

V. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Disclosure of ŽEMAITIJOS PIENAS, AB concerning the Compliance with the Corporate Governance Code for the Companies listed on the Vilnius Stock Exchange in 2015

Public Limited Liability Company ŽEMAITIJOS PIENAS (hereinafter – the Company), in accordance with Paragraph 3 of Article 21 of the Law on Securities of the Republic of Lithuania, and Item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, discloses its compliance with the Corporate Governance Code for the Companies listed on the NASDAQ OMX Vilnius, and its specific provisions. In the event of non-compliance with the above-mentioned Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

| PRINCIPLES/RECOMMENDATIONS | YES /NO /NOT APPLICABLE | COMMENTARY |
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| Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value. | | |
| 1.1. A company should adopt and make public company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | Main development directions and strategies of the Company are publicized in the Annual and Interim Reports. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | The Company follows its strategic plan, i.e. it aims to be profitable on the basis of the development and strengthening of technically sophisticated company with the goal of multiplying shareholders' equity. |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | The Company's Supervisory Board, Management Board and General Director are in close cooperation in order to maximize the benefit for the Company and its shareholders. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | The Company's supervisory and management bodies ensure that the rights and obligations of its shareholders, employees and suppliers of raw materials are respected. Employees are given the opportunity to improve their qualification attending the training courses and seminars in Lithuania and abroad; milk producers are given various incentives. A significant part of the employees and milk producers are shareholders of the Company. |
| Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests. | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a General Meeting of Shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, | Yes | The Company's management bodies include the shareholders, the Management Board and the General Director; the Company's supervisory bodies include the Supervisory Board and the Audit Committee. |

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| which, in its turn, facilitate a more efficient and transparent management process. | | |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | The functions set in the present recommendation are fulfilled by collegial supervisory and management bodies – the Supervisory Board and the Management Board. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | Not applicable | Both the Supervisory Board and the Management Board are formed in the Company. |
| 2.4. The collegial supervisory body to be elected by the General Meeting of Shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ² | Yes | There are two collegial bodies – the Company's Supervisory Board and the Management Board, who are subject to the provisions defined in Principles III and IV. |
| 2.5. Company's management and supervisory bodies should comprise such number of management board (executive directors) and supervisory (nonexecutive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ³ | Yes | The Company's Supervisory Board includes 3 (three) members. The Management Board of the Company includes "de jure" 5 (five) members, and "de facto" 4 (three) members. The Company believes that such number of members is sufficient for effective operations of the Company. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | Yes | In accordance with the Articles of Association of the Company, the Management Board and the Supervisory Board are elected for a two-year term, not limiting number of the terms. Dismissal or resignation from the members of the Management Board and the Supervisory Board are regulated by the laws of the Republic of Lithuania. |
| 2.7. Chairman of the collegial body elected by the general meeting of shareholders may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the General | Yes | The Company's General Director and chairman of the Board are two separate persons. The Company's General Director is not the chairman of the Supervisory Board. |

² Provisions of Principles III and IV are more applicable to those instances when the General Meeting of Shareholders elects the supervisory board, i.e. body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory body but rather the management board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees) should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No. 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1. of the Code concerning recommendation to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.6 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

³ Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

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| <p>Meeting of Shareholders. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p> | | |
| <p>Principle III: The order of the formation of a collegial body to be elected by a General Meeting of Shareholders.</p> | | |
| <p>The order of the formation a collegial body to be elected by a General Meeting of Shareholders should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.⁴</p> | | |
| <p>3.1. The mechanism of the formation of a collegial body to be elected by a General Meeting of Shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p> | <p>Yes</p> | <p>The Company's collegial supervisory body - the Supervisory Board is elected by a shareholders' meeting. The Company discloses information about the candidates to the collegial body.</p> <p>The minority shareholders are not restricted to represent their interests and to have their own representative in the collegial body.</p> |
| <p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the General Meeting of Shareholders so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p> | <p>Yes</p> | <p>Information about members of the collegial supervisory body (their names and surnames, information about their education, qualification, professional background, participation in activities of other companies, and other relevant professional obligations) is provided in the Annual Report.</p> |
| <p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members, which are relevant to their service on the collegial body.</p> | <p>Yes</p> | <p>Prior to the next election of the members of the Supervisory Board, the information about the candidates is provided for together with the meeting materials.</p> |
| <p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of</p> | <p>Yes</p> | <p>Members of the Company's collegial bodies have extensive experience in corporate governance, diversity of knowledge and experience to complete their tasks properly</p> |

⁴ Attention should be drawn to the fact that in the situation where the collegial body that is elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1, as well.

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| remuneration policy. | | |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | Yes | New members of the Board are informed about their duties, corporate organization and activities during the Board meetings and individually upon the need and request by the Board members. |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient ⁵ number of independent ⁶ members. | Yes | In spite of the fact that the largest shareholder has a majority of votes at the Meeting of Shareholders and other shareholders have less than 10 per cent of votes, the Management Board of Žemaitijos Pienas, AB consists of members of the Board, who ensure, if possible, proper resolution of conflicts of interest. |
| 3.7. A member of the collegial body should be considered to be independent only if he/she is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when a member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: <ol style="list-style-type: none"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way | No | According to the recommendations, the current members of the Management Board of the Company are not completely independent. |

⁵ The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a large number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

⁶ It is notable that on some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholders or a few major shareholders. But even a member of the collegial body is elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

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| <p>related with later position) as per pension plans (inclusive of deferred compensations);</p> <ol style="list-style-type: none"> 4) He/she is not a controlling shareholder or representative of such shareholder (“control” as defined in the Council Directive 83/349/EEC Article 1 Part); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier, or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. <p>3.8. The determination of what constitutes independence is in general an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p> | | <p>The Company has not established additional criteria for independence of the members of the collegial bodies.</p> |
| <p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does</p> | <p>No</p> | <p>Members of the Supervisory Board do not meet the full criteria of independence set out in the Code.</p> |

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| not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | | |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | The Company had been unable to implement the independence of the members of the Supervisory Board. |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds ⁷ . The General Meeting of Shareholders should approve the amount of such remuneration. | No | Members of the Supervisory Board and the Management Board are not subject for remuneration for their work at the Supervisory Board and the Management Board (but the Company's Articles of Association provides for such possibility). |
| <p><i>Principle IV: The duties and liabilities of a collegial body elected by the General Meeting of Shareholders</i></p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the General Meeting of Shareholders, and the powers granted to the collegial body should ensure effective monitoring⁸ of the company's management bodies and protection of interests of all the company's shareholders.</p> | | |
| 4.1. The collegial body elected by the General Meeting of Shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁹ | Yes | The Company's Management Board approves and presents to the General Meeting of Shareholders the feedback and proposals regarding Annual Financial Statements of the Company, draft of profit distribution, the Company's Annual Report. Also, the Board considers the Company's performance during the year, and performs other functions within the competence of the board. |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should: (a) under all circumstances maintain independence of their analysis, decision-making and actions; (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. | Yes | Members of the Supervisory Board and the Board follow the interests of the Company and its shareholders in carrying out their duties; there were no cases where it would be reason to believe otherwise. |

⁶ It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No. 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other form, besides bonuses, although this possibility is not expressly stated either.

⁷ See Footnote 3.

⁸ See Footnote 3. In the event the collegial body elected by the general shareholder's meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

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| Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | | |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his/her (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half ¹⁰ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | Yes | Members of the collegial bodies perform their functions properly: they actively participate in the meetings of the collegial bodies, and give sufficient time to perform their duties as members of the collegial body. There was quorum during all meetings of the collegial bodies, which led to making constructive decisions. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | No conflicts arose between shareholders and collegial bodies. Shareholders are informed about the affairs of the Company as stipulated by law, i.e. as stipulated in the Law on Companies and the Company's Articles of Association. |
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes | The Company's management bodies conclude transactions according to the legal acts and provisions of the Company's Articles of Association. |
| 4.6. The collegial body should be independent in adopting decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. ¹¹ Members of the collegial body should act and adopt decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for | No | Members of the Supervisory Board and the majority of the Board members are employees of the Company, thus they are not independent of the Company's management bodies. The Company's Supervisory Board and the Board represent the interests of shareholders when taking decisions. |

¹⁰ It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or ¾ of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

¹¹ In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

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| <p>remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive officer or collegial management organs of the company concerned.</p> | | |
| <p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees.¹² Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p> | <p>Yes/No</p> | <p>The Company has not established the Nomination and Remuneration committees set out in the recommendations 4.12 - 4.13, as the Company believes that the Management Board, when carrying out its functions, partially performs the functions of the Nomination Committee and the Remuneration Committee. Moreover, these functions are correctly implemented by the specialized departments operating in the Company, e.g. Personnel and Law, etc.</p> |
| <p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p> | <p>No</p> | <p>The Audit Committee follows the regulations of the Audit Committee, monitors the preparation of financial statements and the conduct of the audit. The collegial bodies remain fully responsible for the decisions taken within their competence, and make final decisions.</p> |
| <p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the</p> | <p>Yes</p> | <p>The Audit Committee consists of three members, one of them being an independent member.</p> |

¹² The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No. 82-3233) determines that an Audit Committee shall be formed in each public interest entity (including but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

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| <p>collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.</p> <p>Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p> | | |
| <p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p> | Yes | <p>Regulations of the Audit Committee were approved by the General Meeting of Shareholders. This Committee shall inform the General Meeting of Shareholders about its activities and results.</p> |
| <p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p> | Yes | <p>Employees of the Company who are responsible for the discussed area participate in the Audit committee meetings and provide all necessary information.</p> |
| <p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should as follows:</p> <ol style="list-style-type: none"> 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for | No | <p>Nomination Committee has not been formed in the Company (see explanation 4.7.).</p> |

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| <p>selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p> | | |
| <p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be as follows:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy of executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. <p>4.13.2. With respect to share options and other share-</p> | <p>No</p> | <p>The Remuneration Committee has not been formed in the Company (see explanation 4.7.).</p> |

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| <p>based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular share options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and present at the Annual General Meeting for this purpose.</p> | | |
| <p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should as follows:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the General Meeting of Shareholders) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of | <p>Yes</p> | <p>The Company basically follows this recommendation. The main objective of the Audit Committee is to oversee audit of the Company's financial statements and procedures for submitting the accounting and financial reporting to stakeholders. The main function of the Audit Committee is to systematically and comprehensively assess and promote the effectiveness of the improvement of the organization's risk management, control and supervision processes, and to submit findings to the General Meeting of Shareholders, the Supervisory Board and the Board regarding the implementation of goals and objectives, risk management procedures and functioning of the internal control.</p> |

fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be provided with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be provided with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be provided with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely provided with information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent

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| <p>investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-year statements are approved.</p> | | |
| <p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p> | No | <p>In the Company there was no practice of the performance evaluation of Supervisory Board and Management Board.</p> |
| <p><i>Principle V: The working procedure of the company's collegial bodies</i></p> <p>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active cooperation between the company's bodies.</p> | | |
| <p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p> | Yes | <p>The Company's Supervisory Board meetings are chaired by the Chairman of the Supervisory Board or other authorized member of the Supervisory Board.</p> <p>The Company's Management Board meetings are chaired by the Chairman of the Board or other authorized member of the Board.</p> |
| <p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.¹³</p> | Yes | <p>The meetings of the Management Board are convoked following the schedule (once a month), preliminary agreed and approved by the Board; extraordinary meetings are also convoked.</p> <p>The meetings of the supervisory board are convoked at least once every six months.</p> |
| <p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate</p> | Yes | <p>All materials related to the agenda are submitted to each member of the collegial bodies by email in advance.</p> <p>The meeting agenda may be supplemented during the meeting only in cases when all</p> |

¹³ The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

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| <p>decisions. Alongside with the notice about the meeting being convened, all the documents 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 are present or certain issues of great importance to the company require immediate resolution.</p> | | <p>members are present at the meeting, when an important issue is discussed, and when all members of the body agree on immediate solution of the issue.</p> |
| <p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's management board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p> | <p>Yes</p> | <p>The meetings of Supervisory Board are open and may be attended by the members of the Management Board.</p> |
| <p><i>Principle VI: The equitable treatment of shareholders and shareholder rights</i> The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p> | | |
| <p>6.1. 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 their holders.</p> | <p>Yes</p> | <p>The Company's share capital consists of ordinary shares, giving their holders equal property and non-property rights.</p> |
| <p>6.2. 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.</p> | <p>Yes</p> | <p>The company provides investors with information about the rights attached to the shares of the new issue or those issued earlier.</p> |
| <p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the General Meeting of Shareholders¹⁴. All shareholders should be provided with equal opportunity to familiarize themselves with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p> | <p>Yes</p> | <p>Approval of the General Meeting of Shareholders is obtained for especially important transactions, the criteria of which are determined by the Law on Companies of the Republic of Lithuania, other legal acts and the Articles of Association of the Company.</p> |
| <p>6.4. Procedures of convening and conducting a General Meeting of Shareholders should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p> | <p>Yes</p> | <p>The General Meeting of Shareholders is convened in accordance with the requirements of the Law on Companies of the Republic of Lithuania, as well and regulations of the Articles of Association of the Company. Each shareholder is informed about the venue, date and time of the General Meeting of Shareholders. Prior to the Meeting, the shareholders have a right to get acquainted with meeting materials, as required by the Law on</p> |

¹⁴ The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No. 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

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| | | Companies of the Republic of Lithuania and the Articles of Association of the Company, no later than the time determined by the legal acts. |
| 6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents related to the General Meeting of Shareholders, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company 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 signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company in Lithuanian and English language, and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | According to the procedure established by the Law on Companies of the Republic of Lithuania, no later than 21 days before the General Meeting of Shareholders, documents prepared to the General Meeting of Shareholders or their drafts are published in VSE website and on the company's website, which allows shareholders to access information publicly. |
| 6.6. Shareholders should be provided with the opportunity to vote in the General Meeting of Shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | Shareholders of the Company may exercise their right to vote in the General Meeting of Shareholders in person or by a proxy upon issuance of proper proxy or having concluded an agreement on transfer of voting right in the manner compliant with the legal regulations; also the shareholder is entitled to vote by completing a general voting ballot in the manner provided by the Law on Companies. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | No | Implementation of the referred measures would entail disproportionate cost compared to the expected benefits; on the other hand, the Company allows the shareholders to express their opinion without direct participation in the meetings using certain technologies. |
| <p><i>Principle VII: The avoidance of conflicts of interest and their disclosure</i></p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p> | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company follows these recommendations. |

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| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the General Meeting of Shareholders or any other corporate body authorized by the meeting. | Yes | |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes | |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Yes | The Company follows these recommendations. A member of the collegial management body abstains from voting when decisions concerning transactions or other issues of personal or business interests are voted on. |
| <p>Principle VIII: Company's remuneration policy</p> <p>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</p> | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should not be only a part of the company's annual accounts – the remuneration statement should also be published on the company's website. | No | The Company does not publicly announce its remuneration policy, as it is not required by the legal acts. However, information on remuneration by certain categories is announced in the half-year and annual financial statements. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | The Company does not publicly announce its remuneration policy, as it is not required by the legal acts. |
| 8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the | No | For the above-listed reasons, the remuneration policy, pursuant to which the remuneration statement would be prepared, is not approved in the Company. |

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| <p>company;</p> <p>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</p> <p>5) Sufficient information on determent periods with regard to variable components of remuneration;</p> <p>6) Sufficient information on the linkage between the remuneration and performance;</p> <p>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.13 of this Code;</p> <p>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p> <p>13) Remuneration statement should not include commercially sensitive information.</p> | | |
| <p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, <i>inter alia</i>, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p> | No | General information about the benefits and loans provided to the members of the Company's Supervisory Board and the Board is publicly announced in the half-year and annual report. |
| <p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</p> <p>4) If permissible by the law, any significant additional</p> | No | The Company does not publicly announce its remuneration policy, as it is not required by the legal acts. However, information on average remuneration of the Company's certain category employees are announced in the half-year and annual reports. |

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| <p>remuneration paid to directors for special services outside the scope of the usual functions of a director;</p> <p>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.5.2. As regards shares and/or rights to acquire share options and/or other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of share options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of exercising share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of the directors during the relevant financial year.</p> <p>8.5.4. The statement should also include amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p> | | |
| <p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to not pay variable components of remuneration when performance criteria are not met.</p> | Yes | The Company's remuneration policy follows the principle of remuneration consisting of a fixed component and a variable component. |
| <p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p> | Yes | The Company's variable remuneration component is calculated according to predetermined performance criteria. |
| <p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to determination should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p> | Yes | The Company's variable remuneration component is calculated according to predetermined performance criteria. |
| <p>8.9. Contractual arrangements with executive or managing directors should include provisions that</p> | No | |

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| <p>permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p> | | |
| <p>8.10. Termination payments should not exceed a fixed amount or fixed number of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p> | No | |
| <p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p> | Yes | In case the employment contract is terminated due to inadequate performance, termination payment is not paid, or is reduced by an appropriate proportion. |
| <p>8.12. The information on preparatory and decision-making process, during which a policy of remuneration of directors is being established, should also be disclosed. The information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of Annual General Meeting of Shareholders.</p> | No | |
| <p>8.13. In case the remuneration is based on the allocation of shares, the shares should not vest for at least three years after their award.</p> | Not relevant | The Company does not apply this practice. |
| <p>8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.</p> | Not relevant | The Company does not apply this practice. |
| <p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p> | Not relevant | The Company does not apply this practice. |
| <p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p> | Yes | |
| <p>8.17. Shareholders, in particular, the institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p> | No | |
| <p>8.18. Without prejudice to the role of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in the remuneration policy should be included into the agenda of the Annual General Meeting of Shareholders. Remuneration statement should be put for voting in the Annual General Meeting of Shareholders. The vote may be either mandatory or advisory.</p> | No | The Company provides the information as required by the Law on Securities of the Republic of Lithuania and/or other legal acts. |
| <p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' at the Annual General Meeting by way of a resolution prior to their adoption. The approval of</p> | Not relevant | The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements. |

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| <p>scheme should be related with the scheme itself and not to the granting of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made at the Annual General Meeting of Shareholders. In such case the shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p> | | |
| <p>8.20. The following issues should be subject to shareholders' approval at Annual General Meeting:</p> <ol style="list-style-type: none"> 1) Granting of remuneration based on share-based schemes, including share options, to the directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which the options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>The Annual General Meeting of Shareholders should also set the deadline, within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p> | | |
| <p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p> | | |
| <p>8.22. Points 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the Annual General Meeting of Shareholders.</p> | | |
| <p>8.23. Prior to the Annual General Meeting of Shareholders that is intended to consider decision stipulated in the item 8.19, the shareholders must be provided with an opportunity to familiarize themselves with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. The notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. The shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends</p> | | |

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| <p>to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p> | | |
| <p><i>Principle IX: The role of stakeholders in corporate governance</i></p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p> | | |
| <p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p> | <p>Yes</p> | <p>The corporate governance framework ensures that the rights of stakeholders that are protected by laws are not breached. The majority of the shareholders consist of the Company's employees and the milk processors.</p> |
| <p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p> | | |
| <p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p> | | |
| <p><i>Principle X: Information disclosure</i></p> <p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</p> | | |
| <p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) Company objectives; 3) Persons who own or control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and related persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Company's management structures and strategy. <p>This list should be deemed as a minimum</p> | <p>Yes</p> | <p>Information about the Company, referred to in these Recommendations, is disclosed in annual and interim reports of the Company, notices of the Company and the Company's financial statements. This information is announced through the Stock Exchange information disclosure system. After the disclosure of material events, the information is published additionally on the media providing more comments.</p> |

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| <p>recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended that consolidated results of the whole group to which the company is a parent company should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 is under disclosure. It is also recommended that information about the amount of remuneration and other income received from the company should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the relationships between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p> | | |
| <p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p> | <p>Yes</p> | <p>The Company submits information through the Vilnius Stock Exchange information disclosure system both in Lithuanian and English languages simultaneously, as far as possible. The Stock Exchange publishes the received information on its webpage and the trading system, thus ensuring dissemination of the information simultaneously to everyone. In addition, the Company aims to publish the information before or after the Vilnius Stock Exchange trading session and to submit simultaneously to all markets that sell the Company's securities. The Company follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.</p> |
| <p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient (or in cases set by law – free) access to information relevant to users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p> | <p>Yes</p> | <p>The Company's annual and interim reports are publicly available on the Company's webpage, thus ensuring fair and cost-efficient access to relevant information. Website: www.zpienas.lt</p> |

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| <p>10.7. It is recommended that the company's annual report, set of financial statements, and other periodical reports prepared by the company should be published on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p> | <p>Yes</p> | <p>The Company's website contains the Company's annual and interim reports, key performance indicators, audited financial statements, reports on material events and information about changes in the price of the Company's shares on the Stock Exchange in both Lithuanian and English.</p> |
| <p><i>Principle XI: The selection of the company's auditor</i></p> | | |
| <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p> | | |
| <p>11.1. An audit of company's set of annual financial statements, interim financial statements, and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion.</p> | <p>Yes</p> | <p>An independent firm of auditors conducts an audit of the Company's financial statements and the annual report.</p> |
| <p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the General Meeting of Shareholders.</p> | <p>Yes</p> | <p>The General Meeting of Shareholders entrusts the Management Board to select an audit firm.</p> |
| <p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company (if any). This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the General Meeting of Shareholders.</p> | <p>Not applicable</p> | <p>The audit firm has not received from the Company any income for non-audit services.</p> |