 December 2018	**990**	**2.219**
-depreciation	235	242
-transfers to property, plant and equipment	-	-
-reversals (subsidiary)	2	-
-sold or written-off investment property		(1.873)
-transfers from property, plant and equipment	55	-
As of 31 December 2019	**1.282**	**587**
Impairment		
As of 1 January 2018	**-**	**-**
-impairment losses	-	-
-reversal of impairment	(2)	
-transfers from property, plant and equipment	12	
As of 31 December 2018	**10**	**-**
-impairment losses	-	-
-reversal of impairment	(10)	-
-transfers from property, plant and equipment	-	-
As of 31 December 2019	-	-
Net book value, Eur thousand:		
As of 1 January 2018	**3.021**	**3.948**
As of 31 December 2018	**2.847**	**3.668**
As of 31 December 2019	**3.610**	**3.534**

Investment property has been evaluated by independent valuator on 20 April 2018 (adjusted comparable price method was used as primarily valuation method to establish fair value, level 3 in fair value hierarchy).

The Company's investment property in 2018 represents rented assets to ABF Šilutės Rambynas, UAB Čia Market, other non- related parties and legal persons. In 2019 the Company's rent contract with ABF Šilutės Rambynas was terminated. As per valuation reports, the fair value of investment property is varies slightly than net book value as at 31 December 2019.

At the moment of acquisition, the Company and the Group use independent valuator valuations in case the assets are bought/sold within related parties. In other cases assets are purchased in competitive market at the market price.

For the year ending at 31 December 2019 the depreciation costs of the Company's investment property amount to EUR 242 thousand (2018 – EUR 214 thousand). Rental income and related costs are disclosed in Notes 24,25.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

There were no investment property under construction in 2019 and 2018.

Depreciation of investment property is included in the 'Operating expenses' caption.

7.RIGHT-OF-USE-ASSET

According to the new IFRS 16 "Leases" effective as of January 1, 2019 the right-of use asset account to the following:

The Group

	Land, buildings and constructions	Movable property	Vehicles	Total
Acquisition cost				
As of 31 December 2018/ As of 01 January 2019	**2.163**	**346**	**103**	**2.612**
-acquisition	447	-	-	447
-reclassification				
-the end of the contract	(2.016)		(31)	(2.047)
Acquisition cost				
As of 31 December 2019	**594**	**346**	**72**	**1.012**

	Land, buildings and constructions	Movable property	Vehicles	Total
Accumulated depreciation				
As of 31 December 2018/ As of 01 January 2019*	**1.794**	**138**	**39**	**1.971**
-depreciation	564	92	31	687
-reclassification	(0)	-	-	(0)
-the end of the contract	(2.016)	-	(26)	(2.042)
Accumulated depreciation As of 31 December 2019	**342**	**230**	**44**	**616**
Net book value, Eur thousand:				
As of 31 December 2018/As of 01 January 2019	**369**	**208**	**64**	**641**
As of 31 December 2019	**252**	**116**	**28**	**395**

The Company

	Land, buildings and constructions	Movable property	Vehicles	Total
Acquisition cost				
As of 31 December 2018/ As of 01 January 2019	**2.163**	**346**	**103**	**2.612**
-acquisition	447	-	-	447
-reclassification				
-the end of the contract	(2.016)		(31)	(2.047)
Acquisition cost				
As of 31 December 2019	**594**	**346**	**72**	**1.012**

	Land, buildings and constructions	Movable property	Vehicles	Total
Accumulated depreciation As of 31 December 2018/ As of 01 January 2019*	**1.794**	**138**	**39**	**1,971**
-depreciation	564	92	31	687
-reclassification	(0)	-	-	(0)
-the end of contract	(2.016)	-	(26)	(2.042)
Accumulated depreciation As of 31 December 2019	**342**	**230**	**44**	**616**
Net book value, Eur thousand:				
As of 31 December 2018/As of 01 January 2019	**369**	**208**	**64**	**641**
As of 31 December 2019	**252**	**116**	**28**	**395**

8.LOANS GRANTED

The Company and the Group have granted loans to 26 Company's employees as at 31 December 2019 (17 as at 31 December 2018). The average annual loan interest rate: 3%.

Loans have been granted to the employees as a motivating tool based on the Regulations for Provision of Loans to employees. The maximum limit of the fund intended for these loans granted makes up EUR 231.696. On all occasions loans are being granted to a borrower after he/she undertakes to secure repayment of a loan by pledging his/her or another person's real estate property or using other means of security of repayment of a loan acceptable to the company (a credit institution guarantee or other). Upon assessment of a possible risk, liquidity of property being pledged and etc. a fair value of the property being pledged makes up from 100% to 200% of an amount being borrowed.

The Company and the Group have also granted loans to 75 farmers (milk-suppliers) as at 31 December 2019 (73 as at 31 December 2018). Loans in the amount of EUR 806,5 thousand had been granted to farmers within the period from 01/01/2019 to 31/12/2019. The average interest rate on loans granted: 3,5 %. All long-term loans have been granted with collateral (land have been pledged at market prices).

The related party Klaipėdos pienas AB owed EUR 736,5 thousand to the Company as at 31 December 2019 (as at 31 December 2018 – EUR 845 thousand). The loan has been granted with a variable/floating annual interest rate; a loan repayment period – the year 2029; pledged shares.

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Loans granted:	**2.577**	**2.543**	**2.577**	**2.543**
Loans granted to related parties	737	845	737	845
Loans granted to milk suppliers	1.709	1.591	1.709	1.591
Loans granted to the staff	131	107	131	107
Current portion of loans granted *(Note 11)*	***(806)***	***(739)***	***(806)***	***(739)***
In the number loans granted to milk suppliers impairment	*(17)*	*(17)*	*(17)*	*(17)*
Non- current loans granted	**1.771**	**1.804**	**1.771**	**1.804**

All granted loans are in EUR. Granted loan's payback periods are between 1 – 12 years.

9. INVENTORIES

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Raw materials	4.182	3.537	3.642	3.040
Finished goods and work in progress	27.896	28.872	26.790	27.374
Goods for resale	536	518	536	518
	32.614	**32.927**	**30.968**	**30.932**
Less: Allowance for inventories	(287)	(1.869)	(208)	(1.517)
Total	**32.327**	**31.058**	**30.760**	**29.415**

Changes in the allowance for impairment of inventories (EUR thousand):

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Balance at beginning of year	**1.869**	**4.538**	**1.517**	**3.994**
Additional allowance made	-	-		
Reversals of allowance made	(1.582)*	(2.669)*	(1.309)*	(2.477)*
Write-off	-	-	-	-
Balance at end of year	**287**	**1.869**	**208**	**1.517**

* In 2019 the reversal of the decline in production was due to the marketing of matured hard cheese in 2019 and the increased customer demand for long maturation cheese (see note 4)

The acquisition cost of the Group's and the Company's inventories accounted at net realizable value as at 31 December 2019 amounted to EUR 5.130 thousand and EUR 4.263 thousand, respectively (as at 31 December 2018, EUR 4.357 thousand and EUR 3.089 thousand, respectively). Changes in impairment allowance for inventories during 2019 and 2018 were recorded within the Group's and the Company's operating expenses (Note 24).

In 31 December of 2019 the Company did not hold inventories at the related companies, only at the third parties for EUR 33 thousand.
In 31 December 2018 the Company held a stock of EUR 766 thousand at its subsidiary ABF Šilutės Rambynas, EUR 7 thousand at the related company AB Klaipėdos pienas, EUR 226 thousand at the UAB Baltijos mineralinių kompanija and EUR 35 thousand at the third parties.

The allowance formed by the Company for the inventories as at 31 December 2019 and 2018 (EUR 208 thousand and EUR 1.517 thousand, respectively) was formed for illiquid –stationary material and for matured hard cheese. The Company has formed this allowance by assessing various obsolescence related information (such as: production date, taste specifics, etc) and also the Management's forecast of future sales.

In 2019 the reversal of the decrease in production value was made due to the realization of matured hard cheese in 2019 and the increased customer demand for long maturation cheese.

The amount of inventory used (written-off) by the Group and the Company in production of goods for the financial year 2019 accounted under the caption 'Cost of Sales' amounts to EUR 99.274 thousand and EUR 96.335 thousand, respectively (EUR 99.725 thousand and EUR 96.907 thousand in 2018, respectively).

10. TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Trade accounts receivable	15.700	14.819	15.178	14.297
Accounts receivable from related parties	3.496	3.686	3.383	3.547
Total accounts receivable:	**19.196**	**18.505**	**18.561**	**17.844**
Allowance for bad debts	(601)	(621)	(80)	(100)
Allowance for bad debts of related parties	(265)	(339)	(265)	(339)
Net trade receivables:	**18.330**	**17.545**	**18.216**	**17.405**

Changes in the allowance for impairment of trade accounts receivable (EUR thousand):

	The Group		The Company	
	2019	2018	2019	2018
Balance at beginning of year	960	773	439	252
Additional allowance made	(94)	187	(94)	187
Reversals of allowance made	-	-	-	-
Write-off	-	-	-	-
Balance at end of year	**866**	**960**	**345**	**439**

Analysis of trade receivables based on the terms of payment on the 31st December, 2019 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables, not past due	Trade accounts receivables past due			Total
		Less than 60 days	60-120 days	More than 120 days	
Trade account receivables	14.144	942	26	588	**15.700**
Allowance formed	-	-	(13)	(588)	**(601)**
Trade accounts receivables from related parties	2.007	1.212	130	147	**3.496**
Allowance formed	-	(96)	(130)	(39)	**(265)**

The Company (EUR thousand)	Trade accounts receivables, not past due	Trade accounts receivables passed due			Total
		Less than 60 days	60-120 days	More than 120 days	
Trade account receivables	14.143	942	26	67	**15.178**
Allowance formed	-	-	(13)	(67)	**(80)**
Trade accounts receivables from related parties	2.002	1.212	130	39	**3.383**
Allowance formed	-	(96)	(130)	(39)	**(265)**

Analysis of trade receivables based on the terms of payment on the 31st December, 2018 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables, which period has not passed	Trade accounts receivables which due term has passed			Total
		Less than 60 days	60-120 days	More than 120 days	
Trade account receivables	11.023	2.785	403	608	**14.819**
Allowance formed	-	-	(13)	(608)	**(621)**
Trade accounts receivables from related parties	1.021	2.013	225	427	**3.686**
Allowance formed	-	-	-	(339)	**(339)**

The Company (EUR thousand)	Trade accounts receivables, which period has not passed	Trade accounts receivables which due term has passed			Total
		Less than 60 days	60-120 days	More than 120 days	
Trade account receivables	11.022	2.785	403	87	**14.297**
Allowance formed	-	-	(13)	(87)	**(100)**
Trade accounts receivables from related parties	1.009	1.886	225	427	**3.547**
Allowance formed	-	-	-	(339)	**(339)**

For the assessment of allowance on intercompany trade receivables, please refer to Note 30.

11. OTHER ACCOUNTS RECEIVABLE

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Prepaid income tax	407	905	286	764
Current portion of long-term loans granted (Note 8)	806	739	806	739
VAT receivable	783	992	300	930
Other receivables	79	75	79	74
Total:	**2.075**	**2.711**	**1.471**	**2.507**

(All amounts in EUR thousands unless otherwise stated)

12. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Cash at bank	9.879	6.469	8.813	4.322
Cash on hand	22	30	22	30
Total:	**9.901**	**6.499**	**8.835**	**4.352**

13. CAPITAL AND RESERVES

Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of EUR 0,29 each, and the total share capital is EUR 14.028.750, fully paid.

The holders of the ordinary shares are entitled to one vote per fully paid share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital as well as other interest and non-interest as per the Company Law of the Republic of Lithuania as well as other statutes and legal acts.

On 31 December 2018 the Company owned 2.227.228 units of its shares or 4,6 % of shares in total. During financial year 2019, the Company has acquired 1.189.535 units of own shares additionally in amount of EUR 2.204 thousand. On 31st December 2019 the total value of acquired shares amounted to EUR 3.801 thousand (EUR 1.597 thousand as at 31st December 2018).

On 31 December 2019 the Company owned 3.416.763 units of its shares or 7,06 % of shares in total. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the annual profit are required until legal reserve reaches 10% of the authorised capital. This reserve cannot be distributed. It can be used only for covering accumulated losses. Legal reserve of the Company wasn't fully formed.

EUR 1693 is missing until total formation of 10 % legal reserve of the Company.

Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to be used should be restored to retained earnings and redistributed.

The reserve of EUR 10.274 thousand for acquisition of the own shares was formed through the allocation of profits of the year 2018.

14. GOVERMENT GRANTS RECEIVED

Changes in the grants received by the Group and the Company (EUR thousand):

	The Group	The Company
Grants received		
As of 1 January 2018 (balance)	**8.028**	**5.922**
- received	489	400
As of 31 December 2018 (balance)	**8.517**	**6.322**
- received	2.329	2.329
As of 31 December 2019 (balance)	**10.846**	**8.651**
Accumulated amortisation		
As of 1 January 2018 (balance)	**7.060**	**5.075**
- amortization	130	105
As of 31 December 2018 (balance)	**7.190**	**5.180**
- amortization	299	279
As of 31 December 2019 (balance)	**7.489**	**5.459**
Net book value (EUR thousand)		
As of 1 January 2018	**968**	**847**
As of 31 December 2018	**1.327**	**1.142**
As of 31 December 2019	**3.357**	**3.192**

The amounts of the grant received are amortized in equal parts within the respective useful service life of the asset acquired from these funds. Grant amortization is included in the statement of comprehensive income, under the caption 'Cost of Sales' and reduces depreciation costs of non-current assets.

As according to the grant agreement, the Company and the Group is obligated to fulfil the requirements related to Company's and Group's revenue and net profit. In 2019, the Company and the Group was in compliance with the grant agreement requirements.

In 2019 the Company completed implementation of the Project (see previous Annual Reports) signed in 2016 with the National Paying Agency regarding assignment of support within the scope of the "Investments in processing of agricultural products, in marketing and (or) development" field of activities under Lithuania`s 2014-2020 Rural Development Program measure "Investment in tangible assets".

In accordance with the latest concluded support contract (discussed in detail in Section „Review of activities, performances and development" of the Annual Consolidated Report for 2018) by 31 December 2019 and 31 December 2018 the Company/Group did not have procurement obligations.

15. DEFINED BENEFIT OBLIGATIONS

The Company has accounted for long-term defined benefit obligations for its employees based on requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's employee additional rewards policy.

	The Company	
	31st Dec 2019	**31st Dec 2018**
Long term liability of post retirement employee benefits	205	288
Short term liability of post retirement employee benefits (Note 22)	121	108
Long term liability under additional rewards policy	2.953	3.154
Short term liability under additional rewards policy (Note 22)	490	535
Total:	**3.769**	**4.085**

	The Group	
	31st Dec 2019	31st Dec 2018
Long term liability of post retirement employee benefits	239	312
Short term liability of post retirement employee benefits (Note 22)	160	140
Long term liability under additional rewards policy	3.199	3.369
Short term liability under additional rewards policy (Note 22)	535	583
Total:	**4.133**	**4.404**

The movement of defined benefit obligations

	The Group	The Company
	Post retirement employee benefits and long term employee benefits (Premium based on additional rewards policy)	Post retirement employee benefits and long term employee benefits (Premium based on additional rewards policy)
Balance as at 1 January 2018	**4.330**	**3.950**
Change accounted in the statements of comprehensive income	154	163
Actuarial (gain) loss	(80)	(28)
Balance as at 31 December 2018	**4.404**	**4.085**
Change accounted in the statements of comprehensive income	(12)	(57)
Actuarial (gain) loss	(259)	(259)
Balance as at 31 December 2019	**4.133**	**3.769**

The main assumptions used in assessing the liability of the Company's long-term employee benefits are presented below:

	31st Dec 2019	31st Dec 2018
Discount rate	1,70%	1,67%-1,70%
Inflation rate	6,00%	3,00%
Turnover rate	20%-24%	20%-24%

16. NON-CONTROLLING INTEREST

Financial information of subsidiaries that have material non-controlling interests is provided below.

Summarised financial information of the subsidiary is as follows (in EUR thousand):

	Silutes Rambynas ABF	
	31st Dec 2019	31st Dec 2018
Current assets	6.546	12.116
Non-current assets	8.658	3.207
Current liabilities	1.535	1.234
Non-current liabilities	281	240
Revenue	32.191	34.669
Profit	(374)	589
Total comprehensive income	**(374)**	**589**

The subsidiary paid no dividends neither in year 2019 no in year 2018.

17. EARNINGS AND DIVIDENDS PER SHARE

Basic earnings (loss) per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary circulation shares in issue during the year.

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Net profit (loss) attributable to the equity shareholders in EUR thousand	10.8240	10.640	13.268	10.421
Weighted average number of circulation shares (units)	44.958.237	46.147.722	44.958.237	46.147.722
Basic earnings (loss) per share in EUR	**0,24**	**0,23**	**0,30**	**0,23**

The Company has not issued any other securities convertible to shares. Therefore, the diluted earnings per share are equal to basic earnings per share.

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Dividends declared	3.692	6.946	3.692	6.946
Weighted average number of circulation shares (units)	44.958.237	46.147.722	44.958.237	46.147.722
Dividends declared per share in EUR	**0,08**	**0,15**	**0,08**	**0,15**

18. FINANCIAL LEASE

As at 31 December 2019,finance lease liabilities of the Group and the Company included liabilities from lease contracts concluded with the leasing companies and liabilities for the right-of-use assets in accordance with IAS 16 "Leases", newly effective as of 01-01-2019.
Future financial lease payments according to the signed financial lease contracts and liabilities for the right-of-use assets are as follows (EUR thousand):

	2019 12 31		2019 01 01*	
The Group	**Minimal financial lease payments**	**Present value of financial lease minimal payments**	**Minimal financial lease payments**	**Present value of financial lease minimal payments**
Less than 1 year	497	490	443	442
2 – 5 years	516	505	316	312
Minimal financial lease payments, EUR thousand	**1.013**	**995**	**759**	**754**
Less: future interest	(18)	-	(5)	-
Present value of minimal financial lease payments, EUR thousand	**995**	**995**	**754**	**754**

	2019 12 31		2019 01 01*	
The Company	**Minimal financial lease payments**	**Present value of financial lease minimal payments**	**Minimal financial lease payments**	**Present value of financial lease minimal payments**
Less than 1 year	497	490	443	442
2 – 5 years	516	505	316	312
Minimal financial lease payments, EUR thousand	**1.013**	**995**	**759**	**754**
Less: future interest	(18)	-	(5)	-
Present value of minimal financial lease payments, EUR thousand	**995**	**995**	**754**	**754**

As at 31st December 2019, the financial lease contracts of the Company and the Group are signed in EUR.
The terms and conditions of the contract with all later additions do not provide any restrictions on the Company's and Group's activities, associated with dividends, additional borrowings or additional long-term rent.

**Note. Due to IFRS 16 "Leases" effective for periods beginning on or after 1 January 2019, Financial Position for 1 January 2019 is restated in line with IFRS 16.*

19. LOANS RECEIVED

The loans of the Company and the Group as at 31st December 2019 (EUR thousand):

Creditor	Date of agreement	Loan maturity date	Currency	Interest rate	2019.12.31	2018.12.31
AB SEB bank	2018-06-11	2023-06-11	EUR	1,35% Euribor 3m	7.000	9.000
AB SEB bank	2019-07-16	2024-03-30	EUR	1,40% Euribor 3m	6.000	
AB SEB bank	2019-01-09	2024-06-15	EUR	2,15% Euribor 6m	998	
Total: thousand EUR					**13.998**	**9.000**

In June 2018, Žemaitijos Pienas, AB concluded a credit agreement with SEB Bankas, AB for the amount of EUR 10 million. The credit was granted for the period of 5 (five) years and bears fluctuating interest rate. The last date of its repayment: June 2023. Collateral for the performance of the obligations under this credit agreement includes the following: current account of the Company at SEB Bankas, AB and real estate at the address 3, Klaipedos Street, Šilutė.

In July 2019, the Company concluded an amendment to the credit agreement with SEB Bankas, AB on the basis of which a new business credit amounting to EUR 6 million was granted to the Company. The credit bears fluctuating annual interest rate. Its repayment date: March 2024. The additional collateral includes industrial building in Šiauliai (with all the equipment).

In addition to the credit agreement, the Company concluded an agreement on financial indicators and other liabilities with SEB Bankas, AB. The financial indicators and non-financial liabilities set down in the agreement are being carried out.

During the reorganization, in the process of merger of Baltijos Mineralinių Vandenų Kompanija with the Company (under the act of the assets, rights and obligations transfer-acceptance dated 31/12/2019), the Company took over the debt of EUR 997 907 that comes from the credit agreement concluded with SEB Bankas, AB. The loan was fully repaid to the bank on 14/02/2020.

As at 31 December 2019, the outstanding balance of the loans received by the Group and the Company amounted to EUR 13.998 thousand.

20. PAYABLES

	The Group		The Company	
	31st Dec 2019	**31st Dec 2018**	**31st Dec 2019**	**31st Dec 2018**
Payables to suppliers	10.485	10.484	9.701	9.964
Payables to related parties	223	955	3.378	8.937
Advances received	657	905	487	772
Total:	**11.365**	**12.344**	**13.566**	**19.673**

Trade payables are non-interest bearing and are normally settled on 30-day terms.

(All amounts in EUR thousands unless otherwise stated)

21. BUSINESS COMBINATIONS

AB "Baltijos mineralinių vandenų kompanija", acquisition of shares

In September 2019 AB "Žemaitijos pienas" acquired 100% shares of UAB "Baltijos mineralinių vandenų kompanija" at the price of EUR 1.912 million . On the basis of sale and purchase transaction, AB "Žemaitijos pienas" became the sole shareholder of UAB "Baltijos mineralinių vandenų kompanija" and according to the provisions of p. 4 of Article 2.90 of the Civil Code of the Republic of Lithuania and p. 1 and p. 6 of Article 29 of the Law on Companies took a decision on UAB "Baltijos mineralinių vandenų kompanija" rearrangement, i.e. it was decided to change the legal status – from private Limited Liability Company to Public Limited Liability Company. After becoming a Public Limited Liability Company, UAB BMVK operated and pursued the same commercial activity with the same rights, obligations and liability. Official permit of supervisory authorities was received in July 2019, and business combination process was completed on 31 December 2019.

Corrections of fair values of assets and liabilities were calculated as the result of determination of the final purchase price.

Acquisition of AB "Baltijos mineralinių vandenų kompanija"	Book value of the shares by 30 September 2019	Influence of final purchase price determination and distribution	Final fair values by 30 September 2019	BMVK data are included into financial statements of AB "Žemaitijos pienas" as of 31 December2019
Non-current assets				
Intangible assets (t.t brand name, patent, or relationship with customer)	-	-	-	-
Real property, plant and equipment	2 186	329	2 515	2 439
Financial assets (investment to the shares of the group)	0	0	0	0
Deferred tax on assets	4	0	4	2
Current assets		0		
Inventories	370	0	370	278
Trade receivables and other current assets	495	-91	404	437
Cash and cash equivalents	409	0	409	45
Non-current liabilities		0		
Financial liabilities to credit institution	-895	0	-895	-998
Deferred tax liabilities		0		
Current liabilities		0		
Other financial obligations		0		
Trade debtors and other current liabilities	-688	0	-688	-263
Net Assets at Acquisition	**1.881**	**238**	**2.119**	**1.940**
Acquired share capital, %	100		100	100
Total value of investments acquired	**1.912**		**1.912**	**1.912**
Cash paid for shares	1.912		1.912	1.912
Total for acquisition	**1.912**		**1.912**	**1.912**
Goodwill	**+31**			
Transaction profit (negative goodwill) recognized as other income in FS of ŽP as of 31/12/2019, total			**-207**	**-28**
Net profit (loss) of AB BMVK during the period from 01/10/2019 to 31/12/2019 2019.10.01-12.31 is accounted in retained earnings of ŽP in the Statement of Changes in Equity				***-179***

According to the independent business valuation, the value of the package of shares of AB "Baltijos mineralinių vandenų kompanija" was determined on 01.04.2019, on the basis of interim balance sheet as of 31/03/2019, and amounted to EUR 1.912 thousand .

Upon initiation of negotiations for a Business Combination, *AB "Baltijos mineralinių vandenų kompanija"* in June 2019 sold its shares of the group - AB "Žemaitijos pieno investicija" (holding 5.08%) and SIA Muižas Piens (holding 36.66%). The value of shares on the balance sheet was of EUR 233 thousand , sales amount – of EUR 256 thousand . The shares were paid for in cash.

(All amounts in EUR thousands unless otherwise stated)

Regarding reorganization of AB "Žemaitijos pienas" and AB "Baltijos mineralinių vandenų kompanija" by merging

On 31 December 2019 AB "Žemaitijos Pienas" (hereinafter referred to as the Company) successfully completed the reorganization process, during which AB "Baltijos mineralinių vandenų kompanija" was merged with the Company. This merging will enable to increase operation efficiency and reduce costs. By selling directly as a manufacturer, the Company will save costs both in infrastructure and human resources, have full control over the sales process and successfully increase revenue. Employees of the merged company did not lose their jobs, but were successfully integrated into the Company`s team of employees and continue their work.

By incorporating well-known trademark "Tichė" and other trademarks of AB "Baltijos mineralinių vandenų kompanija" into the range of already existing products, AB "Žemaitijos pienas" will be able to successfully develop popularity of these trademarks by using its contacts, skills and experience in Lithuanian and foreign markets thereby increasing the Company's income. AB "Žemaitijos pienas" for many years successfully exports its products to dozens of world markets, so there is no doubt that newly acquired trademarks will attract high attention.

Finally, reorganization will allow unlimited sharing of infrastructure and resources, leading to significant cost savings and increased efficiency.

Net cash paid for acquisition of AB "Baltijos mineralinių vandenų kompanija":

Purchase value paid in cash	1.912
Deducting: acquired cash and cash equivalents	45
Net cash paid for acquisition	**1.867**

The fair value of acquired receivables is 437 thousand Eur. The total contractual amount of trade receivables is 437 thousand euros, all of which are likely to be recovered.

Profit of the acquired AB "Baltijos mineralinių vandenų kompanija" amounted to EUR 155 thousand and impacted the Group's net result of EUR (179) thousand during the period from 1 October 2019 October to 31 December 2019.

If the acquisition of AB "Baltijos mineralinių vandenų kompanija" would take place in 1 January 2019, profit of the Group would be higher by EUR 1.035 thousand ; net loss would have increased by EUR 394 thousand .

22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	31st Dec 2019	31st Dec 2018	31st Dec 2019	31st Dec 2018
Vacation reserve	1.200	1.126	1.014	931
Bonuses for employees	-	1.000	-	1.000
Wages and salaries payable	1.058	960	912	827
Social security payable	669	957	592	843
Dividends payable	890	811	890	811
Payables based on defined obligations to employees (Note 15)	695	723	612	644
Management Bonus	-	410	-	410
Accrued expenses	334	291	334	291
Taxes payable, other than income tax	455	254	374	185
Other short-term liabilities	10	47	5	41
Total:	**5.311**	**6.579**	**4.733**	**5.983**

Other payables are non-interest bearing and have an average term of one month.

23. INFORMATION ON SEGMENTS

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading :

The Group	Sales, EUR thousand		Variation in % As comparing 2019 with 2018
	2019	**2018**	
Fermented cheese	85.921	76.207	**12,75%**
Fresh dairy products	59.776	57.005	**4,86%**
Butter and spreadable fat mixes	15.087	15.028	**0,39%**
Dry dairy products	14.108	12.799	**10,23%**
Other	10.658	16.839	**-36,71%**
Total:	**185.550**	**177.878**	**4,31%**

The Company	Sales, EUR thousand		Variation in % As comparing 2019 with 2018
	2019	**2018**	
Fermented cheese	82.736	73.246	**12,96%**
Fresh dairy products	59.535	56.825	**4,77%**
Butter and spreadable fat mixes	15.087	15.028	**0,39%**
Dry dairy products	14.108	12.799	**10,23%**
Other	12.697	18.901	**-32,82%**
Total:	**184.163**	**176.799**	**4,17%**

In order to better plan, organise and control sales, employees of the Marketing and Sales Division are assigned different geographic regions according to the location of final market of the products' sale.

Information on revenue made in different geographical markets is provided below:

	The Group		The Company	
	2019	2018	2019	2018
Sales, EUR thousand:				
Lithuania	94.068	90.726	95.888	92.617
Other Baltic States and CIS countries	34.193	28.544	31.568	26.171
Other Europe countries	43.952	48.188	43.944	48.012
Other	13.337	10.420	12.763	9.999
Total, EUR thousand:	**185.550**	**177.878**	**184.163**	**176.799**

Other non-core activities are considered to be not significant, therefore such information is not provided separately to the decision makers.
For the disclosure on the revenues from transactions with a single external customer that amount to 10% or more of the entity's revenues, please refer to Note 29.

24. OPERATING EXPENSES

	The Group		The Company	
	2019	2018	2019	2018
Wages, salaries and social security**	13.187	13.714	12.764	13.395
Marketing expenses	8.066	6.672	7.968	6.671
Rent and insurance	976	1.939	848	1.939
Logistic services	2.100	1.523	1.904	1.332
Repairs	1.149	736	1.132	718
Materials	807	689	773	673
IT consulting	300	646	285	646
Taxes, other than income tax	347	619	287	579
Consulting	210	584	174	553
Depreciation or amortisation	735	434	707	416
Business trips	339	344	329	336
Trade accounts receivable impairment (reversal)	(94)	203	(94)	203
Utilities	411	177	165	177
Production for advertising purposes	113	92	109	92
Telecommunication	66	72	59	61
Pension reserve and other employee related accruals	19	69	(26)	69
Employee bonuses	-	-	-	-
Other expenses	1.644	949	1.609	820
Inventory allowance (reversal)	(1.230)	(2.669)	(1.309)	(2.477)
Total:	**29.145**	**26.793**	**27.684**	**26.203**

** A part of salary and social security expenses is accounted under Cost of Sales (the Company during 2019 and 2018 accounted EUR 7.624 and 7.453 thousand respectively, the Group accounted EUR 10.150 and EUR 9.959 thousand respectively)

25. INCOME AND EXPENSES OF OTHER ACTIVITIES

	The Group		The Company	
	2019	2018	2019	2018
Other operating income				
Goods for resale sales income	238	220	283	254
Gain on disposal of property, plant and equipment	176	54	2.112	52
Rental income	394	301	525	660
Income of the canteen	-	69	-	69
Other	96	306	115	298
	904	**950**	**3.035**	**1.333**

Other operating expenses				
Cost of goods for resale sold	(204)	(171)	(269)	(198)
Rental expenses	(333)	(247)	(316)	(246)
Other	(132)	(203)	(101)	(203)
	(668)	**(621)**	**(686)**	**(647)**
Net income and expenses of other activities:	**236**	**329**	**2.349**	**686**

Future rent income according to the signed rent agreements are as follows (EUR thousand):

Rent Income	**The Group**		**The Company**	
	31st Dec 2019	**31st Dec 2018**	**31st Dec 2019**	**31st Dec 2018**
Less than 1 year	382	310	382	660
2 – 5 years	1.188	1.305	1.188	2.663
Over 5 years	251	6	251	-
Total:	**1.821**	**1.621**	**1.821**	**3.323**

In the year 2019 and 2018 the currency of the rent income agreements was EUR.

26. FINANCIAL AND INVESTMENT ACTIVITY INCOME AND EXPENSES

	The Group		**The Company**	
	2019	**2018**	**2019**	**2018**
Income from financial and investment activities				
Interest income	84	103	83	103
Foreign currency exchange gain	-	198	-	198
Other financial income	56	85	56	79
Goodwill/merger result	207	-	207	-
	347	**386**	**346**	**380**
Expenses from financial and investment activities				
Foreign currency exchange (loss)	(6)	(153)	(6)	(153)
Interest expense	(136)	(57)	(130)	(57)
Other financial expenses	-	(40)	-	(1)
	(142)	**(250)**	**(136)**	**(211)**
Total:	**205**	**136**	**210**	**169**

27. CORPORATE INCOME TAX EXPENSES (BENEFIT)

	The Group		**The Company**	
	2019	**2018**	**2019**	**2018**
Current income tax expenses	-	19	-	-
Change in deferred income tax asset	1.568	(796)	1.618	(866)
Change in deferred income tax accounted through OCI	-	-	-	-
The correction of prior year income tax	-	56	-	56
Income tax expenses (income) recognised in the statement of comprehensive income	**1.568**	**(721)**	**1.618**	**(810)**

	The Group		**The Company**	
	2019	**2018**	**2019**	**2018**
Profit before tax	14.458	9.984	14.886	9.611
Income tax, applying valid tax rate (15%)	2.233	1.498	2.233	1.442
Permanent differences	1.949	81	1.921	30
Investment incentive utilization	(1.790)	(362)	(1.790)	(344)

(All amounts in EUR thousands unless otherwise stated)

Change in deferred tax allowance	(227)	(350)	(149)	(350)
Deffered tax recognition from investment incentive that was not previously recognised	(597)	(1.644)	(597)	(1.644)
Income tax expenses (income) reported in the statement of comprehensive income	**1.568**	**(777)**	**1.618**	**(866)**
The correction of prior year income tax	**-**	**56**	**-**	**56**
Income tax expenses (income) reported in the statement of comprehensive income	**1.568**	**(721)**	**1.618**	**(810)**

	The Group		**The Company**	
	31st Dec 2019	**31st Dec 2018**	**31st Dec 2019**	**31st Dec 2018**
Deferred income tax asset				
Accounts receivable	54	146	54	68
Inventory allowance	43	281	31	228
Accrued vacation reserve	152	187	152	140
Other accrued expenses	626	783	572	771
Tax loss	135	-	-	-
Investment incentive	597	1.644	597	1.644
Total deferred income tax asset	**1.607**	**3.041**	**1.406**	**2.851**
Deferred income tax asset realization allowance*	(-)	(227)	(-)	(149)
Deferred income tax asset (after realization allowance)	**1.607**	**2.814**	**1.406**	**2.702**
Deferred income tax liability				
Change in depreciation rates of tangible assets	(1.059)	(703)	(958)	(638)
Total deferred income tax liability, in total	**(1.059)**	**(703)**	**(958)**	**(638)**
Deferred income tax asset, net	**548**	**2.111**	**448**	**2.064**

*The allowance of deferred income tax due to allowance for hard cheese recorded as at 31 December 2017 has been reversed as the products were partly realized during year 2018 (see Note 4) and finaly reversed during year 2019.

28. COMMITMENTS AND CONTINGENCIES

During the financial year 2019 the Company had litigation proceedings indicated below.

Courts of General Jurisdiction

1. The Plaintiff: Žemaitijos pienas, AB (hereinafter 'ŽP'), the Defendant: Pakuočių tvarkymo organizacija (hereinafter 'PTO'). The Plaintiff concluded contracts with the Defendant regarding the organization of taxable packaging waste management on 26/02/2013 (hereinafter referred to as "Contract 1") and 09/03/2018 (hereinafter referred to as "Contract 2'), under which PTO had to organize waste management in 2013, 2014, 2015 (under Contract 1) and in 2017 (under Contract 2). PTO did not manage all the waste and did not provide supporting documentation, due to which ŽP suffered losses. ŽP filed the claims for damages to the court against PTO as follows: the claim amount of EUR 96,020 at the court of first instance (under Contract 1) and the claim amount of EUR 73,567 at the court of first instance (under Contract 2). Currently, the case concerning Contract 1 is stopped by the court order and the proceedings are not reopened yet. The case concerning Contract 2 has been examined in substance and the decision has been made in favour of Žemaitijos pienas, AB by adjudging the total amount claimed plus annual interest of 5% and the litigation costs.

2. The plaintiff: ŽP, the Defendant: Lithuanian Armed Forces. ŽP filed a claim against the Defendant for the adjudgment of damages under a purchase and sale contract: the claim amount, including interest, was

approximately EUR 39,000. The District Court of Vilnius City fully satisfied ŽP's claim. The Lithuanian Armed Forces appealed the decision to the Vilnius Regional Administrative Court and, later, to the Supreme Court of Lithuania. Both of the said courts concluded that the monetary claims of ŽP were legitimate. The claim was satisfied, as well as the annual interest of 5 percent was awarded.

3. A number of civil cases are currently pending before the courts for the monetary claims of ŽP, however, the amounts involved are insignificant.

Administrative Courts

1. The plaintiff: ŽP, the Defendant: the Bank of Lithuania. ŽP has appealed the decision of the Bank of Lithuania to impose an economic sanction: a fine of EUR 158,000. The Vilnius Regional Administrative Court reduced the amount of the fine by EUR 20,000. Both parties have appealed to the Supreme Administrative Court of Lithuania, and the case still has to be examined.
   In view of the possible adverse outcome in the case, the Company has a provision of EUR 158,000 in the statement of financial position since 2017 ("Accrued expenses and other current liabilities").

2. Third party: ŽP; Plaintiff: Pakuočių tvarkymo organizacija; Defendant: Environmental Protection Department of Vilnius Region. The substance of the dispute concerns the decision to invalidate the certificates confirming the packaging management. The hearing of the case will take place in the Supreme Administrative Court of Lithuania. The case is still pending.

3. ŽP has filed a complaint with the Kaunas Chamber of the Kaunas Regional Administrative Court regarding the economic sanction of EUR 3000 imposed on ŽP. The outcome of the case is difficult to predict, as the issue regarding the constitutionality of a legal act (relevant to the case) has to be resolved during the proceedings.

29. FINANCIAL RISK MANAGEMENT

In the course of using financial instruments, the Company and the Group face the following risks:

- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

The present note provides information on each of the aforementioned risks the Company/Group faces, the Company's/Group's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's/Group's capital management.

The Company's management is completely responsible for development and supervision of the Company's/Group's risk management structure. The Company's/Group's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's/Group's activities. With the help of trainings, procedures of management standards, the Company/Group aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

(All amounts in EUR thousands unless otherwise stated)

The Company's and the Group's credit risk consisted of the following:

	The Group		The Company	
	31 12 2019	31 12 2018	31 12 2019	31 12 2018
Cash and cash equivalents	9.901	6.499	8.835	4.352
Loans granted	1.771	1.804	1.771	1.804
Trade accounts receivable	18.330	17.545	18.216	17.405
Other accounts receivable	2.075	2.711	1.471	2.507
Other	-	6	-	6
Total financial assets	**32.077**	**28.565**	**30.293**	**26.074**

The Group and the Company have no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. There were three clients in the Group and in the Company from which outstanding trade receivables were higher than 10% calculated from total trade receivables before trade receivables allowance as at 31 December 2019 and 2018. The composition of trade receivables of such clients is stated in the table below. Moreover, the Client No. 2 generated approximately 10% of total Company's revenue during 2018 and 2019.

	The Group		The Company	
	2019 12 31	2018 12 31	2019 12 31	2018 12 31
Customer No. 1	12%	14%	12%	14%
Customer No. 2	11%	11%	12%	11%
Customer No. 3 (related party)	15%	12%	15%	12%

Customers' credit risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

An impairment analysis is performed at each reporting date using a provision matrix and individual assessment to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on the analysis performed, the Company/Group concluded that its customers fall under the low-credit risk category.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of financial assets presented above.

With respect to loans granted, trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks belonging to international financial groups with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that, upon maturity, the Company and the Group will be unable to fulfil its financial liabilities. The Group's liquidity management objective is to maximally secure sufficient liquidity of the Group, which enables the Group to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of losing its good reputation.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities, bank overdrafts and credit lines to meet its commitments at a given date in accordance with its strategic plans.

(All amounts in EUR thousands unless otherwise stated)

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities to banks and suppliers based on contractual undiscounted payments:

The Group	**On demand**	**Up to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
Trade payables	-	11.389	-	-	-	11.389
Trade payables to related parties	-	955	-	-	-	955
Loans received	9.000*	-	-	-	-	9.000
Financial lease	-	-	15	98	-	113
Other financial debts**	-	292	427**	214**	-	292
Balance as of 31 December 2018 /as of 01 January 2019	**9.000**	**12.636**	**442**	**312**	**-**	**22.390**
Trade payables	-	11.142	-	-	-	11.142
Trade payables to related parties	-	223	-	-	-	223
Loans received		1.498	1.500	11.000	-	13.998
Financial lease	-	188	302	505	-	995
Other financial debts	-	158	-	-	-	158
Balance as of 31 December 2019	**-**	**13.209**	**1.802**	**11.505**	**-**	**26.516**

The Company	**On demand**	**Up to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
Trade payables	-	10.736	-	-	-	10.736
Trade payables to related parties	-	8.937	-	-	-	8.937
Loans received	9.000*	-	-	-	-	9.000
Financial lease	-	-	15	98	-	113
Other financial debts**	-	292	427**	214**	-	933
Balance as of 31 December 2018 / as of 01 January 2019	**9.000**	**19.965**	**442**	**312**	**-**	**29.719**
Trade payables	-	10.188	-	-	-	10.188
Trade payables to related parties	-	3.378	-	-	-	3.378
Loans received		1.498	1.500	11.000	-	13.998
Financial lease		188	302	505	-	995
Other financial debts	-	158	-	-	-	158
Balance as of 31 December 2019	**-**	**15.410**	**1.802**	**11.505**	**-**	**28.717**

*As described in Note 18 (Loans received) due to covenant breach all of outstanding loan amount is reclassified to liabilities on demand. However, as described in Note 4 (Critical accounting estimates and judgements) the management does not expect the loan to be demanded for repayment before maturity. In this case, the liability outstanding from 3 months to 1 year is EUR 2.111 thousand and from 1 year to 5 years - EUR 7.177 thousand (including loan interest).

***Note. Due to IFRS 16 "Leases" effective for periods beginning on or after 1 January 2019, Financial Position for 1 January 2019 is restated in line with IFRS 16.*

Market risk

Market risk is the risk that market price changes, e.g. raw materials (i.e. milk), foreign exchange rates or interest rates, will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimization of the return.

Foreign exchange risk

Major currency risks of the Group and Company occur due to the fact that the Group and Company is involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR.

The monetary assets and liabilities stated in various currencies were as follows (EUR thousand):

	The Group		The Company	
	31 12 2019		31 12 2019	
	Assets	Liabilities	Assets	Liabilities
EUR	31.232	34.375	29.409	35.718
USD	976	676	976	676
PLN	3	8	3	8
GBP	13	33	13	33
HUF	120	15	120	15
Other	1	0	1	0
Total:	**32.345**	**35.107**	**30.522**	**36.450**

	The Group		The Company	
	31 12 2018		31 12 2018	
	Assets	Liabilities	Assets	Liabilities
			-	-
EUR	28.245	31.574	25.741	38.067
USD	592	26	592	26
PLN	14	38	14	38
GBP	-	74	-	74
Other	6	5	6	5
Total:	**28.857**	**31.717**	**26.353**	**38.210**

Fair value of assets and liabilities

The fair value of the Group's and the Company's investment property was estimated based on the third level of fair value hierarchy (Note 6).

The fair value of financial assets and liabilities provided in the statement of financial position as at the 31 December 2019 does not significantly differ from their carrying amounts.

Trade payables and receivables, except for receivables from related party Cia Market, accounted for in the Group's and the Company's statement of financial position should be settled within a period shorter than three months, therefore, it is deemed that their fair value equals their carrying amount as at 31 December 2019 and 2018 (third level of fair value hierarchy).

The fair value of non-current borrowings is based on the similar non-current borrowings available in the market or on the current rates available for borrowings with the same maturity and risk profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (third level of fair value hierarchy).

The fair value of receivables from UAB Cia Market and loans granted to related parties by the Company is estimated by discounting expected cash flows at market interest rates, management estimates that their fair value approximates carrying amounts as at 31 December 2019 and 2018 (third level of fair value hierarchy).

Capital management

The objective of the Group‘s and the Company's management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The management observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans. The primary objectives of the capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value. The Group‘s and Company's capital consists of share capital in the amount of EUR 14 million, own shares (-) EUR 3,8 million, retained earnings, other reserves and legal reserve.

(All amounts in EUR thousands unless otherwise stated)

Under the Lithuanian laws a company has to maintain its equity at no less than ½ of its share capital, the Company was in compliance with this requirement as of 31 December 2019 and 2018.

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2019.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Group and the Company monitor capital using debt to equity ratio. There is no specific target for debt to equity ratio set out by the Group's and the Company's management, however the management strives for maintaining the balance between higher return, which could be achieved through a higher level of liabilities, and safety, which is provided by a higher level of owner's equity.

30. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Company are:

- the parties that control, are controlled by or are under common control with the Company;
- the parties that have significant influence over the Company;
- the parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- the companies that are under control or significant influence of the aforesaid persons.

The main related parties of the Group and the Company are:

Item No.	Company Name	Company Details	Nature of Main Activities
1.	Šilutės Rambynas, ABF	Company code: 277141670; address: Klaipėdos g. 3, Šilutė, LT-99115	Dairy activities and cheese making
2.	Žemaitijos pieno investicija, AB	Company code: 300041701; address: Sedos g. 35, Telšiai , LT-87101	Renting and operating own and rented real estate
3.	Baltijos mineralinių vandenų kompanija, UAB	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Manufacture of bottled natural mineral water
4.	Klaipėdos pienas, AB	Company code: 240026930; address: Šilutės pl. 33, Klaipėda, LT-91107	Ice-cream production
5.	Čia Market, UAB	Company code: 141354683, address: Sedos g. 35A, Telšiai LT-87101	Retail trade in non-specialized stores.
6.	Muižas piens, SIA	Company code: 40003786632, address: Bauskas iela 58a-8, 5stavs room 507, Riga, LV-1004, Latvia	Wholesale trade in food products, marketing
7.	Samogitija, UAB	Company code: 302501454, address: Narutavičių g. 4, Telšiai, LT-87101	Production, transportation, storage, distribution, etc. of dairy and other food products.
8.	S.A.R. Dziugas France	Company code: 751860669, address: 149 avenue du Maine, Paris	Production and sale of dairy products
9.	Dziugas USA L.L.C.	Company code: 0400754292, address: Five greentree centre, ste. 104, 525 Route 73 North Marlon, NJ08053,	Wholesale import, marketing of dairy products
10.	Dziugas Eesti OU	Company code: 14324189, address: Punane 56, Tallinn, Estonia	Wholesale import, sales and marketing of dairy products
11.	Dziugas Poland	Company code: 368496450, address: ul. Luki Wielke 5, Warsaw, Poland	Activities of agents trading in food and beverages
12.	Baltic Holding, UAB	Company code: 302688114, address: Įgulos g. 18B -4, Klaipėda	IT services
13.	Nepriklausoma tyrimų laboratorija, UAB	Company code: 110824551, address: Narutavičių g. 4, Telšiai	Laboratory and other tests of materials and analysis services
14.	Dziugas Deutschland GmbH	Company code: HRB 154342, address: Chilehaus A, Fischertwiete 2 20095 Hamburg, Germany	Marketing and product sales
15.	Dziugas Hungary Kft	Company code: 01-09-325932, address: H-1132 Budapest, Váci út 22-24. VII. em., Hungary	Wholesale import, sales and marketing of dairy products
16.	Dziugas UK Ltd	Company code: 11405400; address: 10 Bloomsbury Way, London WC1A 2SL, United Kingdom	Activities of agents trading in food and beverages
17.	Baltijos mineralinių vandenų kompanija, AB*	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Manufacture of bottled natural mineral water

*On 31 December 2019 "Žemaitijos Pienas" AB (hereinafter referred to as the Company) after the reorganization process, during which "Baltijos mineralinių vandenų kompanija" AB was merged with the Company.

Milk purchase/sales, acquisition/sales of fixed assets and inventory, purchase/sales of services and other transactions between associated parties are carried out under normal/usual market conditions.

Sales to and purchases from related parties (EUR thousand):

	The Group		The Company	
	31 12 2019	**31 12 2018**	**31 12 2019**	**31 12 2018**
1)Sales				
Sales of goods				
To the subsidiaries				
Šilutės Rambynas ABF	-	-	2.870	2.824
Baltijos mineralinių vandenų kompanija AB			5	-
	-	**-**	**2.875**	**2.824**
To other related parties				
Baltijos mineralinių vandenų kompanija UAB	7	10	7	10
Klaipėdos pienas AB	620	659	120	117
Žemaitijos pieno investicija AB	1	-	1	-
Čia Market UAB	6.896	7.303	6.896	7.303
Dziugas USA LLC	63	(30)	63	(30)
S.A.R.Dziugas France	1		1	
Dziugas Deutschland GmbH	1	-	1	-
Dziuugas Hungary Kft	4		4	
Dziugas Eesti OU	15	10	15	10
Dziugas Poland	1	-	1	-
Nepriklausoma tyrimų laboratorija UAB	15	13	13	13
Muizas piens SIA	867	557	867	557
	8.491	**8.522**	**7.989**	**7.980**
Sales of inventory and services				
To the subsidiaries				
Šilutės Rambynas ABF	-	-	3.027	411
Baltijos mineralinių vandenų kompanija AB	-	-	18	-
	-	**-**	**3.045**	**411**
To other related parties				
Baltijos mineralinių vandenų kompanija UAB	55	33	55	33
Klaipėdos pienas AB	346	445	342	445
Žemaitijos pieno investicija AB	37	171	37	171
Samogitija UAB	1	28	1	28
Čia Market UAB	378	256	373	253
Muizas piens SIA	12	4	12	4
Nepriklausoma tyrimų laboratorija UAB	35	38	35	38
S.A.R.Dziugas France	-	-	-	-
Dziugas Deutschland GmbH	27	2	27	2
Dziugas Hungary Kft	1	-	1	-
Dziugas Eesti OU	2	2	2	2
Dziugas USA LLC	-	-	-	-
Dziugas Poland	12	5	12	5
	906	**984**	**897**	**981**
Total Sales:	**9.367**	**9.506**	**14.806**	**12.196**

(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	31 12 2019	**31 12 2018**	**31 12 2019**	**31 12 2018**
2) Purchases				
From the subsidiaries	-	-	-	-
Šilutės Rambynas ABF	-	-	8.172	9.175
Baltijos mineralinių vandenų kompanija AB			230	-
	-	**-**	**8.402**	**9.175**
From other related parties				
Baltijos mineralinių vandenų kompanija UAB	1.039	2.315	1.039	2.314
Samogitija UAB	38	88	38	88
Čia Market UAB	3.077	2.807	3.075	2.802
Klaipėdos pienas AB	101	101	100	101
Žemaitijos pieno investicija AB	856	802	855	800
Muizas piens SIA	688	451	688	451
Nepriklausoma tyrimų laboratorija UAB	1.156	856	1.109	856
Dziugas Poland	229	141	229	141
Dziugas UK Ltd	136	56	136	56
Dziugas Hungary Kft	72	42	72	42
Dziugas Deutschland GmbH	316	64	316	64
S.A.R.Dziugas France	239	60	239	60
Dziugas USA LLC	31	9	31	9
Dziugas Eesti OU	323	185	323	185
	8.301	**7.977**	**8.250**	**7.969**
Total Purchases:	**8.301**	**7.977**	**16.652**	**17.144**

Balances outstanding with related parties

	The Group		The Company	
	31 12 2019	**31 12 2018**	**31 12 2019**	**31 12 2018**
3) Accounts receivable and financial debts				
Subsidiaries				
Šilutės Rambynas ABF	-	-	-	-
Baltijos mineralinių vandenų kompanija AB	-	-	-	-
	-	-	-	-
Other related parties				
Baltijos mineralinių vandenų kompanija UAB	-	-	-	-
Samogitija UAB	-	-	-	-
Čia Market UAB (including financial lease)	2.675	2.660	2.675	2.657
Klaipėdos pienas AB (including loan)	1.339	1.292	1.226	1.157
Žemaitijos pieno investicija UAB	-	-	-	-
Muizas piens SIA	215	278	215	278
Dziugas Hungary Kft	2	1	2	1
Dziugas Deutschland GmbH	3	2	3	2
S.A.R.Dziugas France	-	-	-	-
Dziugas Eesti Ou	-	4	-	4
Dziugas Poland	4	2	4	2
Dziugas USA LLC	-	297	-	297
	4.238	**4.536**	**4.125**	**4.398**
Total balances of receivables:	**4.238**	**4.536**	**4.125**	**4.398**

(All amounts in EUR thousands unless otherwise stated)

	The Group		The Company	
	31 12 2019	31 12 2018	31 12 2019	31 12 2018
4) Balances of payables				
Subsidiaries				
Šilutės Rambynas ABF	-	-	3.158	7.982
Baltijos mineralinių vandenų kompanija AB	-	-	-	-
	-	-	**3.158**	**7.982**
Other related parties				
Baltijos mineralinių vandenų kompanija UAB	-	586	-	586
Žemaitijos pieno investicija UAB	34	149	34	149
Klaipėdos pienas AB	-	-	-	-
Čia Market UAB	0	-	-	-
Muizas piens SIA	-	46	-	46
Samogitija UAB	40	7	40	7
Nepriklausoma tyrimų laboratorija UAB	97	91	94	91
Dziugas Poland	-	13	-	13
Dziugas UK Ltd	-	11	-	11
S.A.R.Dziugas France	23	-	23	-
Dziugas USA LLC	3	-	3	-
Dziugas Deutschland GmbH	-	47	-	47
Dziugas Hungary Kft	-	5	-	5
Dziugas Eesti OU	26	-	26	-
	223	**955**	**220**	**955**
Total balances of payables:	**223**	**955**	**3.378**	**8.937**

In 2019, the Company accounted for impairment losses for doubtful debts related to amounts belonging to related parties, i.e. UAB Čia Market - 265 thousand (in 2018 – EUR 339 thousand). The assessment of these doubtful debts is reviewed each financial year by checking the financial position of the party concerned, the market in which the party concerned is operating and forward looking factors (as described in Note 3 – Impairment of financial assets). The key judgements and estimates used by the Management of the Company in the evaluation of this allowance was a) the anticipated time over which the outstanding accounts receivable amount is expected to be repaid by UAB Čia Market (approximately 3-4 years as at 31 December 2019 and approximately 3-4 years as at 31 December 2018) and b) the discount rate used in the allowance computation (7,1% as at 31 December 2019 and 5,5% as at 31 December 2018).

The Company and the Group have concluded a number of transactions with related parties (AB "Žemaitijos pieno investicijos" group companies) and the Group's profit and sales are significantly affected by transactions with AB "Žemaitijos pieno investicija" group. Transactions include the leasing of fixed assets, the sale of raw materials and the purchase of manufactured products (cheese) from ABF "Šilutės Rambynas", the sale of distribution services to UAB "Baltijos mineralinių vandenų kompanija", the sale of the finished products to UAB "Čia Market", and the sale of raw materials, production and services to AB "Klaipėdos Pienas ".

31. EVENTS AFTER THE REPORTING PERIOD

There were no other material post balance sheet events, that could make a significant impact to the financial statement of the Company and the Group as at 31st December 2019.

The Group's consolidated financial statements and the Company's financial statements are signed and approved on 16 March 2020.

Robertas Pažemeckas
General Director

Dalia Gecienė
Chief accountant

INFORMATION ON HOW ŽEMAITIJOS PIENAS AB COMPLIED WITH THE CORPORATE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ VILNIUS 2019

The public company Žemaitijos Pienas (hereinafter - the Company) submits and states how it complies with provisions of the **CORPORATE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ VILNIUS**. This document shows which provisions are not complied with **-** reasons are stated; besides, considering the fact that a new version of the governance code was adopted in 2019, particular principles of corporate governance have not been implemented yet; a part of the recommendations shall become applicable in the company's activity gradually, therefore some principles/recommendations are not discussed.

Summary of the Corporate Governance Report

The company's management structure consists of four levels – general meeting of shareholders, supervisory board, management board and manager. In 2019, the supervisory board consisted of three members, whereas the management board consisted of six members[6]; members of the management board are elected and dismissed from office by the supervisory board; the management board has a competence to elect and dismiss from office the manager of the company.

More detailed information on corporate management, shareholders' rights, members of bodies, as well as other facts are provided in the Company's consolidated annual report for 2019. This document is an integral part of the annual report.

PRINCIPLES / RECCOMMENDATIONS	YES /NO / IRELEVANT	COMMENT
Principle 1: **General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights** **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders**.		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	The Company publishes the most significant information in public, provides it at general meetings of shareholders, as well as provides other ways of access to it and participation in the company's governance in the manner and under the procedure laid down in legal acts.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	The Company's shares currently grant equal rights to all shareholders.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The recommendations are compiled according to the procedure laid down in legal acts.
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	Yes	According to the procedure laid down in legal acts.

[6] The Board currently consists of five de facto members (6 members by 10 January 2020), De jure has seven board members foreseen.On January 10, 2020 one of the members of the board resigned, and currently there are five members.

1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	According to the procedure laid down in legal acts.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The recommendation is complied with, rights of shareholders living abroad to access the information and/or familiarise with it are ensured.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders are furnished with the opportunity to vote both, in advance and in person in general meetings of shareholders.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	Yes	The company, after assessing justified, real and reasonable proposals on the application of electronic means of communication in general meetings of shareholders, also after assessing other conditions, including interests of all shareholders, economic costs, technological feasibility and other aspects, would consider this recommendation.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	It is complied with in so far as it is reasonable and practicable.

1.10. Members of the company's collegial management body, heads of the administration1 or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	It is complied with in so far as it is reasonable and practicable subject to objective and reasonable possibilities.
Principle 2: Supervisory board **2.1. Functions and liability of the supervisory board** **The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company. The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	The majority of the supervisory board is independent. This enables to ensure their responsible actions with respect to all interest holders.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	The majority of the supervisory board is independent. This enables to ensure their responsible actions with respect to all interest holders.
2.1.3.The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	The majority of the supervisory board is independent. This enables to ensure their responsible actions with respect to all interest holders.
2.1.4.Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent2 members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence	Yes	
2.1.5.The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	
2.1.6.The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	Conditions are established for proper discharge of duties.

2.2.Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance**.		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	
2.2.2.Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Yes	
2.2.3.Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Yes	
2.2.4.Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Yes	
2 2.2.5.When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances	Yes	
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Yes	The annual budget of remuneration to members of the supervisory board is approved by the general meeting of shareholders.
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its	Yes	Partly carried out.

objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.		
Principle 3: Management board **3.1.Functions and liability of the management board The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1.The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	The management board carries out and implements strategic plans and goals.
3.1.2.As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	The management board, while performing the functions assigned to it, takes into account the needs of the company, shareholders, employees and other interest groups by striving to achieve sustainable business development.
3.1.3.The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	
3.1.4.Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance3 on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	As far as practicable.
3.1.5.When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	
3.2.Formation of the management board		
3 3.2.1.The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a	Yes	

whole, diverse knowledge, opinions and experience to duly perform their tasks.		
3.2.2.Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	
3.2.3.All new members of the management board should be familiarised with their duties and the structure and operations of the company	Yes	All members of the management board are familiarised with and explained their rights and duties.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes/No	Chair of the management board holds office of the CEO, however he does not vote when voting on decisions that may cause a conflict of interest.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	Yes	
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent4, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Irrelevant	

3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	Yes	The budget of remuneration to independent members is approved by the company's general meeting of shareholders. No additional remuneration is paid to members of the management board who work at the company on the basis of employment agreements.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes	Partly carried out.
Principle 4: **Rules of procedure of the supervisory board and the management board of the company** **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Yes	
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be	Yes	A preliminary schedule is approved in which the time, date and agenda of the meeting are set out.

ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.		
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	Are informed beforehand by e-mail and/or other means of communication.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Yes	
Principle 5: Nomination, remuneration and audit committees **5.1.Purpose and formation of committees** **The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest. Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.**		
5.1.1.Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees.	Yes/Ne	An audit committee has been formed.
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.		Functions of committees are currently performed by the collegial bodies themselves.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related	Yes/No	This principle is partly complied with.

to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.		
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	
5.1.5.The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes/No	
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 4) devote the attention necessary to ensure succession planning.	No	Has not been formed. The functions are carried out by the collegial bodies.

5.2.2.When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	No	
5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	No	Has not been formed. The functions are carried out by the collegial bodies.
5.4. Audit committee.		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee.	Yes	
5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	All members of the audit committee are familiarised with peculiarities of activities of the company, excluding information that is treated as confidential.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	Conditions for realising the principle are established.

5.4.4. The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	The principle is complied with, each member of the supervisory and management body declares in writing and confirms his interests, as well as undertakes to avoid a conflict of interest.
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy. 7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.		At the time of preparing the report no remuneration policy has been approved at the company, i.e. during the reporting period no such regulation was established and this is an issue for the future period.

7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance. 7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance. 7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares. 7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year. 7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.		
Principle 8: Role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	
8.2. The corporate governance framework should create conditions for stakeholders to participate in		

corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorised capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.		
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	
Principle 9: Disclosure of information The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		
9.1.In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following: 9.1.1.operating and financial results of the company; 9.1.2.objectives and non-financial information of the company; 9.1.3.persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary; 9.1.4.members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration; 9.1.5.reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities; 9.1.6.potential key risk factors, the company's risk management and supervision policy; 9.1.7.the company's transactions with related parties; 9.1.8.main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.); 9.1.9.structure and strategy of corporate governance; 9.1.10.initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the	Yes	Information is published according to the procedure laid down by legal acts; shareholders are provided with an opportunity to become familiar with it also in other ways, excluding the information and data that are treated as confidential.

Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts		
9.2.When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	
9.3.When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.		
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	
Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm..	Yes	Audit is carried out by an independent company.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	An audit company is selected by way of public competition out of several (at least) three proposals.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	

AB “ŽEMAITIJOS PIENAS” CONSOLIDATED MANAGEMENT REPORT FOR 2019

TABLES OF CONTENT

GENERAL INFORMATION ON MANAGEMENT REPORT OF COMPANIES

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

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

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

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

KEY RISK FACTORS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

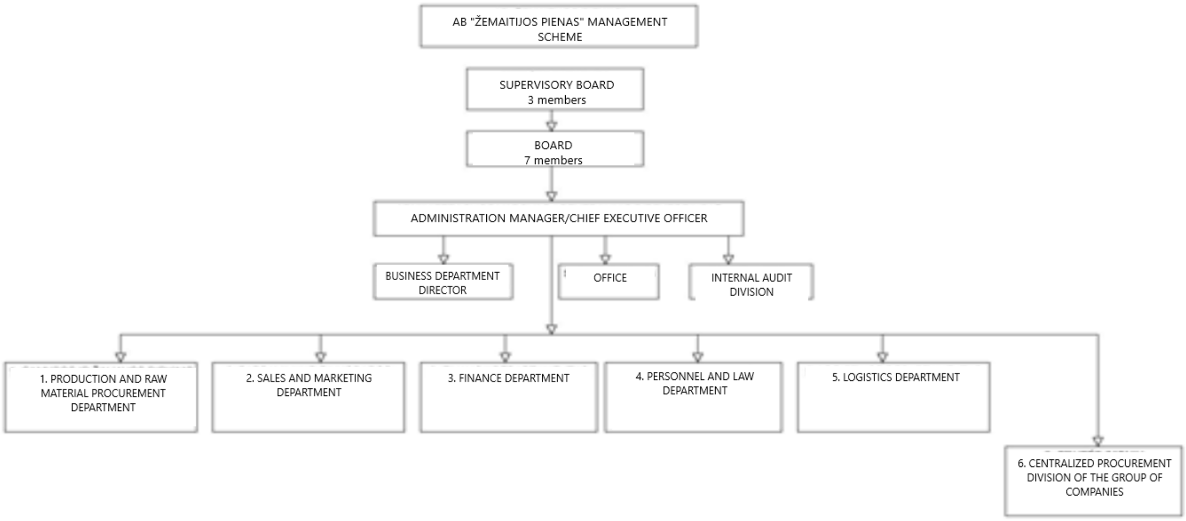
In 2019 the company visited representatives of potential customers who carried out independent audits and positively assessed the state of the existing infrastructure, organization of the core activities and safety processes, cooperation with interested third parties and the established control system.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

MANAGEMENT OF COMPANIES (GROUP)

Bodies and system of the Company

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

Structural management scheme of the Company is provided below.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Procedure on amendment of Articles of Association

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

Supervisory Board of the Company

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

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

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

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

Data on the Members of the Supervisory Board of the Company

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

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

The Board of the Company

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

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

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

Data on the Members of the Board

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

[4] Responsible for procurement, personnel and law areas;
[5] Responsible for logistics area;
[6] Responsible for financial area;
[7] Accountant of AB "Žemaitijos pieno investicija", 0.2 rate;
[8] Responsible for production and plant and machinery areas;

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

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

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

Manager of the Company

[9] Responsible for sales (Export, Baltic states);
[10] Responsible for marketing;
[11] Alma Bartkienė was dismissed from the position of a member of the Board since 10 January 2020.

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

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

Data on the Administration of the Company

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

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

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

Audit Committee of the Company

AB “Žemaitijos pienas” has an Audit Committee, which consists of three persons– Angelė Taraškevičienė (chair), Zina 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

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

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

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

Other aspects related to AB “Žemaitijos pienas” management bodies

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

During 2019 no shares of profit were paid to the members of the Supervisory Board and the Management Board.
During 2019, EUR 5.000 was paid to the Chairlady of the Audit Committee under a service contract.
During the reporting period, no guarantees or warranties were received from the members of the Supervisory Board and the management Board, the Manager of the Company, the Chief Financial Officer / Chief Accountant and Audit Committee members, nor any assets or other property rights were transferred.

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

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

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

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

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

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

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

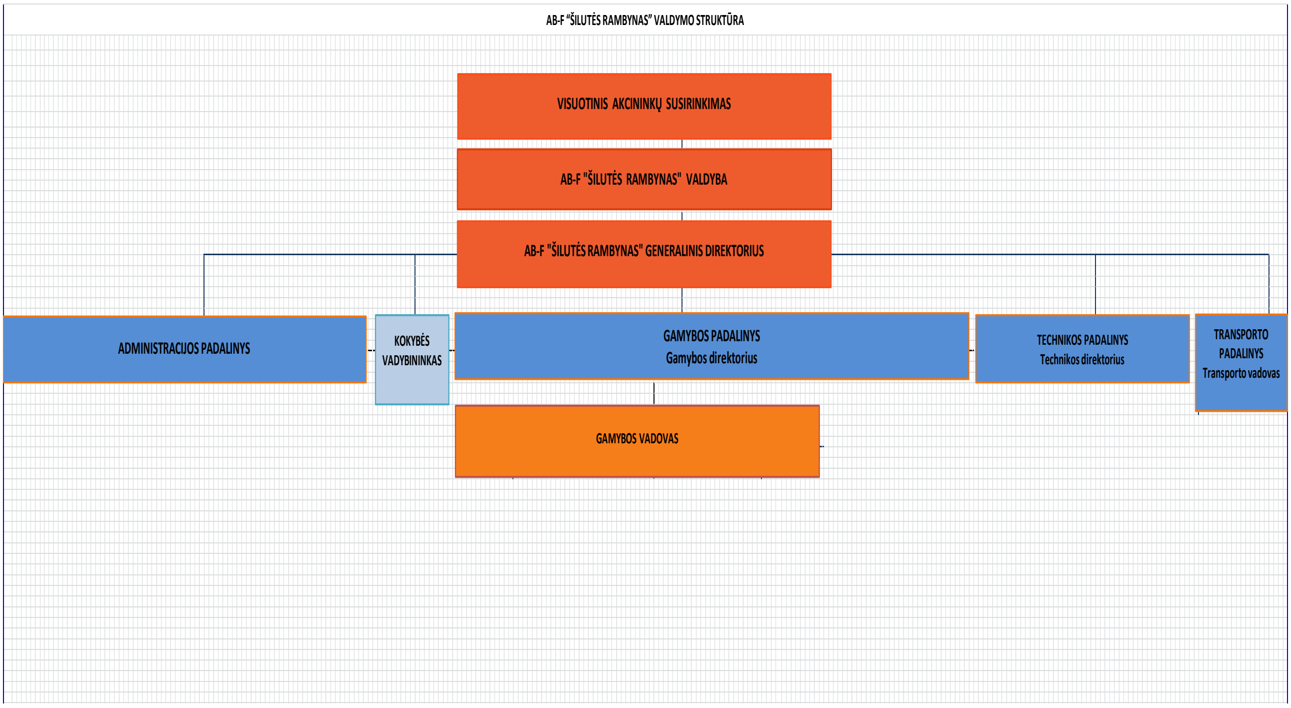
The Board of the Company "de facto" and "de jure" consists of five members. The essential data are provided in the table below:

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

Manager and Administration of the Company

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

Management structure of ABF “Šilutės Rambynas”:



The Company does not have Supervisory Board and Audit Committee.

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

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

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

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

OTHER INFORMATION ON MANAGEMENT

Information on transactions with associated parties and other relevant information

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

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

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

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

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