# ROKIŠKIO SŪRIS AB
# CONSOLIDATED AND THE PARENT COMPANY'S FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT
**31 December 2018**

Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

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# Independent auditor's report

To the shareholders of Rokiškio sūris AB

## Report on the audit of the parent company's and consolidated financial statements

### Our opinion

In our opinion, the parent company's and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Rokiškio sūris AB ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

*What we have audited*
The Company's and the Group's separate and consolidated financial statements comprise:

- the separate and consolidated balance sheet as at 31 December 2018;
- the separate and consolidated income statement for the year then ended;
- the separate and consolidated statement of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

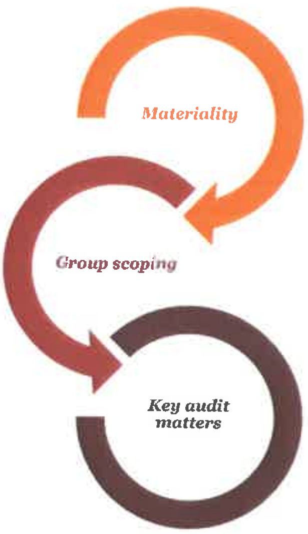
*Independence*
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the separate and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 34 to the financial statements.

## Our audit approach

### *Overview*




Overall Group materiality is EUR 1.6 million which represents 0.8% of consolidated revenue.

Overall Company materiality is EUR 1.5 million which represents 0.8% of the Company's revenue.

We tailored our audit scope based on the risk and size of entities within the Group and performed a full scope audit of the Company and two subsidiaries. At the Group level we tested the consolidation process and performed selected audit procedures over the subsidiary not covered by the above procedures to be able to report on the consolidated financial statements as a whole.

- Revenue recognition
- Valuation of accounts receivable
- Inventory write-down to net realisable value

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the parent company's and consolidated financial statements (together "the financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality for the parent company's and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall Company materiality*** | EUR 1.5 million (2017: EUR 1.79 million) |
| ***Overall Group materiality*** | EUR 1.6 million (2017: EUR 1.95 million) |
| ***How we determined it*** | 0.8% of the Group's and Company's revenue, respectively |
| ***Rationale for the materiality benchmark applied*** | Significant fluctuations in the Company's and the Group's profit depend on the prevailing trends in global dairy markets and therefore the profits for the last years have been volatile. We have, therefore, chosen revenue as a benchmark for determining the materiality because, in our view, it provides more consistent information year-on-year basis, reflecting the Group's and the Company's size and growth, and is one of the key measures of performance that the stakeholders observe. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 160 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| **Revenue recognition** | |
| *Refer to note 2.1, 2.18 and note 5 'Segment reporting' in the financial statements*<br><br>The Group's and the Company's revenue in 2018 amounted to EUR 203.7 million and EUR 181.6 million, respectively, and mostly consists of sales of goods.<br><br>The Company recognises revenues from sales of goods based on the quantity of goods dispatched and the agreed prices. Revenue is recognised only at point of time, when control of goods has been transferred to the customer based on the agreed delivery terms. Revenue is recognised net of discounts or other sales incentives provided. Although revenue recognition involves only limited judgement, due to the size and volume of transactions it | We audited revenue recognition through a combination of controls testing and tests of details.<br><br>We evaluated the design and tested, based on a selected sample of relevant information tested, operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the matching of invoices to related shipping documents and to the agreed prices as indicated in the sale orders or agreements.<br><br>We read the accounting policy for revenue recognition in respect of all material revenue streams, and assessed its compliance with the International Financial Reporting Standards as adopted by the European Union and in particular considered the impact of the new revenue |

continues to be an audit area which requires significant time and resources and is therefore considered to be a key audit matter.

standard, IFRS 15 which became applicable from 1 January 2018.

We also performed the following substantive testing procedures:

- We obtained a sample of transactions conducted with customers during the year and either obtained third party confirmations of the transactions or, where no confirmations were received, reconciled the transactions to the signed agreement or sale order, the shipping documents, the invoices and subsequent receipts of payments from the customers.
- We selected a sample of transactions conducted before and after the year-end and evaluated whether revenue was recognised in an appropriate period based on the transfer of control according to the delivery terms and shipping documents.
- We assessed the accounting treatment for various sales incentives paid to retail chains, such as publication of advertisements in a supermarket's newspaper, listing fees etc.
- We selected a sample of credit invoices, discounts and returns after the year-end and checked whether they were recorded in the appropriate period.
- Our work also included testing a sample of revenue journal entries to identify whether they have been recorded to General Ledger with any unusual corresponding entries.

**Valuation of accounts receivable**

*Refer to note 2.10, note 4 'Critical accounting estimates and judgments' and note 21 'Trade and other receivables' in the financial statements.*

The Group's and the Company's trade receivables amounted to EUR 31.8 million and EUR 36.5 million, respectively, as at 31 December 2018, before taking into account the the credit loss allowance, which amounted to EUR 1.5 million.

In accordance with IFRS 9 'Financial Instruments', starting from 1 January 2018, the Group management assesses expected credit losses in relation to trade receivables on

We performed the following procedures for testing the management's assessment of expected credit losses in relation to trade receivables:

- We evaluated the methodology used by the Group's management to assess its compliance with the requirements of IFRS 9.
- We obtained the ageing analysis of trade receivables as at 31 December 2018 and tested its reliability on the basis of a selected sample of invoices.
- We examined the accuracy of management's classification of trade receivables for their further assessment on a collective or

a forward-looking basis and recognises an allowance for credit losses at each reporting date. The estimate of expected credit losses represents an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, and reflects all reasonable and supportable information that is available at each reporting date about past events, current conditions and forecasts of future economic conditions.

To measure the expected credit losses, the management has grouped trade receivables based on shared credit risk characteristics and the days past due to assess them on a collective or individual basis. The collective assessment was based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. Expected credit losses for significant trade receivables overdue for more than 90 days were evaluated individually based on external information from credit insurance agency, collaterals received as security of repayment and past history of default.

The degree of accuracy of the management's estimate will be confirmed or rebutted depending on the future developments that are inherently uncertain. We focused on assessing the allowance for credit losses in relation to trade receivables as the estimation process is complicated and requires significant management's judgements, and the amount of allowance is significant.

individual basis depending on the credit risk characteristics and the ageing of receivables.

- We examined, on a sample basis, the models and calculations used for the assessment of credit losses on a collective or individual basis.
- We analysed, on a sample basis, whether the ratio of unpaid balances of a customer at the year end to the annual receipts from the customer indicates any potential impairment issues..
- For debtors with amounts overdue more than 90 days, we examined their credit ratings at a credit insurance agency and assessed whether the probability of default assigned by the Company aligned with these ratings..
- For the sample of the amounts overdue more than 90 days, we obtained the data about payments received after the year-end to determine whether the payment patterns were consistent with the management's estimates as at year end. We also enquired whether there were any collateral received or insurance paid in respect of the related receivables, and whether those were appropriately reflected in the calculation of the expected credit losses.
- We read the minutes of the Credit Committee containing the results of regular analysis of possible indicators of default or increase in credit risk.

*Inventory write-down to net realisable value*

*Refer to note 2.9, note 4 'Critical accounting estimates and judgments'and note 20 'Inventory' in the financial statements*

The Group's and the Company's inventory balance amounted to EUR 53.9 million and EUR 51.3 million, respectively, as at 31 December 2018.

We focused on this area due to the size of the inventory balance and because the

We obtained the Company's and the Group's policies and methodology in respect of inventory write-downs to net realisable value, evaluated their compliance with the requirements of IFRSs.

We compared, on a sample basis, the cost of finished goods with their net realisable value, which was based on selling price in transactions that occurred after the balance sheet date and deducted estimated transportation costs. We assessed whether the inventory allowance management's assessment of the net realisable value of finished goods involves estimates about their potential selling price at the balance sheet date.

The Group's and the Company's inventory write-down to net realisable value amounted to EUR 3 million as at 31 December 2018.

recognized by the management was within our internally developed estimated range.

We obtained the aging analysis of finished goods to identify potentially non-realisable items s. We also checked the reliability of the inventory ageing report by checking, on a sample basis, the production batch dates.

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*How we tailored our Group audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Accordingly, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: Rokiškio pienas UAB, Rokiškio pieno gamyba UAB, Rokiškio sūris AB (parent company). At the Group level we tested the consolidation process and performed separate analytical procedures over the subsidiary not covered by the above procedures to be able to report on the consolidated financial statements as a whole.

## Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year ended 31 December 2018, for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company and the Group presented the social responsibility report as a part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and 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 Company and the Group or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's and 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 Company's and 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 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 Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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 have communicated 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 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

### *Appointment*

We were first appointed as auditors of the Group in 1996. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 23 years.

The certified auditor on the audit resulting in this independent auditor's report is Rimvydas Jogėla.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
5 April 2019

Approved
on ____________2019
MINUTES No._____

(All tabular amounts are in EUR '000 unless otherwise stated)

# Income statement

| Group 2018 | Group 2017 | | Notes | Company 2018 | Company 2017 |
|---|---|---|---|---|---|
| 203,675 | 243,566 | Sales | 5 | 181,641 | 223,976 |
| (184,175) | (215,416) | Cost of sales | 11 | (170,709) | (201,511) |
| 19,500 | 28,150 | **Gross profit** | | 10,932 | 22,465 |
| (11,256) | (12,709) | Selling and marketing expenses | 6,11 | (9,435) | (11,003) |
| (7,491) | (7,627) | General and administrative expenses | 7,11 | (4,420) | (4,810) |
| 2,904 | 2,474 | Other income | 8 | 4,768 | 6,499 |
| (1,989) | (1,856) | Other expenses | 9 | (1,978) | (1,862) |
| (20) | (102) | Other (losses)/gains | 10 | (60) | (72) |
| 1,648 | 8,330 | **Operating profit/(loss)** | | (193) | 11,217 |
| (29) | (40) | Finance costs | 12 | (29) | - |
| 1,619 | 8,290 | **Profit/(loss) before income tax** | | (222) | 11,217 |
| 299 | (134) | Income tax expense | 13 | 147 | (196) |
| 1,918 | 8,156 | **Profit/(loss) for the year** | | (75) | 11,021 |
| | | **Profit/(loss) for the year attributable to:** | | | |
| 1,918 | 8,156 | Owners of the Company | | | |
| | | Non-controlling interest | | | |
| 1,918 | 8,156 | | | | |
| 0.05 | 0.25 | **Basic and diluted earnings/(deficit) per share (in EUR per share)** | 14 | - | 0.33 |

The accompanying notes are an integral part of these annual financial statements.

These financial statements were authorised for issue on 5 April 2019 by the Board of Directors and signed on behalf of the Board of Directors by the Managing Director and the Finance Director.

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

Approved
on ____________2019
MINUTES No.______

(All tabular amounts are in EUR '000 unless otherwise stated)

# Statement of comprehensive income

| Group | | | | Company | |
|---|---|---|---|---|---|
| 2018 | 2017 | | Notes | 2018 | 2017 |
| 1,918 | 8,156 | **Profit/(loss) for the year** | | (75) | 11,021 |
| | | **Other comprehensive income** | | | |
| - | - | Gain on revaluation of property, plant and equipment | | - | - |
| - | - | Deferred income tax on revaluation | | - | - |
| - | - | **Other comprehensive income for the year** | | - | - |
| 1,918 | 8,156 | **Total comprehensive income/(loss) for the year** | | (75) | 11,021 |
| | | **Total comprehensive income/(loss) for the year attributable to:** | | | |
| 1,918 | 8,156 | Owners of the Company | | - | - |
| | | Non-controlling interest | | - | - |
| 1,918 | 8,156 | | | - | - |

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

The accompanying notes are an integral part of these annual financial statements.

Approved
on ____________2019
MINUTES No._____

(All tabular amounts are in EUR '000 unless otherwise stated)

# Balance sheet

| Group | | | | Company | |
|---|---|---|---|---|---|
| At 31 December | | | Notes | At 31 December | |
| 2018 | 2017 | | | 2018 | 2017 |
| | | **ASSETS** | | | |
| | | **Non-current assets** | | | |
| 59,022 | 58,640 | Property, plant and equipment | 15 | 38,468 | 36,847 |
| 11 | 2 | Intangible assets | 16 | 11 | 2 |
| 159 | 159 | Investments in subsidiaries | 17 | 5,054 | 5,054 |
| - | 7,760 | Held-to-maturity investments | 31 | - | 7,760 |
| 1,011 | 1,312 | Prepayments for milk supply | 21 | 1,011 | 1,312 |
| 590 | 546 | Prepayments for non-current assets | 21 | 287 | 76 |
| 3,347 | 5,650 | Loans granted | 19 | 3,250 | 5,531 |
| 64,140 | 74,069 | | | 48,081 | 56,582 |
| | | **Current assets** | | | |
| 53,866 | 34,665 | Inventories | 20 | 51,349 | 32,073 |
| 3,029 | 3,011 | Loans granted | 19 | 3,730 | 3,675 |
| 33,289 | 32,452 | Trade and other receivables | 21 | 37,287 | 48,856 |
| 11,991 | 1,285 | Prepayments for milk supply | 21 | 11,438 | 830 |
| 1,277 | 1,462 | Prepaid income tax | | 292 | - |
| 2,619 | 15,715 | Cash and cash equivalents | 22 | 922 | 5,854 |
| 106,071 | 88,590 | | | 105,018 | 91,288 |
| 170,211 | 162,659 | **Total assets** | | 153,099 | 147,870 |
| | | **EQUITY** | | | |
| | | **Attributable to owners of the Company** | | | |
| 10,402 | 10,402 | Share capital | 23 | 10,402 | 10,402 |
| 18,073 | 18,073 | Share premium | | 18,073 | 18,073 |
| 10,850 | 7,606 | Reserve for acquisition of treasury shares | 25 | 10,850 | 7,606 |
| (2,108) | - | Treasury shares | 24 | (2,108) | - |
| 17,391 | 19,933 | Other reserves | 25 | 11,988 | 13,871 |
| 75,711 | 78,082 | Retained earnings | | 69,801 | 74,824 |
| 130,319 | 134,096 | **Total equity** | | 119,006 | 124,776 |
| | | **LIABILITIES** | | | |
| | | **Non-current liabilities** | | | |
| 1,445 | 2,060 | Deferred income tax liability | 18 | 783 | 1,170 |
| 1,483 | 892 | Deferred income | 27 | 731 | 31 |
| 683 | 683 | Non-current provisions | 29 | 307 | 307 |
| 3,611 | 3,635 | | | 1,821 | 1,508 |
| | | **Current liabilities** | | | |
| 14,092 | 1,862 | Borrowings | 26 | 14,092 | 1,862 |
| 405 | 216 | Deferred income | 27 | 291 | 79 |
| 21,380 | 22,446 | Trade and other payables | 28 | 17,565 | 19,321 |
| 404 | 404 | Current provisions | 29 | 324 | 324 |
| 36,281 | 24,928 | | | 32,272 | 21,586 |
| 39,892 | 28,563 | **Total liabilities** | | 34,093 | 23,094 |
| 170,211 | 162,659 | **Total equity and liabilities** | | 153,099 | 147,870 |

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

The accompanying notes are an integral part of these annual financial statements.

(All tabular amounts are in EUR '000 unless otherwise stated)

# The Company's statement of changes in equity

| | Notes | Share capital | Share premium | Reserve for acquisition of treasury shares | Treasury shares | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **10,402** | **12,011** | **11,668** | **(5,102)** | **16,318** | **64,584** | **109,881** |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | - | 11,021 | 11,021 |
| Transfer to retained earnings (transfer of depreciation of revalued assets and disposals of revalued assets, net of deferred income tax) | 25 | - | - | - | - | (2,447) | 2,447 | - |
| **Total comprehensive income for 2017** | | - | - | - | - | **(2,447)** | **13,468** | **11,021** |
| **Transactions with owners** | | | | | | | | |
| Cancellation of treasury shares | | (1,040) | - | (4,062) | 5,102 | - | - | - |
| Issuance of shares | | 1,040 | 6,062 | - | - | - | - | 7,102 |
| Dividends for 2017 | 25 | - | - | - | - | - | (3,228) | (3,228) |
| **Total transactions with owners for 2017** | | - | **6,062** | **(4,062)** | **5,102** | | **(3,228)** | **3,874** |
| **Balance at 31 December 2017** | | **10,402** | **18,073** | **7,606** | - | **13,871** | **74,824** | **124,776** |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | | (75) | (75) |
| Transfer to retained earnings (transfer of depreciation of revalued assets and disposals of revalued assets, net of deferred income tax) | 25 | - | - | - | - | (1,883) | 1,883 | - |
| **Total comprehensive income for 2018** | | - | - | - | - | **(1,883)** | **1,808** | **(75)** |
| **Transactions with owners** | | | | | | | | |
| Acquisition of treasury shares | | - | - | - | (2,108) | - | - | (2,108) |
| Transfer to reserves | | - | - | 3,244 | - | - | (3,244) | - |
| Dividends for 2017 | 25 | - | - | - | - | - | (3,587) | (3,587) |
| **Total transactions with owners for 2018** | | - | - | - | **(2,108)** | - | **(6,831)** | **(5,695)** |
| **Balance at 31 December 2018** | | **10,402** | **18,073** | **10,850** | **(2,108)** | **11,988** | **69,801** | **119,006** |

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

The accompanying notes are an integral part of these annual financial statements.

Approved
on ____________2019
MINUTES No.______

(All tabular amounts are in EUR '000 unless otherwise stated)

# The Group's statement of changes in equity

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital | Share premium | Reserve for acquisition of treasury shares | Treasury shares | Other reserves | Retained earnings | Total |
| **Balance at 1 January 2017** | | **10,402** | **12,011** | **11,668** | **(5,102)** | **22,957** | **70,130** | **122,066** |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | - | 8,156 | 8,156 |
| Transfer to retained earnings (transfer of depreciation of revalued assets and disposals of revalued assets, net of deferred income tax) | 25 | - | - | - | - | (3,024) | 3,024 | - |
| **Total comprehensive income for 2017** | | **-** | **-** | **-** | **-** | **(3,024)** | **11,180** | **8,156** |
| **Transactions with owners** | | | | | | | | |
| Cancellation of treasury shares | | (1,040) | - | (4,062) | 5,102 | - | - | - |
| Issuance of shares | | 1,040 | 6,062 | - | - | - | - | 7,102 |
| Dividends relating to 2016 | 25 | - | - | - | - | - | (3,228) | (3,228) |
| **Total transactions with owners for 2017** | | **-** | **6,062** | **(4,062)** | **5,102** | **-** | **(3,228)** | **3,874** |
| **Balance at 31 December 2017** | | **10,402** | **18,073** | **7,606** | **-** | **19,933** | **78,082** | **134,096** |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | - | 1,918 | 1,918 |
| Transfer to retained earnings (transfer of depreciation of revalued assets and disposals of revalued assets, net of deferred income tax) | 25 | - | - | - | - | (2,542) | 2,542 | - |
| **Total comprehensive income for 2018** | | **-** | **-** | **-** | **-** | **(2,542)** | **4,460** | **1,918** |
| **Transactions with owners** | | | | | | | | |
| Acquisition of treasury shares | | - | - | - | (2,108) | - | - | (2,108) |
| Transfer to reserves | | - | - | 3,244 | - | - | (3,244) | - |
| Dividends relating to 2017 | 25 | - | - | - | - | - | (3,587) | (3,587) |
| **Total transactions with owners for 2018** | | **-** | **-** | **3,244** | **(2,108)** | **-** | **(6,831)** | **(5,695)** |
| **Balance at 31 December 2018** | | **10,402** | **18,073** | **10,850** | **(2,108)** | **17,391** | **75,711** | **130,319** |

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

The accompanying notes are an integral part of these annual financial statements.

(All tabular amounts are in EUR '000 unless otherwise stated)

# Statement of cash flows

| Group | | | | Company | |
|---|---|---|---|---|---|
| Year ended 31 December | | | | Year ended 31 December | |
| 2018 | 2017 | | Notes | 2018 | 2017 |
| | | **Cash flows from operating activities** | | | |
| (21,363) | 32,129 | Cash generated from/(used in) operations | 32 | (17,053) | 14,818 |
| (29) | (40) | Interest paid | | (29) | - |
| (278) | (676) | Income tax paid | | (29) | - |
| (21,670) | 31,413 | Net cash generated from/(used in) operating activities | | (17,111) | 14,818 |
| | | **Cash flows from investing activities** | | | |
| (9,839) | (11,969) | Purchases of property, plant and equipment | 15 | (7,631) | (7,504) |
| (54) | (539) | Prepayments for purchases of property, plant and equipment | | (222) | (78) |
| 7,760 | (7,760) | Sale/(purchase) of investments | 31 | 7,760 | (7,760) |
| | (556) | Loans granted to farmers and employees | | | (556) |
| (170) | (4,707) | Other loans granted | | (170) | (4,707) |
| 136 | 234 | Proceeds from sale of property, plant and equipment | 32 | 14 | 136 |
| 1,205 | 850 | Government grants received | 27 | 1,205 | 56 |
| 2,574 | 2,194 | Other loan repayments received | | 2,393 | 2,079 |
| 427 | 315 | Interest received | | 427 | 386 |
| - | - | Dividends received | 33 | 1,868 | 4,036 |
| 2,039 | (21,938) | Net cash (used in)/generated from investing activities | | 5,644 | (13,912) |
| | | **Cash flows from financing activities** | | | |
| (3,587) | (3,228) | Dividends paid | 25 | (3,587) | (3,228) |
| - | 7,102 | New issuance of shares | 23 | - | 7,102 |
| (2,108) | - | Purchase of treasury shares | 24 | (2,108) | - |
| 12,230 | 4,080 | Loans received | | 12,230 | 4,080 |
| - | (4,080) | Repayments of borrowings | | - | (4,080) |
| 6,535 | 3,874 | Net cash (used in)/generated from financing activities | | 6,535 | 3,874 |
| **(13,096)** | **13,349** | **Net (decrease)/increase in cash and cash equivalents** | | **(4,932)** | **4,780** |
| 15,715 | 2,366 | Cash and cash equivalents at the beginning of the year | 22 | 5,854 | 1,074 |
| **2,619** | **15,715** | **Cash and cash equivalents at the end of the year** | **22** | **922** | **5,854** |

Dalius Trumpa
Managing Director

Antanas Kavaliauskas
Finance Director

The accompanying notes are an integral part of these annual financial statements.

(All tabular amounts are in EUR '000 unless otherwise stated)

# Notes to the financial statements

## 1. General information

Rokiškio Sūris AB ("the Company") is a public limited liability company based in Rokiškis. The Company's code is 173057512, address: Pramonės g. 3 LT-42150 Rokiškis, Lithuania.

The Company's core line of business is the production and trade in fermented cheese, whey products and skimmed milk powder.

The shares of Rokiškio Sūris AB are quoted on the Baltic Main List (ticket: RSU1L) of NASDAQ OMX Vilnius stock exchange.

The consolidated group ("the Group") consists of the four subsidiaries (2017: two branches and four subsidiaries). Information on the Group companies and branches is presented below:

| | Operating as at 31 December | | | | Group's ownership interest (%) as at 31 December | |
|---|---|---|---|---|---|---|
| **Branches** | **2018** | **2017** | | **Subsidiaries** | **2018** | **2017** |
| Utenos Pienas | No | Yes | | Rokiškio Pienas UAB | 100.00 | 100.00 |
| Ukmergės Pieninė | No | Yes | | Rokiškio Pieno Gamyba UAB | 100.00 | 100.00 |
| | | | | Jekabpils Piena Kombinats SIA | 100.00 | 100.00 |
| | | | | *Kaunata SIA** | 60.00 | 60.00 |

* This subsidiary was not consolidated in the Group's financial statements as it was not material (see information below).

Kaunata SIA, company code 240300369, VAT payer's code: LV42403003695, address: S. Rogs, Kaunatas pag. Rezekne novads.
Results of operations for the year ended 31 December 2018 (unaudited) are as follows:
Total assets: EUR 260,710;
Property, plant and equipment: EUR 47,114;
Results of operations: EUR (28,077).
Core line of business of the subsidiary: collection and realisation of milk. The company is the main supplier of raw milk to company Jekabpils Piena Kombinats SIA (subsidiary of Rokiškio Sūris AB).
Kaunata SIA was accounted for at cost.

On 7 September 2018, Utenos Pienas, a branch of Rokiškio Sūris AB, and Ukmergės Pieninė, a branch of Rokiškio Sūris AB, were removed from the Register of Legal Entities. The decision to cease the activities of the branches and remove them from the Register of Legal Entities was made by the Board of Rokiškio Sūris AB on 31 August 2018, Minutes No 123. The decision was made on grounds that the mentioned branches were no longer actually operational following the establishment of the Company's subsidiaries Rokiškio Pienas UAB and Rokiškio Pieno Gamyba UAB.
All the above-listed subsidiaries have been registered in Lithuania, except for Jekabpils Piena Kombinats SIA and Kaunata SIA which have been registered in Latvia.

The Group's and the Company's main line of business is the production of ferment cheese and a wide range of milk products.

The average number of the Company's employees during the year ended 31 December 2018 was 935 (2017: 993). The average number of the Group's employees during the year ended 31 December 2018 was 1,484 (2017: 1,542).

## 2. Accounting policies

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements. The financial year of the Company and other Group companies coincides with the calendar year.

The financial statements have been prepared under the historical cost convention, as modified for available-for-sale financial assets measured at fair value and property, plant and equipment measured at revalued amount.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates (Note 4).

Accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except as follows:

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

The following IFRSs and amendments thereto were adopted by the Company and the Group for the first time for the financial year ended 31 December 2018:

IFRS 9, *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company and the Group applies IFRS 9 starting from 1 January 2018 using the modified retrospective approach.

The Company's financial assets and financial liabilities are classified as follows:

- Loans and amounts receivable will be classified as financial assets measured at amortised cost;
- Financial assets at fair value through profit or loss will remain in the same category;
- Classification of financial liabilities will remain unchanged.

Adoption of IFRS 9 provisions had an insignificant impact on the estimation method of the balances of financial assets that used to be applied before the effective date of the standard.

The Company and the Group developed and installed the expected credit losses (ECL) assessment model which comprises three main financial asset categories: the portfolio of loans granted, trade receivables, and other financial assets.

As regards loans, the ECL model is based on the financial information of the Company's and the Group's debtors and the assessment of collaterals as security of loan repayment. The Company and the Group carried out a separate assessment of collaterals as security of loan repayment and determined that the new standard will have no material impact on the expected credit loss of loans granted.
The Company and the Group made ECL calculations in respect of the portfolio of amounts receivable by customer segments that share similar risk-related characteristics. Historical data of 3 years were used for the assessments, while some debtors were assessed individually The effect of applied new model had no significant effect on Company's and Group's income statement.

The model of other financial assets applies simplified assumptions of the debt securities model. The debt securities model is based on external credit ratings. According to the management, there are no indications of impairment of debt securities, since the debt securities of the Company and the Group consist of the Lithuanian Government securities.

IFRS 15, *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

*Amendments to IFRS 15, Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Company and the Group applies IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company and the Group have assessed the impact of amendments to this standard on the Company's and the Group's financial statements. With the help of analysis and the 'Five Step' approach, the Company and the Group performed an assessment and determined that the amendments to the standard will have no impact or will have insignificant impact on the Company's and the Group's financial statements to be prepared as from 1 January 2018. The Company and the Group do not have any long-term contracts with multiple-element modifications, nor have they any take-or-pay arrangements, or deferred sale incentives, material contracting costs or material prepayments. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.

Following the application of IFRS 15, the delivery of goods to customers may be regarded as a separate performance obligation under IFRS 15. The Company and the Group assessed the amount of open contracts in which the element of the delivery of goods is not yet fully executed and determined it to be immaterial. Therefore, no relating adjustments were made.

IFRIC 22, Foreign currency transactions and advance consideration (effective for annual periods beginning on 1 January 2018). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company and the Group have not assessed the impact of the interpretation on their financial statements.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2018 are not relevant to the Company and the Group.

b) Standards, amendments and interpretations that have been endorsed by the European Union but are not yet effective and have not been early adopted by the Company and the Group:

IFRS 16, *Leases* (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company and the Group plan to adopt IFRS 16 starting from 1 January 2019. The value of assets being transferred under the lease agreement and related lease liabilities will be accounted for in the Company's statement of financial position. The impact of the first-time adoption of the standard will be reflected using the modified retrospective approach which requires adjustment to the balance of retained earnings in the statement of financial position, however the effect assessed by the Group's management to be not material.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The amendment will have no impact on the Company's and the Group's financial statements since they are not engaged in any insurance activities.

*IFRIC 23, Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company and the Group plan to adopt the interpretation as soon as it becomes effective.

*Prepayment Features with Negative Compensation – Amendments to IFRS 9* (effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company and the Group have not assessed the impact of the amendment to the standard on their financial statements.

c) Standards, interpretations and amendments that have not yet been adopted by the European Union and that have not been early adopted by the Company:

*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company and the Group believe the amendments will have no significant impact on their financial statements.

*IFRS 17, Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. These amendments to the standard will have no impact on the Company's and the Group's financial statements because the Company and the Group are not engaged in any insurance activities.

*Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28* (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company and the Group have not assessed the impact of the amendment to the standard on their financial statements.

*Annual Improvements to the IFRSs 2015-2017 Cycle* (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company and the Group have not assessed the impact of these amendments on their financial statements.

*Plan Amendment, Curtailment or Settlement* – Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company and the Group have not assessed the impact of these amendments on their financial statements.

*Amendments to the Conceptual Framework for Financial Reporting* (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company and the Group have not assessed the impact of these amendments on their financial statements.

*Definition of a business* – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Company and the Group have not assessed the impact of these amendments on their financial statements.

*Definition of materiality* – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. 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. The Company and the Group have not assessed the impact of these amendments on their financial statements.

## 2.2 Consolidation

*(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

*(b) Transactions and minority interest*

The group treats transactions with non-controlling interest as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### 2.3 Stand-alone financial statements

Subsidiaries in the stand-alone financial statements are accounted at cost less impairment charge – that is the income from the investment is recognized in full where Company receives distributions from accumulated profits of the investee. Distributions received from accumulated profits arising before the date of acquisition are tested for impairment.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

The items shown in the financial statements of the Company and each entity of the Group are valued by the currency of the original economic environment wherein a specific company operates (hereinafter the "functional currency"). These financial statements have been presented in euros (EUR), which is the Company's (and the Group's each entity's) functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 2.5 Property, plant, and equipment

Property, plant and equipment is shown at revalued amount, based on periodic valuations of assets, less subsequent accumulated depreciation and impairment.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity (other reserves). Decreases in the carrying amount on subsequent revaluations that offset previous increases of the carrying amount of the same asset are charged in other comprehensive income and debited against revaluation reserve in equity all other decreases are charged to the income statement. Increases in the carrying amount on subsequent revaluations that offset previous decreases of the carrying amount are recognised in the income statement; all other increases in the carrying amount on revaluation of property, plant and equipment are recognised in other comprehensive income and added to revaluation reserve in shareholders' equity. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings net of deferred income tax.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets only when it is probable that future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the Group.

Useful lives of property, plant and equipment are given in the table below:

| | |
|---|---|
| Buildings | 7-75 years |
| Plant and machinery | 2-25 years |
| Motor vehicles | 2-10 years |
| Equipment and other property, plant and equipment | 2-25 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress is transferred to appropriate group of property plant and equipment when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount and are included in operating profit.

**2.6 Intangible assets**

*(a) Computer software*
Software assets expected to provide economic benefit to the Company and the Group in future periods are valued at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 1 to 5 years.

*(b) Contractual customer relationships*
Contractual customer relationships recognized as intangible asset upon business acquisition are accounted for at cost less accumulated amortization and impairment. Contractual customer relationships are amortised on the straight-line basis over the estimated useful life of 2 years.

**2.7 Impairment of non-financial assets**

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**2.8 Financial assets**

(a) Following the adoption of IFRS 9, Financial Instruments, the Group and the Company classifies its financial assets into the following 3 new categories:

- financial assets subsequently measured at amortised cost;
- financial assets subsequently measured at fair value through other comprehensive income; and
- financial assets subsequently measured at fair value through profit or loss.

Subsequent to initial recognition, financial assets are classified into the aforementioned categories based on the business model the Group and the Company apply when managing their financial assets. The business model applied to the financial assets of the Group and the Company is determined at a level that reflects how all financial assets of the Group and the Company are managed together to achieve a particular business objective of the Group and the Company. The intentions of the Group and the Company's management regarding individual items of instruments have no effect on the adopted business model. The Group and the Company and the Company may adopt more than one business model to manage its financial assets.

The business model for managing of financial assets is based not merely on an assertion, but also on facts that are observable in the activities that the Group and the Company and the Company undertakes in order to achieve the objectives of the business model. In determining the business model applicable for managing financial assets, the Group and the Company makes its decision in view of not individual factors or activity, but in view of all evidence that is available in the course of the assessment.

The Group and the Company and the Company recognises a financial asset in its statement of financial position only when the Group and the Company becomes a party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting.

At initial recognition, the Group and the Company measures financial assets at fair value, except for trade receivables that do not have a significant financing component. Transaction costs comprise all charges and commission that the Group and the Company would not have paid if it had not entered into an agreement on the financial instrument.

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

In view of the business model applied for managing the Group and the Company of financial assets, the accounting for financial assets is as follows:

*Financial assets measured at amortised cost*

Loans granted by the Company and the Group and the Company and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the date of the statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when these assets are derecognised, impaired or amortised.

*Financial assets at fair value through profit or loss*

The Group and the Company measures financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group and the Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

*(b) Effective interest method*

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Group and the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

There is an assumption that the cash flows and the expected life of a Group and the Company of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or Group and the Company of financial instruments), the Group and the Company uses the contractual cash flows over the full contractual term of the financial instrument (or Group and the Company of financial instruments).

*(c) Expected credit losses*

Credit losses incurred by the Group and the Company are calculated as the difference between all contractual cash flows that are due to the Group and the Company in accordance with the contract and all the cash flows that the Group and the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The Group and the Company estimates cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Group and the Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.
Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable and verifiable information including future oriented information.

The lifetime expected credit losses of trade receivables are assessed based on both the collective and individual assessment basis. The Group and the Company's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Group and the Company assesses the debt on a collective basis.

The lifetime expected credit losses of trade receivables are recognised at the recognition of amounts receivable.

When granting the loan the Group and the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Group and the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the lender has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Group and the Company records all lifetime expected credit losses of the loan. The latest point at which the Group and the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Group and the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due assumption.

Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

*(d) Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

a) significant financial difficulty of the borrower;
b) a breach of contract, such as a default or event that is past due for more than 90 days;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contra account of doubtful receivables.

The Group and the Company writes off the loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

*(e) Derecognition of financial assets*

The Group and the Company derecognises financial assets in case of the following:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group and the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset:

• if the Group and the Company has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
• if the Group and the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Whether the Group and the Company has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Group and the Company has not retained control. In all other cases, the Group and the Company has retained control.

## 2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined by the first-in first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related indirect production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

## 2.10 Prepayments

Prepayments made are cash paid for the right to receive future good or service, not cash or a financial asset. The Company has prepayments for the Milk supply and for property, plant and equipment. All such items are not financial instruments under IFRS 7.

## 2.11 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

## 2.12 Share capital

*(a) Ordinary shares*

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

*(b) Treasury shares*

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid, including any attributed incremental external costs, is deducted from shareholders' equity as treasury shares until they are sold, reissued or cancelled. No gain or loss is recognised in the income statement on the sale, issuance or cancellation of treasury shares. Where such shares are subsequently sold or reissued, any consideration received is presented in the consolidated financial statements as a change in shareholders' equity.

## 2.13 Reserves

*(a) Other reserves*

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. This reserve may be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

Revaluation reserve is included into other reserves.

*(b) Reserve for acquisition of treasury shares*

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the acquisition cost of treasury shares acquired.

## 2.14 Financial liabilities

*(a) Financial liabilities*

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities. The Group does not have any financial liabilities at fair value through profit or loss.

*(b) Other financial liabilities*

Other financial liabilities, including borrowings, are recognised at fair value, less transaction costs.

In subsequent periods, other financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest rate method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

*(c) Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income.

### 2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
Profit is taxable at a rate of 15 per cent in accordance with the Lithuanian regulatory legislation on taxation.

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.16 *Leases – where the Group is the lessee*

*(a) Finance lease*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or lease term of the asset.

*(b) Operating lease*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 2.17 Employee benefits

*(a) Social security contributions*

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

*(b) Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

*(c) Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.18 Revenue recognition

The Company and the Group manufactures and sells a range of cheese and milk products in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from transportation services is recognised in the period when services are performed.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.20 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to the shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Company and the Group and held as treasury shares.

### 2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors that makes strategic decisions.
The Group's management distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter, milk cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products production process types of customers and the method of distribution.

### 2.22 Government grants and subsidies

Government grants are recognised at fair value where there is sufficient evidence that the grant will be received and the Group and the Company will comply with all attached conditions.

Government grants received to finance acquisition of property plant and equipment are included in non-current deferred income in the balance sheet. They are recognised as income on a straight-line basis over the useful life of property plant and equipment concerned.

### 2.23 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group and the Company have a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specified to the obligation. The increase in the provision due to passage of time is recognised as operating expenses.

### 2.24 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

## 3. Financial risk management

### 3.1 Financial risk factors

The Group's and the Company's activities expose them to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.
Risk management is carried out by the Company's management. There are no written principles for overall risk management in place.

*(a) Market risk*

(i) Foreign exchange risk
The Company and the Group operate internationally, however, their exposure to foreign exchange risk is set at minimum level, since sales outside Lithuania are performed mostly in the euros.

(ii) Cash flow and fair value interest rate risk
The Company's and the Group's interest rate risk arises from interest-bearing loans and borrowings. Borrowings with variable interest rates expose the Group to cash flow interest rate risk. Borrowings with fixed interest rates expose the Group to fair value interest rate risk. In 2018 and 2017, loans granted by the Group at a fixed interest rate were denominated in the euros. In 2018 and 2017, the Company and the Group did not have borrowings with variable interest rates. Borrowings were denominated in the euros.

(All tabular amounts are in EUR '000 unless otherwise stated)

As at 31 December 2018, the Company's and the Group's net assets sensitive to changes in interest rate amounted to EUR 5,515 thousand (31 December 2017: the Company's and the Group's net assets sensitive to changes in interest rate amounted to EUR 5,515 thousand). If interest rate increased/decreased by 0.5 percentage point (2017: 0.5 percentage point), the Company's and the Group's profit would increase/ decrease by EUR 234 thousand (2017: profit would increase/decrease by EUR 28 thousand).

*(b) Credit risk*

Credit risk arises from cash at bank, loans granted, and trade receivables.

As at 31 December 2018, the Company's and the Group's all cash balances were held at banks that had external credit ratings from 'A+' to 'BBB', as set by the rating agency Fitch Ratings (31 December 2017: from 'A+' to 'BBB').
While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

i) Maximum exposure to credit risk
The table below summarises the Company's and the Group's credit risk exposures relating to on-balance sheet items. Maximum exposure to credit risk before collateral held or other credit enhancements as at 31 December:

| **Group** | | | **Company** | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| 2,619 | 15,714 | Cash and cash equivalents at banks | 922 | 5,854 |
| 30,023 | 29,902 | Trade receivables | 34,525 | 47,210 |
| 6,376 | 8,661 | Loans granted | 6,980 | 9,206 |
| 39,018 | 54,277 | | 42,427 | 62,270 |

ii) Credit quality of financial assets

The Group does not classify amounts receivable and other financial assets exposed to credit risk according to credit quality. Credit risk is managed through established credit limits for a major customers and monitoring of overdue receivables and loans. Credit limits and overdue receivables are continuously monitored by the Company's and the Group's management.

The table below presents credit limits, if management has established for the major customers and amounts receivable from them before allowance as at 31 December 2018.

| **Group** | | | **Company** | |
|---|---|---|---|---|
| Credit limit | Amount receivable | | Credit limit | Amount receivable |
| 4,000 | 3,910 | Customer A | 4,000 | 3,910 |
| 4,000 | 2,651 | Customer B | 4,000 | 2,651 |
| 4,345 | 1,981 | Customer C | 4,345 | 1,981 |
| 2,300 | 2,279 | Customer D | 2,300 | 2,279 |
| 4,000 | 1,799 | Customer E | | |
| 2,500 | 1,528 | Customer F | | |
| 2,028 | 1,323 | Customer G | | |

(All tabular amounts are in EUR '000 unless otherwise stated)

The table below presents credit limits established for the major customers and amounts receivable from them as at 31 December 2017.

| Group | | | Company | |
|---|---|---|---|---|
| Credit limit | Amount receivable | | Credit limit | Amount receivable |
| 4,000 | 3,699 | Customer A | 4,000 | 3,699 |
| 2,800 | 2,546 | Customer B | 2,800 | 2,546 |
| 4,000 | 2,068 | Customer C | 4,000 | 2,068 |
| 2,500 | 1,446 | Customer D | 2,500 | 1,446 |
| 4,345 | 2,953 | Customer E | - | - |
| 2,028 | 1,505 | Customer F | - | - |
| 1,200 | 820 | Customer G | - | - |

The table below summaries concentration of the loans granted:

| Group | | | Company | |
|---|---|---|---|---|
| 2018 | 2017 | | 2018 | 2017 |
| 4,783 | 7,501 | Loans granted in excess of EUR 580 thousand | 5,507 | 8,365 |
| 877 | | Loans granted in excess of EUR 290 thousand, but not in excess of EUR 580 thousand | 877 | |
| 716 | 1,160 | Loans granted not in excess of EUR 290 thousand | 596 | 841 |
| 6,376 | 8,661 | | 6,980 | 9,206 |

Loans in excess of EUR 580 thousand were granted to three business entities...

iii) Impairment of financial assets

Starting from 1 January 2018, the Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables.
To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The forward looking analysis lead to the conclusion that an adjustment of historical loss rates is not necessary.

On that basis, the loss allowance as at 31 December 2018 was determined as follows for trade receivables grouped (collective model) based on shared characteristics:

| Group 31 December 2018 | Not yet due | Less than 30 days past due | More than 30 days past due | More than 90 days past due | More than 180 days past due | More than 365 days past due | Total |
|---|---|---|---|---|---|---|---|
| Expected loss rate | 0.06% | 0.08% | 0.42% | 3.69% | 22.92% | 77.34% | |
| Gross carrying amount – trade receivables | 18,601 | 7,086 | 1,427 | 32 | 330 | 2 | 27,478 |
| Loss allowance | 7 | 5 | 6 | 1 | 75 | 2 | 96 |

(All tabular amounts are in EUR '000 unless otherwise stated)

| Company 31 December 2018 | Not yet due | Less than 30 days past due | More than 30 days past due | More than 90 days past due | More than 180 days past due | More than 365 days past due | Total |
|---|---|---|---|---|---|---|---|
| Expected loss rate | 0.06% | 0.08% | 0.42% | 3.69% | 22.92% | 77.34% | |
| Gross carrying amount – trade receivables | 23,962 | 6,503 | 1,426 | 32 | 330 | 3 | 30,220 |
| Loss allowance | 7 | 5 | 6 | 1 | 75 | 2 | 96 |

ECL for significant trade receivables overdue for more than 90 days is evaluated individually based on external information from credit insurance agency, collaterals received as security of repayment and past history of default. For such trade receivables the loss allowance as at 31 December 2018 was determined as follows:

| Group 31 December 2018 | Not yet due | Less than 30 days past due | More than 30 days past due | More than 90 days past due | More than 180 days past due | More than 365 days past due | Total |
|---|---|---|---|---|---|---|---|
| Gross carrying amount – trade receivables | 935 | 413 | 548 | 1,374 | 1,057 | 5 | 4,332 |
| | | | | | | Expected loss rate | 33.33% |
| | | | | | | Loss allowance | 1,440 |

| Company 31 December 2018 | Not yet due | Less than 30 days past due | More than 30 days past due | More than 90 days past due | More than 180 days past due | More than 365 days past due | Total |
|---|---|---|---|---|---|---|---|
| Gross carrying amount – trade receivables | 935 | 413 | 548 | 1,374 | 1,057 | 5 | 4,332 |
| | | | | | | Expected loss rate | 33.33% |
| | | | | | | Loss allowance | 1,440 |

The Group has followed the three-stage model for impairment of financial assets other than trade receivables and considered all its loans granted at amortised cost to have Stage 1 credit risk. The ECL model is based on the financial information of the Company's and the Group's debtors and the assessment of collaterals as security of loan repayment. The Company and the Group carried out an assessment of collaterals as security of loan repayment and determined that the credit losses determined based on probability of default within 12 months resulted in immaterial impairment loss.

(All tabular amounts are in EUR '000 unless otherwise stated)

*Previous accounting policy for impairment of trade receivables*

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash

*(c) Liquidity risk*

Prudent liquidity risk management allows maintaining sufficient cash and availability of funding under committed credit facilities.

The table below summarises the Group's and the Company's financial liabilities. The financial liabilities are classified into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Accounts payable and other financial liabilities due within 3 months or less are equal to their carrying amounts as the impact of discounting is insignificant.

**Company**

| At 31 December 2018 | Less than 3 months | From 3 to 12 months | From 1 to 5 years | After 5 years |
|---|---|---|---|---|
| Borrowings from banks and other financial liabilities | 14,092 | - | - | - |
| Trade payables | 15,069 | - | - | - |
| | | **-** | **-** | **-** |

| At 31 December 2017 | Less than 3 months | From 3 to 12 months | From 1 to 5 years | After 5 years |
|---|---|---|---|---|
| Borrowings from banks and other financial liabilities | 1,862 | - | - | - |
| Trade payables | 16,028 | - | - | - |
| | **17,890** | **-** | **-** | **-** |

**Group**

| At 31 December 2018 | Less than 3 months | From 3 to 12 months | From 1 to 5 years | After 5 years |
|---|---|---|---|---|
| Borrowings from banks and other financial liabilities | 14,092 | - | - | - |
| Trade payables | 17,219 | - | - | - |
| | | **-** | **-** | **-** |

| At 31 December 2017 | Less than 3 months | From 3 to 12 months | From 1 to 5 years | After 5 years |
|---|---|---|---|---|
| Borrowings from banks and other financial liabilities | 1,862 | - | - | - |
| Trade payables | 18,229 | - | - | - |
| | **20,091** | **-** | **-** | **-** |

(All tabular amounts are in EUR '000 unless otherwise stated)

## 3.2 Capital risk management

The Company's and the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group and Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company and the Group define their capital as equity and debt, less cash and cash equivalents.

As at 31 December, the Group's and the Company's capital structure was as follows:

| Group | | | Company | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| 14,092 | 1,862 | Borrowings | 14,092 | 1,862 |
| (2,619) | (15,715) | Less: cash and cash equivalents | (922) | (5,854) |
| 11,473 | (13,853) | Net debt | 13,170 | (3,992) |
| 130,319 | 134,096 | Shareholders' equity | 119,006 | 124,776 |
| 141,792 | 120,243 | Total capital | 132,176 | 120,784 |

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than EUR 40 thousand (the authorised share capital of a private company must not be less than EUR 2.5 thousand) and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2018 and 31 December 2017, the Company and its subsidiaries registered in Lithuania complied with these requirements.

## 3.3 Fair value estimation

Trade payables and trade receivables accounted for in the balance sheet should be settled within a period shorter than three months therefore it is deemed that their fair value equals to their carrying amount less impairment. Interest rate on the borrowings received by the Company is subject to repricing at least every six months therefore it is deemed that their fair value equals their carrying amount. Companies and Group issued loans fair value disclosed in Note 19. Property, plant and equipment fair value disclosed in Note 15.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**The three levels of the fair value hierarchy have been defined as follows:**
Level 1 includes the fair value of assets which is established based on quoted prices (unadjusted) in active markets for identical assets.
Level 2 includes the fair value of assets which is established based on other directly or indirectly observable inputs.
Level 3 includes the fair value of assets which is established based on unobservable inputs.

## 4. Critical accounting estimates and judgements

*Impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1.

*Estimates of useful lives of property, plant and equipment*

The Company and the Group have old buildings and machinery, where the useful lives are estimated based on the expected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and actions of competitors.

*Revaluation of property, plant and equipment*

The valuation of property, plant and equipment, except for motor vehicles, at the Group and the Company as at 31 December 2015 was conducted by independent property valuer Ober-Haus UAB. The fair value estimation was based on the comparable sales price method. The valuation of other categories of assets was based on the replacement cost method. The valuation of motor vehicles was conducted by the Company's experts who established the fair value using the comparable sales price method. Assets that were evaluated using the replacement cost method were tested for impairment as a result of which no indications for possible impairment were identified.
The Company's management believes the values of property, plant and equipment adjusted under these methods as of 31 December 2018 and 31 December 2017 approximated the fair value (Note 15).

*Inventory write-down to net realizable value*

The Group and the Company recognise inventory at the lower of cost and net realizable value. The Group and the Company assess whether the value of inventory recognised at cost is not lower that its net realisable value based on the historical data and actual results of inventory items sold below cost after the financial year end. If the recognised inventory write-down to net realisable value was 5 % higher/lower, the Group's and the Company's profit before income tax for the year 2018 would be EUR 151 thousand lower/ higher (2017: EUR 96 thousand, respectively).

## 5. Segment reporting

*Operating segments and reportable segments*

The Group's management has distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter milk, cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products, production process, types of customers and the method of distribution.

The main two reportable business segments of the Group are as follows:

- Fresh milk products
- Cheese and other dairy products

Other operations of the Group mainly comprise milk collection activity the size of which is insufficient to be reported separately. Transactions between the operating segments are on normal commercial terms and conditions. The segment of fresh milk products includes 2 external customers each generating 10% of total revenue of the segment.

(All tabular amounts are in EUR '000 unless otherwise stated)

The table below summarises segment information for the years ended 31 December 2018 and 2017:

| | Fresh milk products | Cheese and other dairy products | Other segments (unallocated) | Group |
|---|---|---|---|---|
| **2018** | | | | |
| Sales | 76,372 | 181,641 | 20,586 | 278,599 |
| Inter-segment sales | (363) | (54,882) | (19,679) | (74,924) |
| **Sales to external customers** | **76,009** | **126,759** | **907** | **203,675** |
| **Segment's gross profit** | **17,251** | **2,632** | **(383)** | **19,500** |
| **Depreciation and amortisation** | **3,336** | **5,861** | **19** | **9,216** |
| **Income tax expense (benefit)** | **152** | **147** | | **299** |
| Total assets | 39,963 | 145,320 | 2,641 | 187,924 |
| Elimination of intercompany transactions | | | | (17,713) |
| Total assets, less intercompany transactions | | | | **170,211** |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 2,186 | 7,631 | 22 | 9,839 |
| Total liabilities | 24,120 | 34,093 | 2,096 | 60,309 |
| Elimination of intercompany transactions | | | | (20,417) |
| Total liabilities less intercompany transactions | | | | **39,892** |

| | Fresh milk products | Cheese and other dairy products | Other segments (unallocated) | Group |
|---|---|---|---|---|
| **2017** | | | | |
| Sales | 79,429 | 223,976 | 29,933 | 333,338 |
| Inter-segment sales | (264) | (60,354) | (29,154) | (89,772) |
| **Sales to external customers** | **79,165** | **163,622** | **779** | **243,566** |
| **Segment's gross profit** | **15,038** | **13,156** | **(44)** | **28,150** |
| **Depreciation and amortisation** | **3,060** | **6,032** | **41** | **9,133** |
| **Income tax expense (benefit)** | **62** | **(196)** | **-** | **(134)** |
| Total assets | 57,989 | 140,090 | 3,226 | 201,305 |
| Elimination of intercompany transactions | | | | (38,646) |
| Total assets, less intercompany transactions | | | | **162,659** |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 5,546 | 8,414 | 6 | 13,966 |
| Total liabilities | 44,124 | 23,092 | 2,696 | 69,912 |
| Elimination of intercompany transactions | | | | (41,349) |
| Total liabilities less intercompany transactions | | | | **28,563** |

(All tabular amounts are in EUR '000 unless otherwise stated)

*Geographical information*

All assets of the Company are located in Lithuania. The Company's sales by markets can be analysed as follows:

| | Sales revenue | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Lithuania | 66,141 | 76,403 | 153,099 | 147,870 | 7,631 | 8,414 |
| Europe Union countries | 99,464 | 120,591 | | | | |
| Near East | 1,075 | 479 | | | | |
| North America | 3,654 | 7,197 | | | | |
| Far East | 4,370 | 10,091 | | | | |
| Other countries | 6,937 | 9,215 | | | | |
| | 181,641 | 223,976 | 153,099 | 147,870 | 7,631 | 8,414 |

The breakdown of the Group's assets by geographical segments is presented below. The Group's sales by markets can be analysed as follows:

| | Sales revenue | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Lithuania | 78,093 | 84,137 | 166,853 | 158,717 | 9,817 | 13,960 |
| Europe Union countries | 109,546 | 132,447 | 3,358 | 3,942 | 22 | 6 |
| Near East | 1,075 | 479 | | | | |
| North America | 3,654 | 7,197 | | | | |
| Far East | 4,370 | 10,091 | | | | |
| Other countries | 6,937 | 9,215 | | | | |
| | 203,675 | 243,566 | 170,211 | 162,659 | 9,839 | 13,966 |

Sales are allocated based on the country in which the customers are located.

**The breakdown of the Company's revenue by category:**

| | **2018** | **2017** |
|---|---|---|
| Revenue from sales of goods | 173,609 | 215,801 |
| Other revenue (milk transportation) | 8,032 | 8,175 |
| | 181,641 | 223,976 |

The breakdown of the Group's revenue by category:

| | **2018** | **2017** |
|---|---|---|
| Revenue from sales of goods | 202,259 | 242,158 |
| Revenue from other services | 1,416 | 1,408 |
| | 203,675 | 243,566 |

(All tabular amounts are in EUR '000 unless otherwise stated)

## 6. Selling and marketing expenses

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 3,899 | 4,416 | Transportation services | 3,573 | 4,121 |
| 3,029 | 3,079 | Wages and salaries | 1,727 | 1,802 |
| 404 | 555 | Intermediation services | 404 | 555 |
| 974 | 1,000 | Product image creation and advertising expenses | 139 | 142 |
| 1,002 | 1,184 | Repair and maintenance | 937 | 1,113 |
| 562 | 578 | Depreciation of property, plant and equipment | 525 | 538 |
| 287 | 537 | Warehousing services | 287 | 537 |
| 1,099 | 1,360 | Other expenses | 1,843 | 2,195 |
| 11,256 | 12,709 | | 9,435 | 11,003 |

## 7. General and administrative expenses

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 3,147 | 3,195 | Wages and salaries | 2,121 | 2,107 |
| 33 | 48 | Taxes (other than income tax) | 23 | 11 |
| - | (1,113) | Provisions for impairment of loans granted and doubtful receivables and write-offs of loans and receivables (reversals) | - | (1,113) |
| 285 | 290 | Consultations | 245 | 253 |
| 601 | 614 | Depreciation of property, plant and equipment and amortisation of intangible assets | 419 | 413 |
| 228 | 258 | Repairs and maintenance | 182 | 222 |
| 1,114 | 1,971 | Bonuses | - | 1,164 |
| 103 | 88 | Telecommunications and IT maintenance expenses | 88 | 73 |
| 188 | 174 | Insurance expenses | 173 | 160 |
| 62 | 92 | Bank charges | 50 | 85 |
| 110 | 82 | Business trips | 76 | 61 |
| 44 | 31 | Fines | 14 | 7 |
| 56 | 176 | Staff training | 41 | 155 |
| 44 | 42 | Membership fees | 42 | 40 |
| 389 | 400 | Charity and support | 146 | 146 |
| 1,087 | 1,279 | Other expenses | 800 | 1,026 |
| 7,491 | 7,627 | | 4,420 | 4,810 |

## 8. Other income

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 1,924 | 1,777 | Income from goods resold | 1,912 | 1,771 |
| 455 | 422 | Interest income | 427 | 398 |
| 525 | 275 | Other income | 2,429 | 4,330 |
| 2,904 | 2,474 | | 4,768 | 6,499 |

The Company's other income comprises dividends received from subsidiary Rokiškio Pienas UAB and Rokiškio Pieno Gamyba UAB, insurance income and other service income (Note 33).

(All tabular amounts are in EUR '000 unless otherwise stated)

## 9. Other expenses

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 1,819 | 1,685 | Cost of goods resold | 1,811 | 1,681 |
| 170 | 171 | Other expenses | 167 | 181 |
| 1,989 | 1,856 | | 1,978 | 1,862 |

## 10. Other operating (loss)/profit

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| (20) | (102) | Result of disposal of property, plant and equipment (Note 32) | (60) | (72) |
| (20) | (102) | | (60) | (72) |

## 11. Expenses by nature

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 148,893 | 163,451 | Raw materials and consumables used | 140,685 | 149,781 |
| (19,202) | (475) | Changes in inventories of finished goods and work in progress | (19,275) | (176) |
| 21,994 | 21,491 | Wages and salaries including social security contributions | 14,186 | 14,105 |
| 12,863 | 12,652 | Transportation services | 12,525 | 12,346 |
| 1,481 | 1,971 | Bonuses | 367 | 1,164 |
| 9,216 | 9,133 | Depreciation and amortisation (Notes 15 and 16) | 5,857 | 6,032 |
| (425) | (383) | Amortisation of the Government grant for property, plant and equipment (Note 27) | (293) | (265) |
| 404 | 555 | Intermediation services | 404 | 555 |
| 4,858 | 4,973 | Repairs and maintenance | 4,638 | 4,763 |
| 275 | 304 | Cost of finished goods resold | 11,481 | 14,461 |
| 96 | (1,113) | Provisions for impairment of loans granted and doubtful receivables and write-offs of loans and receivables (reversals) | 96 | (1,113) |
| 157 | 198 | Taxes (other than income tax) | 143 | 157 |
| 285 | 290 | Consultations | 245 | 253 |
| 116 | 102 | Telecommunication and IT maintenance expenses | 101 | 87 |
| 14,432 | 13,769 | Utilities (energy) | 7,775 | 8,126 |
| 7,479 | 8,834 | Other | 5,629 | 7,048 |
| 202,922 | 235,752 | Total cost of sales, selling and marketing expenses and general and administrative expenses | 184,564 | 217,324 |

(All tabular amounts are in EUR '000 unless otherwise stated)

## 12. Finance costs

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | | Interest expenses: | | |
| 29 | 40 | – bank borrowings | 29 | - |
| 29 | 40 | | 29 | - |

## 13. Income tax

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| (432) | (804) | Current income tax | (240) | (764) |
| 116 | 283 | Prior year income tax corrections | - | 283 |
| 615 | 387 | Deferred income tax (Note 18) | 387 | 285 |
| 299 | (134) | Income tax benefit/(expenses) | 147 | (196) |

The income tax on the Company's and the Group's profit before tax differs from the theoretical amount that would arise when using the basic tax rate as follows:

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 1,619 | 8,290 | (Loss)/profit before income tax | (222) | 11,217 |
| 243 | 1,244 | Tax calculated at a rate of 15% (Note 2.15) | (33) | 1,683 |
| 96 | 173 | Expenses not deductible for tax purposes | 81 | 121 |
| (46) | (45) | Income not subject to tax | (319) | (649) |
| (116) | (117) | Charity expenses deductible twice for tax purposes | (43) | (44) |
| (647) | (838) | Other expenses deductible for tax purposes | (164) | (658) |
| 117 | (283) | Prior year income tax corrections | - | (283) |
| 54 | - | Other | 331 | 26 |
| (299) | 134 | Income tax expense/(benefit) | (147) | 196 |

Expenses not deductible for tax purposes include representation expenses, write-offs, etc. Income not subject to tax include interest on late payment and insurance benefits received.

The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out the inspection of book-keeping and accounting records and impose additional taxes or fines. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

## 14. Earnings per share

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 1,918 | 8,156 | Net profit/(loss) attributable to shareholders | (75) | 11,021 |
| 35,701 | 33,195 | Weighted average number of ordinary shares in issue (thousand) | 35,701 | 33,195 |
| (167) | (177) | Weighted average number of treasury shares held (thousand) | (167) | (177) |
| 0.05 | 0.25 | Basic earnings/(deficit) per share (EUR per share) | - | 0.33 |

The Group has no dilutive potential ordinary shares, therefore, the diluted earnings per share are the same as basic earnings per share.

## 15. Property, plant, and equipment

| Company | Buildings | Plant and machinery | Motor vehicles and other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | |
| Acquisition cost and revalued amount | 13,581 | 70,053 | 34,472 | 2,846 | 120,952 |
| Accumulated depreciation | (5,821) | (53,928) | (26,502) | | (86,251) |
| Net book amount | 7,760 | 16,125 | 7,970 | 2,846 | 34,701 |
| **Year ended 31 December 2017** | | | | | |
| Opening net book amount | 7,760 | 16,125 | 7,970 | 2,846 | 34,701 |
| Additions | | 2,766 | 3,163 | 2,485 | 8,414 |
| Disposals | (30) | (2) | (176) | | (208) |
| Write-offs | | (2) | (26) | | (28) |
| Transfer from construction in progress | 1,682 | 1,971 | 130 | (3,783) | |
| Depreciation charge | (490) | (3,140) | (2,402) | | (6,032) |
| Closing net book amount | 8,922 | 17,718 | 8,659 | 1,548 | 36,847 |
| **At 31 December 2017** | | | | | |
| Acquisition cost and revalued amount | 15,098 | 70,150 | 34,704 | 1,548 | 121,500 |
| Accumulated depreciation | (6,176) | (52,432) | (26,045) | | (84,653) |
| Net book amount | 8,922 | 17,718 | 8,659 | 1,548 | 36,847 |
| **Year ended 31 December 2018** | | | | | |
| Opening net book amount | 8,922 | 17,718 | 8,659 | 1,548 | 36,847 |
| Additions | | 1,361 | 1,974 | 4,296 | 7,631 |
| Disposals | (17) | (1) | (56) | | (74) |
| Write-offs | | (10) | (69) | | (79) |
| Transfers from CIP | 2,814 | 971 | 546 | (4,331) | |
| Depreciation charge | (502) | (2,953) | (2,402) | | (5,857) |
| Closing net book amount | 11,217 | 17,086 | 8,652 | 1,513 | 38,468 |
| **At 31 December 2018** | | | | | |
| Acquisition cost and revalued amount | 17,808 | 69,696 | 34,900 | 1,513 | 123,917 |
| Accumulated depreciation | (6,591) | (52,610) | (26,248) | | (85,449) |
| Net book amount | 11,217 | 17,086 | 8,652 | 1,513 | 38,468 |

(All tabular amounts are in EUR '000 unless otherwise stated)

| Group | Buildings | Plant and machinery | Motor vehicles and other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | |
| Cost or revaluated amount | 23,680 | 90,114 | 35,292 | 5,899 | 154,985 |
| Accumulated depreciation | (9,693) | (64,242) | (26,878) | - | (100,813) |
| Net book amount | 13,987 | 25,872 | 8,414 | 5,899 | 54,172 |
| **Year ended 31 December 2017** | | | | | |
| Opening net book amount | 13,987 | 25,872 | 8,414 | 5,899 | 54,172 |
| Additions | 23 | 4,935 | 3,243 | 5,765 | 13,966 |
| Disposals | (84) | (2) | (250) | | (336) |
| Write-offs | | (3) | (26) | | (29) |
| Transfers from CIP | 2,306 | 6,030 | 130 | (8,466) | |
| Depreciation charge | (877) | (5,664) | (2,592) | | (9,133) |
| Closing net book amount | 15,355 | 31,168 | 8,919 | 3,198 | 58,640 |
| **At 31 December 2017** | | | | | |
| Cost or revaluated amount | 25,722 | 95,792 | 35,916 | 3,198 | 160,628 |
| Accumulated depreciation | (10,367) | (64,624) | (26,997) | | (101,988) |
| Net book amount | 15,355 | 31,168 | 8,919 | 3,198 | 58,640 |
| **Year ended 31 December 2018** | | | | | |
| Opening net book amount | 15,355 | 31,168 | 8,919 | 3,198 | 58,640 |
| Additions | 39 | 2,065 | 2,075 | 5,660 | 9,839 |
| Disposals | (17) | (83) | (56) | | (156) |
| Write-offs | | (10) | (75) | | (85) |
| Transfers from CIP | 3,480 | 3,268 | 551 | (7,299) | |
| Depreciation charge | (906) | (5,765) | (2,545) | | (9,216) |
| Closing net book amount | 17,951 | 30,643 | 8,869 | 1,559 | 59,022 |
| **At 31 December 2018** | | | | | |
| Cost or revaluated amount | 29,142 | 97,347 | 35,717 | 1,559 | 163,765 |
| Accumulated depreciation | (11,191) | (66,704) | (26,848) | | (104,743) |
| Net book amount | 17,951 | 30,643 | 8,869 | 1,559 | 59,022 |

The Company's and the Group's property, plant and equipment was revaluated as at 31 December 2015. The valuation of assets, except for motor vehicles, was conducted by independent property valuer OBER HAUS Nekilnojamasis Turtas UAB. The valuation of real estate was based on the comparable sales price method by comparing sales prices in Lithuania. The valuation of other categories of assets was based on the replacement cost method. The valuation of motor vehicles was conducted by the Company's experts who established the fair value using the comparable sales price method. Gain arising on revaluation is disclosed in the tables on the movements in property, plant and equipment and was recorded under the line item of other comprehensive income. Assets that were evaluated using the replacement cost method were tested for impairment, as a result of which no indications for possible impairment were identified.

In 2017 and 2018, no revaluations were carried out for property, plant and equipment, because in the management's opinion, no significant changes occurred in real estate market, nor in the Company's business, nor in the market prices of equipment and machinery. Consequently, there were no significant changes in the fair value of property, plant and equipment of the Group in 2017 and 2018. In 2018, the Company also had a consultation with the property valuer OBER HAUS Nekilnojamasis Turtas UAB, based on which it was identified that the value of non-current assets of the Company and the Group did not differ significantly from the potential price of the property in the market.

The members of the Board of Directors used the assumption that the carrying amount of property, plant and equipment of Rokiškio Sūris AB, Rokiškio Pienas UAB and Rokiškio Pieno Gamyba UAB approximated its fair value, and made the decision not to perform the revaluation for the property, plant and equipment of Rokiškio Sūris AB Group, but to review the depreciation rates used for these assets.

Building and Motor vehicles and other assets were attributed to Level 2 of fair value hierarchy in 2017 and 2016. Property, plant and equipment within **Level 2** was measured using the comparable sales price method. This method was used for the measurement of real estate, the majority of motor vehicles and constructions in respect of which sale transactions or offer examples were observable in the market. The comparable real estate objects were selected due to the similarity with the object being measured with respect to size, purpose, location, intended use, condition, engineering support and other parameters. The valuation of real estate required adjustments to reflect differences between the objects being measured and comparable objects. Comparable objects selected are of the closest possible similarity with the objects being measured and differences are related only to the location and surroundings, the year of construction and the total area of the object. The valuation of motor vehicles was based on the supply data. The value calculated based on at least 2 or 3 comparable inputs was treated as the value of the assets. Comparable inputs selected were similar to the assets subject to valuation.

Meanwhile Plant and Machinery was attributed to Level 3 of fair value hierarchy. Property, plant and equipment within **Level 3** was measured using the replacement cost method. This method was used for the measurement of a part of special purpose movable property in respect of which no sale or offer market data was available. When estimating the value of movable property (plant and machinery) under the cost method the cost of replacing the item were equated to the acquisition cost of an item (replacement cost model of the valued item). For the purpose of valuation the impairment (depreciation) is established under the fragmentation calculation model. When establishing physical obsolescence it is assumed that the value of property being measured is written off in proportion to the number of years. The assets subject to valuation were classified into categories in respect of which the useful life up to 30 years depending on the group of asset was established based on the expert opinion of the valuer. When establishing functional obsolescence it is assumed that movable property (plant and machinery) produced and sold during the valuation is of higher efficiency than property already produced or still in the process of production. When establishing economic obsolescence the valuers assume that the economic situation is rather stable, therefore it is acceptable that economic obsolescence is equal to zero percent.
The valuation of movable property was based on the rationale that the asset cannot have no value if it is used, irrespective of that the asset is fully depreciated for accounting purposes. Therefore, a possible net book value of the asset was obtained from market data.

Construction in progress items were recently purchased from third parties, therefore their fair value agrees value in balance sheet.

As at 31 December 2015 the Company's and the Group's management have reviewed useful life rates applied to property, plant and equipment. It was estimated that the useful life should be extended for the most of the items. This change in estimate was applied prospectively and the useful life was adjusted during the year 2016. Had the useful life been not extended by the Company's and the Group's management, the Company's depreciation expenses would have been higher by EUR 632 thousand (the Group's depreciation expenses would have been higher by EUR 1.336 thousand).

As at 31 December 2018, the Company's and the Group's property, plant and equipment with a carrying value of EUR 4,941 thousand and EUR 12,030 thousand, respectively (31 December 2017: EUR 6,020 thousand and EUR 13,367 thousand, respectively) was pledged as a security for credit limit agreements.

(All tabular amounts are in EUR '000 unless otherwise stated)

Depreciation expenses of property plant and equipment are included in selling and marketing expenses, general and administrative expenses and cost of sales in the income statement, as well as in work in progress and finished goods in the balance sheet.

Had no revaluation been performed for property, plant and equipment, the net book amounts of the Group's and the Company's property, plant and equipment would have been as follows as of 31 December 2017 and 2018:

| Company | Buildings | Plant and machinery | Motor vehicles and other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| At 31 December 2017 | 5,628 | 9,294 | 6,592 | 1,548 | **23,062** |
| At 31 December 2018 | 7,981 | 10,189 | 7,214 | 1,513 | **26,897** |

| Group | Buildings | Structures and machinery | Motor vehicles and other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| At 31 December 2017 | 8,855 | 19,803 | 6,781 | 3,198 | **38,637** |
| At 31 December 2018 | 11,454 | 21,582 | 7,415 | 1,558 | **42,009** |

## 16. Intangible assets

| **Company** | **Computer software** |
|---|---|
| **At 1 January 2017** | |
| Cost | 712 |
| Accumulated amortisation | (710) |
| Net book amount | 2 |
| | |
| **Year ended 31 December 2017** | |
| Opening net book amount | 2 |
| Additions | 1 |
| Amortisation charge | (1) |
| Closing net book amount | 2 |
| | |
| **At 31 December 2017** | |
| Cost | 713 |
| Accumulated amortisation | (711) |
| Net book amount | 2 |
| | |
| **Year ended 31 December 2018** | |
| Opening net book amount | 2 |
| Additions | 12 |
| Amortisation charge | (3) |
| Closing net book amount | 11 |
| | |
| **At 31 December 2018** | |
| Cost | 725 |
| Accumulated amortisation | (714) |
| Net book amount | 11 |

(All tabular amounts are in EUR '000 unless otherwise stated)

| Group | Contractual client relationship | Computer software | Total |
|---|---|---|---|
| **At 1 January 2017** | | | |
| Cost | | 713 | 713 |
| Accumulated amortisation | | (711) | (711) |
| Net book amount | - | 2 | 2 |
| **Year ended 31 December 2017** | | | |
| Opening net book amount | - | 2 | 2 |
| Additions | | 1 | 1 |
| Amortisation charge | - | (1) | (1) |
| Closing net book amount | - | 2 | 2 |
| **At 31 December 2017** | | | |
| Cost | - | 713 | 713 |
| Accumulated amortisation | - | (711) | (711) |
| Net book amount | - | 2 | 2 |
| **Year ended 31 December 2018** | | | |
| Opening net book amount | - | 2 | 2 |
| Additions | - | 12 | 12 |
| Amortisation charge | - | (3) | (3) |
| Closing net book amount | - | 11 | 11 |
| **At 31 December 2018** | | | |
| Cost | - | 725 | 725 |
| Accumulated amortisation | - | (714) | (714) |
| Net book amount | - | 11 | 11 |

Amortisation expenses of computer software and other intangible assets are included in general and administrative expenses in the income statement.

## 17. Investments in subsidiaries

The Company's investments in subsidiaries as at 31 December 2018 are listed below:

| | Investment cost | Impairment loss recognised | Investment value after impairment |
|---|---|---|---|
| Rokiškio Pienas UAB | 105 | - | 105 |
| Rokiškio Pieno Gamyba UAB | 4,122 | - | 4,122 |
| Jekabpils Piena Kombinats SIA | 853 | (122) | 731 |
| Kaunata SIA | 96 | - | 96 |
| | 5,176 | (122) | 5,054 |

The Group's investments in subsidiaries consist of joint investments in Kaunata SIA.

## 18. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

(All tabular amounts are in EUR '000 unless otherwise stated)

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | | Deferred income tax assets: | | |
| - | - | – to be realised after more than 12 months | - | - |
| 1,153 | 987 | – to be realised within 12 months | 952 | 898 |
| 1,153 | 987 | | 952 | 898 |
| | | Deferred income tax liabilities: | | |
| (2,182) | (2,547) | – to be realised after more than 12 months | (1,435) | (1,668) |
| (416) | (500) | – to be realised within 12 months | (300) | (400) |
| (2,598) | (3,047) | | (1,735) | (2,068) |
| (1,445) | (2,060) | Net deferred tax liability | (783) | (1,170) |

The gross movement in deferred income tax assets was as follows:

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| (2,060) | (2,447) | At the beginning of the year | (1,170) | (1,455) |
| 615 | 387 | Recognised in the income statement (Note 13) | 387 | 285 |
| - | - | Recognised in other comprehensive income | - | - |
| (1,445) | (2,060) | At the end of the year | (783) | (1,170) |

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same fiscal jurisdiction is as follows:

**Company**

| Deferred income tax assets | Inventory write-down to net realisable value | Amortised cost of loans granted | Impairment of amounts receivable | Bonuses and vacation reserve | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | **185** | **97** | **440** | **323** | **1,045** |
| Recognised in the income statement | 102 | (41) | (223) | 15 | (147) |
| **At 31 December 2017** | **287** | **56** | **217** | **338** | **898** |
| Recognised in the income statement | 164 | | 14 | (124) | 54 |
| **At 31 December 2018** | **451** | **56** | **231** | **214** | **952** |

| Deferred income tax liabilities | Revaluation of property, plant and equipment | Total |
|---|---|---|
| **At 1 January 2017** | **(2,500)** | **(2,500)** |
| Recognised in the income statement | 432 | 432 |
| **At 31 December 2017** | **(2,068)** | **(2,068)** |
| Recognised in the income statement | 333 | 333 |
| **At 31 December 2018** | **(1,735)** | **(1,735)** |

(All tabular amounts are in EUR '000 unless otherwise stated)

**Group**

| **Deferred income tax assets** | **Inventory write-down to net realisable value** | **Amortised cost of loans granted** | **Impairment of amounts receivable** | **Bonuses and vacation reserve** | **Total** |
|---|---|---|---|---|---|
| **At 1 January 2017** | **253** | **97** | **440** | **344** | **1,134** |
| Recognised in the income statement | 34 | (41) | (223) | 83 | (147) |
| **At 31 December 2017** | **287** | **56** | **217** | **427** | **987** |
| Recognised in the income statement | 165 | | 14 | (13) | 166 |
| **At 31 December 2018** | **452** | **56** | **231** | **414** | **1,153** |

| **Deferred income tax liabilities** | **Accelerated tax depreciation** | **Revaluation of property, plant and equipment** | **Total** |
|---|---|---|---|
| **At 1 January 2017** | **(47)** | **(3,534)** | **(3,581)** |
| Recognised in the income statement | | 534 | 534 |
| **At 31 December 2017** | **(47)** | **(3,000)** | **(3,047)** |
| Recognised in the income statement | | 449 | 449 |
| **At 31 December 2018** | **(47)** | **(2,551)** | **(2,598)** |

Deferred income tax assets and deferred income tax liabilities were calculated using a tax rate of 15% (2017: 15%) enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

(All tabular amounts are in EUR '000 unless otherwise stated)

## 19. Loans granted

| Group | | | Company | |
|---|---|---|---|---|
| 2018 | 2017 | | 2018 | 2017 |
| 246 | 276 | Long-term loans to employees | 195 | 223 |
| 3,136 | 5,409 | Other long-term loans | 3,090 | 5,343 |
| (35) | (35) | Less: provision for impairment of loans receivable | (35) | (35) |
| 3,347 | 5,650 | Long-term loans, net | 3,250 | 5,531 |
| 37 | 38 | Current portion of loans to employees | 34 | 35 |
| 2,992 | 2,973 | Other short-term loans granted | 3,696 | 3,640 |
| - | - | Less: provision for impairment of loans receivable | - | - |
| 3,029 | 3,011 | Current portion of long-term loans and short-term loans, net | 3,730 | 3,675 |

Repayment terms of other long-term loans granted ranged between 1 and 5 years. The loans bear average weighted interest rate of 3.15% (2017: 3.22%). Other loans repayments are secured with pledges of assets or guarantees.

The fair value of borrowings is attributed to Level 2 in the fair value hierarchy.
The fair value of loans granted approximated their carrying amount.

Information on loans receivable that were past due as at 31 December is provided in the table below:

| Group | | | Company | |
|---|---|---|---|---|
| 2018 | 2017 | | 2018 | 2017 |
| 6,376 | 8,661 | Loans granted not past due | 6,980 | 9,206 |
| | | Loans granted past due but not impaired | | |
| 35 | 35 | Impaired loans granted | 35 | 35 |
| 6,411 | 8,696 | Gross value of loans granted | 7,015 | 9,241 |
| (35) | (35) | | (35) | (35) |
| 6,376 | 8,661 | Net amount | 6,980 | 9,206 |

(All tabular amounts are in EUR '000 unless otherwise stated)

## 20. Inventories

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 2,064 | 1,897 | Raw materials | 465 | 385 |
| 7,676 | 7,773 | Work in progress | 7,378 | 7,568 |
| 45,974 | 25,654 | Finished products | 45,399 | 24,849 |
| 1,177 | 1,266 | Other inventories | 1,132 | 1,196 |
| 56,891 | 36,590 | Total inventories at cost | 54,374 | 33,998 |
| (3,025) | (1,925) | Less: inventory write-down to net realizable value | (3,025) | (1,925) |
| 53,866 | 34,665 | Total inventories | 51,349 | 32,073 |

As at 31 December 2018, inventories were not pledged, while as at 31 December 2017 EUR 34,665 thousand were pledged to the banks as a security for credit line agreements.

The Company's inventories as at 31 December 2018: 1,373 tons of butter held with third parties in Lithuania, 174 tons of hard cheese held in the USA, and 73.5 tons of hard cheese and 11 tons of fresh cheese held in the warehouses based in the European Union. The total value of these inventories is EUR 5,992 thousand.

As at 31 December 2017, the Company's inventories held with third parties in Lithuania comprised 142 tons of skim milk powder; inventories held in USA comprised 391 tons of hard cheese; and inventories held in the warehouses based in the EU member states comprised 59.5 tons of hard cheese. The total value of these inventories is EUR 2,133 thousand.

## 21. Trade and other receivables

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | | **Non-current receivables** | | |
| 590 | 546 | Prepayments for non-current assets | 287 | 76 |
| 1,011 | 1,312 | Prepayments for milk supply | 1,011 | 1,312 |
| 1,601 | 1,858 | | 1,298 | 1,388 |
| | | **Current receivables** | | |
| 30,270 | 29,902 | Trade receivables | 35,012 | 47,210 |
| 2,482 | 2,152 | VAT receivable | 1,738 | 1,278 |
| 11,991 | 1,285 | Prepayments for milk supply | 11,438 | 830 |
| 537 | 398 | Other prepayments and deferred expenses | 537 | 368 |
| 45,280 | 33,737 | | 48,725 | 49,686 |

As at 31 December 2018 and 2017, no trade receivables of the Company were pledged as collateral. As at 31 December 2018 and 2017, the subsidiary's Rokiškio Pienas UAB trade receivables and claim rights to future trade receivables were pledged as collateral for amount not larger than EUR 6,000 thousand.

(All tabular amounts are in EUR '000 unless otherwise stated)

At 31 December 2018 loans to farmers were granted with repayment terms ranging between 1 month and 4 years. The annual interest rate ranged between 1,1 and 6%. Majority part of loans granted to farmers were secured with pledges of assets (land, building) of the farmers. Most of loans granted to farmers are repaid not in the form of money but are offset with amounts payable for raw milk purchases from farmers, therefore they do not meet criteria for the financial assets.

In view of the deterioration of the economic situation of certain farmers, an impairment provision was established for certain prepayments for milk supply. As at 31 December 2018 and 2017, it amounted, respectively, to EUR 340 thousand and EUR 340 thousand.

The information on credit quality of receivables as at 31 December 2018 is provided in Note 3.1. (b).

Movement in impairment during the financial year for trade receivables under contracts with clients:

| Group | | | Company | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| 1,444 | 1,444 | In the beginning of the reporting period | 1,444 | 1,444 |
| - | 1,491 | Bad debts reversal during the year | - | 1,491 |
| 96 | - | Recognized impairment during the year | 96 | - |
| 1,540 | 1,444 | At the end of the reporting period | 1,540 | 1,444 |

The Group received no collaterals as a security for impaired amounts receivable. As at 31 December 2018, the Company's trade receivables from Rokiškio Pieno Gamyba UAB amounted to EUR 11,317 thousand and trade receivables from Jekabpils Piena Kombinats SIA amounted to EUR 248 thousand (as at 31 December 2017, the Company's trade receivables from Rokiškio Pieno Gamyba UAB amounted to EUR 25,496 thousand and trade receivables from Jekabpils Piena Kombinats SIA amounted to EUR 248 thousand).
In 2017, the Company and the Group wrote off the overdue amount receivable of EUR 1,491 thousand, for which impairment was previously recognised, as according to the management the amount is not recoverable.

## 22. Cash and cash equivalents

| Group At 31 December | | | Company At 31 December | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| - | 41 | Short-term deposits | - | 41 |
| 2,619 | 15,674 | Cash at bank and on hand | 922 | 5,813 |
| 2,619 | 15,715 | | 922 | 5,854 |

As at 31 December 2018, cash at bank balances pledged amounted to EUR 738 thousand (31 December 2017: EUR 2,012 thousand).

For the purposes of the cash flow statement, cash and cash equivalents comprise as follows:

| Group At 31 December | | | Company At 31 December | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| - | 41 | Short-term deposits | - | 41 |
| 2,619 | 15,674 | Cash at bank and on hand | 922 | 5,813 |
| 2,619 | 15,715 | | 922 | 5,854 |

## 23. Share capital

After the cancellation of treasury shares redeemed and the reduction of the Company's share capital, a new version of the Articles of Association of Rokiškio Sūris AB was registered with the Lithuanian Register of Legal Entities on 18 January 2017. According to the new version, the share capital of Rokiškio Sūris AB amounts to EUR 9,361,540 (nine million three hundred sixty-one thousand five hundred forty euros and 17 euro cents) and is divided into 32,281,173 (thirty two million two hundred eighty-one thousand one hundred and seventy three) ordinary registered shares with par value of EUR 0.29 each.

The General Meeting of Shareholders held on 22 September 2017 adopted the following decisions:
1. To increase the Company's share capital by the use of additional contributions from EUR 9,361,540 (nine million three hundred sixty one thousand five hundred forty euros) to EUR 1,401,711 (ten million four hundred and one thousand seven hundred eleven euros) by issuing 3,586,797 (three million five hundred eighty-six thousand  seven hundred ninety-seven) ordinary shares with par value of EUR 0.29 each (Hereinafter "New Shares");
2. To set the price for one newly issued share at EUR 1.98 (one euro and 98 euro cents). The total price of the issue of New Shares is EUR 7,101,858 (seven million one hundred and one thousand eight hundred fifty-eight euros). If not all New Shares are subscribed within the period designated for respective subscription, the Company's share capital will be increased by the amount of par values of the subscribed shares.

The right to acquire the Company's newly issued shares (3,586,797 ordinary shares) was transferred to Fonterra (Europe) Coöperatie U.A., a company established in New Zealand. The Company's code is 822560100. Registered office address: Barbara Strozzilaan 356-360, EurBld2, 3a, 1083 HN Amsterdam, the Netherlands. The newly issued shares were not publicly offered or marketed.

On 16 October 2017, Rokiškio Sūris AB signed the share subscription agreement with the strategic investor Fonterra (Europe) Coöperatie U.A. According to which Fonterra acquired a new issue of 3,586,797 ordinary shares of Rokiškio Sūris AB. This amounted to 10% of the Company's share capital and votes. The price of one share issue is EUR 1.98. The issue price of all subscribed shares is equal to EUR 7,101,858.
Upon the increase of the Company's share capital by the use of additional contributions, the Company's share capital increased from EUR 9,361,540 to EUR 10,401,711.

On 17 October 2017, the amended version of the Articles of Association of Rokiškio Sūris AB was registered with the Lithuanian Register of Legal Entities. According to the amended version, the Company's share capital was increased to EUR 10,401,711 and is divided into 35,867,970 ordinary shares with par value of EUR 0.29 each. All the shares are fully paid.
By the decision of the General Meeting of Shareholders of Rokiškio Sūris AB dated 27 April 2018, the Company acquired 806,317 own shares in 2018, which comprises 2.25% of the Company's authorised share capital.
The shares were acquired in the following stages:
- During the period from 24 September 2018 to 5 October 2018, the Company acquired 598,681 own shares, which comprised 1.67% of the Company's authorised share capital. The purchase price of one share was EUR 2.62.
- During the period from 3 December 2018 to 14 December 2018, the Company acquired 207,636 own shares, which comprised 0.6% of the Company's authorised share capital. The purchase price of one share was EUR 2.60.

The shares were acquired through the official bidding market of the Nasdaq Vilnius stock exchange. The total price of the shares acquired by Rokiškio Sūris AB in 2018 comprised EUR 2,108,397,
As at 31 December 2018, the share capital of Rokiškio Sūris AB was divided into 35,867,970 ordinary registered shares with par value of EUR 0.29 each.

(All tabular amounts are in EUR '000 unless otherwise stated)

## 24. Treasury shares

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| At the beginning of the year | - | - | 3,586,797 | (5,102) |
| Treasury shares acquired | 806,317 | (2,108) | - | - |
| Reduction of share capital (Note 23) | - | - | 3,586,797 | (5,102) |
| | 806,317 | (2,108) | - | - |

## 25. Other reserves and reserve for acquisition of treasury shares

*Reserve for acquisition of treasury shares*

As at 31 December 2017, the total amount of the Company's reserve for acquisition of treasury shares remained unchanged and was equal to EUR 7,606 thousand. In 2017, the amount of the reserve equal to EUR 4,062 was utilised for the cancellation of treasury shares.
The General Meeting of Shareholders of Rokiškio Sūris AB dated 27 April 2018 made a decision to acquire up to 10% of own shares and increase the reserve for the acquisition of own shares by up to EUR 10,850 thousand.

*Other reserves*

Non-distributable reserves of EUR 1,041 thousand can only be used to increase the share capital and non-distributable reserves (legal reserves) of Rokiškio Sūris AB, Rokiškio Pieno Gamyba UAB and Rokiškio Pienas UAB amounting to EUR 1,113 thousand, EUR 556 thousand and EUR 223 thousand, respectively, can only be used to cover future operating losses, if any. The remaining amount of other reserves totalling EUR 9,835 thousand for the Company and EUR 14,460 thousand for the Group (2017: EUR 11,718 thousand and EUR 17,002 thousand, respectively) consists of the revaluation reserve of property, plant and equipment. (*See below for the disclosure of the revaluation reserve*).

*Dividends*

Dividends declared at the Company for the year 2017 were paid out in 2018 in the amount of EUR 0.10 per share (other than treasury shares) and in total amount of EUR 3,587 thousand (when par value of each share equals EUR 0.29).

*Revaluation reserve*

Revaluation reserve represents an increase in the value of property, plant and equipment as a result of its revaluation. This reserve may not be used to cover losses. Movements in revaluation reserve are given in the table below:

(All tabular amounts are in EUR '000 unless otherwise stated)

| Company | Revaluation reserve | Deferred income tax | Revaluation reserve net of tax |
|---|---|---|---|
| **At 1 January 2017** | **16,665** | **(2,500)** | **14,165** |
| Depreciation of revalued amount of PP&E and disposals and write-offs of revalued assets (Note 15) | (2,879) | 432 | (2,447) |
| **At 31 December 2017** | **13,786** | **(2,068)** | **11,718** |
| Depreciation of revalued amount of PP&E and disposals and write-offs of revalued assets (Note 15) | (2,215) | 332 | (1,883) |
| **At 31 December 2018** | **11,571** | **(1,736)** | **9,835** |

| Group | Revaluation reserve | Deferred income tax | Revaluation reserve net of tax |
|---|---|---|---|
| **At 1 January 2017** | **23,561** | **(3,535)** | **20,026** |
| Depreciation of revalued amount of PP&E and disposals and write-offs of revalued assets (Notes 15, 18) | (3,558) | 534 | (3,024) |
| **At 31 December 2017** | **20,003** | **(3,001)** | **17,002** |
| Depreciation of revalued amount of PP&E and disposals and write-offs of revalued assets (Notes 15, 18) | (2,991) | 449 | (2,542) |
| **At 31 December 2018** | **17,012** | **(2,552)** | **14,460** |

## 26. Borrowings

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | | **Non-current** | | |
| - | - | Non-current borrowings | - | - |
| | | **Current** | | |
| 14,092 | 1,862 | Current and other borrowings | 14,092 | 1,862 |
| | - | Finance lease liabilities | | - |
| 14,092 | 1,862 | | 14,092 | 1,862 |
| 14,092 | 1,862 | **Total borrowings** | 14,092 | 1,862 |

The Company's and the Group's current borrowings consist of amounts payable to Fonterra (Europe) Coöperatie U.A. (Note 33), which are not subject to interest rates, and an overdraft granted by SEB Bankas. Under the loan agreements signed with the banks, certain property, plant and equipment (Note 15), inventories (Note 20), trade receivables (Note 21) and cash balances in bank accounts (Note 22) were pledged as collateral.

The carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 14,092 | 1,862 | in EUR | 14,092 | 1,862 |
| 14,092 | 1,862 | | 14,092 | 1,862 |

(All tabular amounts are in EUR '000 unless otherwise stated)

The fair value of borrowings does not materially differ from the carrying amount.

As at 31 December 2018, the balance not withdrawn under the committed credit line facilities with the banks amounted to EUR 1,783 thousand (2017: EUR 20,997 thousand) for the Company and the Group.
The Group is not in breach of the set borrowing limits or financial covenants (where applicable).

## 27. Deferred income

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 1,108 | 642 | Government grants at the beginning of the year | 110 | 319 |
| 1,205 | 850 | Government grants recognised | 1,205 | 56 |
| (425) | (384) | Recognised in the income statement | (293) | (265) |
| 1,888 | 1,108 | | 1,022 | 110 |
| (1,483) | (892) | Less: non-current portion | (731) | (31) |
| 405 | 216 | Current portion | 291 | 79 |

Deferred government grant is related to acquisition of property, plant and equipment using the European Union funds and the funds of the Lithuanian Government under the SAPARD, Rural Development Programme and other programmes. The Company has no obligation to repay or otherwise refund the grants received unless it breaches the contractual provisions contained in the agreements with the grantors.

## 28. Trade and other payables

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| 17,219 | 18,229 | Trade payables | 15,069 | 16,028 |
| 1,512 | 1,484 | Salaries, social security contributions and taxes | 980 | 938 |
| 557 | 541 | Advance amounts received and other payables | 477 | 487 |
| 2,092 | 2,192 | Accrued expenses | 1,039 | 1,868 |
| 21,380 | 22,446 | | 17,565 | 19,321 |

As at 31 December 2018, there were no amounts payable to Rokiškio Pieno Gamyba UAB and Rokiškio Pienas UAB (31 December 2017: there were no amounts payable to Rokiškio Pieno Gamyba UAB, Rokiškio Pienas UAB payable amount at 31 December 2017 - 6 thousand. EUR).).

## 29. Provisions

| Group 2018 | Group 2017 | | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | | **Non-current** | | |
| 683 | 683 | Non-current provisions | 307 | 307 |
| | | **Current** | | |
| 404 | 404 | Current provisions | 324 | 324 |
| 1,087 | 1,087 | **Total provisions** | 631 | 631 |

(All tabular amounts are in EUR '000 unless otherwise stated)

As at 31 December 2018 and 2017, the Company's and the Group's current and non-current provisions consisted of provisions for pension benefits calculated in accordance with the legal acts of the Republic of Lithuania and provisions under the collective agreement of the Company and the Group.

## 30. Contingent liabilities and commitments

*Contingent liabilities*

As at 31 December 2018 and 2017, no guarantees were granted to third parties on behalf of the Group and the Company.

*Capital expenditure commitments*

As at 31 December 2018 and 2017, there were no capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognised in the financial statements.

*Operating lease commitments – where the Group is the lessee*

The Group leases cars, premises, plots of land under operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| Group | | | Company | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| 142 | 173 | Within 1 year | 142 | 173 |
| 127 | 126 | Later than 1 year but not later than 5 years | 127 | 126 |
| 269 | 299 | | 269 | 299 |

## 31. Held-to-maturity investments

| Group | | | Company | |
|---|---|---|---|---|
| **2018** | **2017** | | **2018** | **2017** |
| - | 7,760 | Investment in the Lithuanian Government securities | - | 7,760 |
| - | 7,760 | | - | 7,760 |

By the decision of the Board of Rokiškio Sūris AB of 28 June 2017, the Company acquired Lithuanian Government securities for EUR 7.76 million. Repurchase of the securities is scheduled for 29 March 2020.
The Lithuanian Government securities were acquired using free cash generated upon reducing the inventories of finished products in the warehouses. During the period from November to December 2018, the Company sold Government securities and designated the proceeds received to the financing of the production and ripening of hard cheese.

(All tabular amounts are in EUR '000 unless otherwise stated)

## 32. Cash flows from operating activities

Reconciliation of profit before income tax to cash generated from operating activities:

| Group At 31 December 2018 | Group At 31 December 2017 | | Company At 31 December 2018 | Company At 31 December 2017 |
|---|---|---|---|---|
| 1,619 | 8,290 | Net profit (loss) before income tax | (222) | 11,217 |
| | | Adjustments for: | | |
| 9,216 | 9,133 | – depreciation (Note 15) | 5,857 | 6,032 |
| 3 | 1 | – amortisation and impairment (Note 16) | 3 | 1 |
| 85 | 29 | – write-off of property, plant and equipment and intangible assets (Notes 15 and 16) | 79 | 28 |
| 20 | 102 | – loss on disposal of property, plant and equipment (Note 10) | 60 | 72 |
| 29 | 40 | – interest expense (Note 12) | 29 | - |
| (427) | (315) | – interest income | (427) | (386) |
| 1,100 | 694 | – inventory write-down to net realisable value (reversal) | 1,100 | 694 |
| | - | – impairment for doubtful receivables and write-offs of bad debts (Note 21) | | - |
| | (1,440) | – provisions (reversal) for loans granted to farmers and employees (Note 7) | | (1,440) |
| | | – loss on disposal of investments | | |
| (1,107) | (1,164) | – accrual for vacation reserve and bonuses | (367) | (1,164) |
| (425) | (384) | – amortisation of government grants received (Note 27) | (293) | (265) |
| | - | – dividend income (Note 33) | (1,868) | (4,036) |
| | | Changes in working capital: | | |
| (393) | 7,248 | – amounts receivable and prepayments | 11,882 | (3,451) |
| (20,302) | (1,169) | – inventories | (20,375) | (871) |
| (11,149) | | – prepayments for milk supply | (11,149) | |
| 368 | 11,064 | – amounts payable | (1,361) | 8,387 |
| (21,363) | 32,129 | Net cash generated from/(used in) operating activities | (17,053) | 14,818 |

For the purpose of the cash flow statement, proceeds from disposal of property, plant and equipment comprised as follows:

| Group At 31 December 2018 | Group At 31 December 2017 | | Company At 31 December 2018 | Company At 31 December 2017 |
|---|---|---|---|---|
| 156 | 336 | Net book amount (Note 15) | 74 | 208 |
| (20) | (102) | Loss on disposal of property, plant and equipment (Note 10) | (60) | (72) |
| 136 | 234 | Proceeds from sale of property, plant and equipment | 14 | 136 |

(All tabular amounts are in EUR '000 unless otherwise stated)

For the purpose of the cash flow statement, non-cash flows comprise loans offset with amounts payable:

| Group | | | Company | |
|---|---|---|---|---|
| 2018 | 2017 | | 2018 | 2017 |
| 688 | 349 | Repayments of loans granted to farmers and employees | 685 | 346 |
| 210 | 135 | Repayments of other loans | 123 | 115 |
| 1,115 | 407 | Income tax off-set with other taxes | 1,115 | 407 |

## 33. Related-party transactions

Main shareholders of Company:

| | At 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Antanas Trumpa (Chairman of the Board of the Company) | 19.91% | 19.46% |
| Pieno Pramonės Investicijų Valdymas UAB (established in Lithuania)* | 27.83% | 27.21% |
| RSU Holding SIA (established in Latvia)* | 25.54% | 24.96% |
| Fonterra (Europe) Coöperatie U.A. | 10.23% | 10.00% |
| Other shareholders (legal entities and natural persons) | 16.49% | 18.37% |

** Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr Antanas Trumpa (as a principal shareholder holding 70.95% of the share capital and votes of Pieno Pramonės Investicijų Valdymas UAB). RSU Holding SIA is controlled by Mr Dalius Trumpa (as a single shareholder holding 100% of the share capital and votes of RSU Holding SIA). The group of persons acting in concert holds in total 81.86% (2017: 81.86%) of the Company's share capital and 83.75% (2017: 81.86%) votes*.*
*The Company has acquired 806,317 own shares, which comprise 2.25% of the Company's authorised share capital.*

Members of the Board of Directors of Pieno Pramonės Investicijų Valdymas UAB, RSU Holding SIA, Fonterra (Europe) Coöperatie U.A., and Rokiškio Sūris AB and their family members are treated as related parties. All Fonterra group companies are also treated as related parties.

Certain cooperative societies engaged in the production of milk are treated as related parties of the Company because the Company can exercise a significant influence over daily activities of these cooperative societies through close family members of its directors and certain employees.

(All tabular amounts are in EUR '000 unless otherwise stated)

*(i) The following transactions were carried out with related parties:*

| Group At 31 December 2018 | Group At 31 December 2017 | | Company At 31 December 2018 | Company At 31 December 2017 |
|---|---|---|---|---|
| 2,292 | 4,674 | Purchase of milk from other related parties | 21,760 | 33,636 |
| 10 | - | Purchase of non-current assets | 10 | 3 |
| - | - | Purchase of inventory | 10,235 | 7,082 |
| 60 | 68 | Purchases of services | 1,199 | 1,245 |
| 279 | 40 | Sales of transportation services to other related parties | 6,807 | 6,566 |
| 15,402 | 2,448 | Sales of production and other inventories* | 62,586 | 54,895 |
| 20 | 20 | Interest charges on credit facility | 49 | 58 |

* The sales of products to Fonterra group companies are attributed to the period from 17 October 2017.

In order to properly indicate the internal turnover of Rokiškio Sūris AB, Rokiškio Pienas UAB, and Rokiškio Pieno Gamyba UAB, the management of the Group has decided that raw materials used in the production of exported products of Rokiškio Sūris UAB will be bought at a zero price, while the production generated by Rokiškio Pienas UAB and Rokiškio Pieno Gamyba UAB will be sold as a service, i.e. excluding the value of raw materials.
Transactions related to the purchase of milk, acquisition of non-current assets and inventories, purchase and sale of services and goods with related parties are carried out under normal market conditions, including Fonterra group companies.

The loan agreement was signed with Fonterra (Europe) Coöperatie U.A. in 2012 for the purpose of financing the acquisition of certain production facilities. The loan does not bear interest, assets are not pledged, and the Company has not issued any guarantees related to the loan. The repayment term is up to the year 2033. With the Company fulfilling the obligations under the loan agreement, the loan will be amortised over fifteen years of the repayment term of the loan.

*(ii) Year-end balances arising from transactions with related parties:*

| Group At 31 December 2018 | Group At 31 December 2017 | | Company At 31 December 2018 | Company At 31 December 2017 |
|---|---|---|---|---|
| 22 | 28 | Non-interest bearing loans granted to directors (and their family members) | 22 | 28 |
| - | - | Loan receivable from Jekabpils Piena Kombinats SIA | 724 | 864 |
| 298 | 298 | Loan receivable from Dzūkijos Pienas KB | 298 | 298 |
| 3,276 | 1,862 | Loan payable to Fonterra (Europe) Coöperatie U.A. | 3,276 | 1,862 |
| 127 | 369 | Trade payables to other related parties | 1,321 | 1,855 |
| 5,642 | 1,760 | Trade receivables from other related parties | 17,310 | 27,362 |

By the decision of the Shareholder of Rokiškio Pieno Gamyba UAB dated 30 April 2018, it was decided to approve and allocate dividends in the amount of EUR 1,868,112. Dividends were paid out to Rokiškio Sūris AB in May 2018.

*(iii) Compensation of key management personnel*

| Group | | | Company | |
|---|---|---|---|---|
| At 31 December | | | At 31 December | |
| 2018 | 2017 | | 2018 | 2017 |
| 191 | 222 | Salaries | 177 | 198 |
| 1,563 | 2,116 | Bonuses/management bonuses paid | 1,189 | 1,309 |
| 1,164 | 1,164 | Accrual for management bonuses | 424 | 1,164 |
| 391 | 505 | Social security contributions | 356 | 364 |
| 3,309 | 4,007 | Total | 2,146 | 3,035 |

Key management personnel includes 9 (2017: 9) members of the Board and directors.

## 34. Services rendered by the audit firm

Presented below are all services rendered by the audit firm to the Group / the Company in 2017 (in EUR thousands):

| Group | | | Company | |
|---|---|---|---|---|
| At 31 December | | | At 31 December | |
| 2018 | 2017 | | 2018 | 2017 |
| 43 | 41 | Audit of the financial statements under the agreement | 27 | 26 |
| 18 | 19 | Assurance and other related services | 12 | 13 |
| - | 2 | Business consultation services | - | 2 |
| - | 1 | Tax consultation services | - | - |
| 61 | 63 | Total | 39 | 41 |

## 35. Events after the reporting period

On 27 February 2019, amendments were signed to the credit agreement with SEB Bankas AB, under which the final repayment date for the overdraft facility granted to the Company was extended until 29 February 2020, and the credit limit granted was increased to EUR 34,900,000 (thirty million nine hundred thousand). The Company's funds placed in and future inflows, as well as the assets owned by the right of ownership by Rokiškio Pieno Gamyba UAB, were additionally pledged to the bank.

ROKIŠKIO SŪRIS®

# CONSOLIDATED ANNUAL REPORT

## 2018


ROKISKIS APRIL 2019

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## MESSAGE FROM CEO

**Dear All,**

The year 2018 was a challenging period for the group of Rokiškio sūris AB. This is the first year we have been part of one of the world's largest milk processing companies, Fonterra. Over the past year, we have successfully started integrating into Fonterra's structures, exploiting the potential of their sales, investments and knowledge.

The year 2018 is also significant because it was the first year without the long-term manager of the company Antanas Trumpa, who since the beginning of 2018 has resigned as a director of the company.

Among the challenges of 2018, there were also unfavorable conditions in the main export markets of the company. Large stocks of intervention stocks in the European Union put pressure on prices and demand for dairy products throughout the year. As a result, in 2018, the company's turnover decreased from EUR 244 million in 2017 to EUR 204 million in 2018, and the net profit decreased from EUR 8.156 million in 2017 to EUR 1.918 million in 2018. We can be pleased that the second half of last year was profitable for us. Through it, the group earned EUR 5.603 million.

This is largely due to the successful work in the internal market, where the company remains one of the leaders, and has changed the strategy of the company, focusing on the production of longer maturing cheeses with higher added value.

Despite the fact that due to adverse weather conditions, milk yield in Lithuania decreased by 2.7% in 2018 (compared to 2017), the company managed to remain the leader in the amount of processed milk in the Baltic States.

In 2018 investment projects were continued and some were completed: Modernization of milk processing and marketing of AB „Rokiškio sūris" and UAB "Rokiškio pieno gamyba".

In 2018, a great deal of attention was paid to enhancing the competence of all chain managers. This process is expected to continue in the coming years as we understand that the core strength of a modern enterprise is its human capital, so we will continue to improve the competences of both employees and managers. We strive for purposeful, focused performance across the management chain that would enable us to continue to be Reliable Professionals of the Dairy Industry.

Dalius Trumpa
CEO

# GENERAL INFORMATION

## 1. Reporting period of the submitted annual report

This consolidated report for the year 2018 was prepared for the period from 1 January 2018 to 31 December 2018.

## 2. Key information of the issuer:

| | |
|---|---|
| Name of the issuer: | Rokiškio sūris, AB (hereinafter, the "Company") |
| Legal form: | Public limited liability company |
| Registration date and place: | 28 February 1992, State Enterprise Centre of Registers |
| Registration number: | 173057512 |
| Address: | Pramonės g. 3, LT-42150 Rokiškis, Republic of Lithuania |
| Administrator of the Register of Legal Entities | State Enterprise Centre of Registers |
| Telephone: | +370 458 55 200 |
| Fax: | +370 458 55300 |
| E-mail address: | rokiskio.suris@rokiskio.com |
| Website: | www.rokiskio.com |
| ISIN code: | LT0000100372 |
| LEI code: | 48510000PW42N5W74S87 |
| Share ticker symbol at AB Nasdaq Vilnius | RSU1L |

## 3. Information on the Company's group

As on 31 December 2018, the group of Rokiškio sūris, AB (hereinafter, the "Group") consists of the parent company Rokiškio sūris, AB, and its four subsidiaries (in 2017: two branches and four subsidiaries).

**Parent company:**

**Rokiškio sūris, AB** (registration number 173057512, Pramonės g. 3, LT-42150 Rokiškis).

**Subsidiaries of Rokiškio sūris, AB:**

***Rokiškio pienas, UAB,*** address of the registered office Pramonės g. 8, LT-28216 Utena. Registration number: 300561844. Rokiškio sūris, AB is the founder and the sole shareholder of Rokiškio pienas, UAB, holding 100% of shares and votes.

***Rokiškio pieno gamyba, UAB,*** address of the registered office Pramonės g. 8, LT-28216 Utena. Registration number: 303055649. Rokiškio sūris, AB is the founder and the sole shareholder of Rokiškio, UAB, pieno gamyba, holding 100% of shares and votes.

***Latvian company SIA Jekabpils piena kombinats*** (registration number 45402008851, address of the registered office Akmenu iela 1, Jekabpils, Latvia LV-5201). Rokiškio sūris, AB holds 100% of shares and votes in the company.

***Latvian company SIA Kaunata*** (registration number 240300369, address of the registered office Rogs, Kaunata pag., Rezeknes nov., Latvia). Rokiškio sūris, AB holds 40 percent of member shares in the company, whereas Rokiškio pienas, UAB, holds 20 percent of member shares in the company.

## 4. Types of main activities of the Company and the Company group

Main activities of Rokiškio sūris, AB group:

- ***Operation of dairies and cheese making (NACE 10.51)***

*Rokiškio sūris, AB:*
The main activity of Rokiškio sūris, AB is production and sale of fermented cheeses, whey products, skimmed milk powder.

*Subsidiaries:*
The main activity of UAB Rokiškio pienas is sale of fresh milk products and fermented cheeses.

The main activity of UAB Rokiškio pieno gamyba is production of fresh milk products (milk, kefir, sour milk, butter, curd, curd cheese, sour cream, glazed curd cheese bars, desserts).

The activity of SIA Jekabpils piena kombinats is purchase of raw milk.

The activity of SIA Kaunata is purchase of raw milk.

## 5. Strategy and objectives of the Group

In order to ensure that all members of the Company's management bodies have a clear understanding of the Company's objectives, directions and aspirations, the Company's strategy for long-term strategic goals and objectives is being prepared.

Rokiškio sūris, AB group in its activities is guided by a three year strategic plan approved by the Board, the main provisions of which are set forth below:

***MISSION:***

## *Rokiškio sūris, AB* = Reliable Professionals in the Dairy Industry

***VISION:***

Processing more than 1 million tonnes of raw milk per year, as Lithuania turns into Baltlandia.

***OBJECTIVES:***

- Regional leadership in milk processing sector.
- Flexible production and sales of top-quality products exceeding consumer expectations.
- Being the most attractive and reliable partner for farmers producing milk.
- Continuously increasing value for shareholders.

***We seek objectives***

- By increasing the volume of purchased and processed milk by 5 percent annually.
- We target at 3 percent net annual profit rate.

# 6. The most important events in the reporting period

**The 27 April 2018 General Shareholders' meeting of Rokiskio suris, AB:**

1. Endorsed findings made by the Audit Committee;
2. Approved the Company's and consolidated annual reports for the year 2017;
3. Approved profit (loss) allocation 2017:

To approve the following profit (loss) distribution of the year 2017:

| | Title | kEUR |
|---|---|---|
| 1. | Non-distributable profit (loss) at beginning of year | 64 584 |
| 2. | Approved by shareholders dividends related to the year 2016 | (3 228) |
| 3. | Transfers from other reserves | 2 447 |
| 4. | Non-distributable profit (loss) at beginning of year after dividend payout and transfer to reserves | 63 803 |
| 5. | Net profit (loss) of the Company of fiscal year | 11 021 |
| 6. | Distributable profit (loss) of the Company | 74 824 |
| 7. | Profit share for mandatory reserve | - |
| 8. | Profit share for other reserves | - |
| 9. | Profit share for dividend payout * | (3 587) |
| *10.* | *Profit share for annual payments (tantiemes) to the Board of Directors, employee bonuses and other as accounted by Profit (loss) statement* | *1 195* |
| 11. | Non-distributable profit (loss) at end of year transferred to the next fiscal year | 71 37 |

In total it will be allocated EUR 3,586,797 to the dividends payout, 0.10 eur per ordinary registered share.

4. Endorsed the Dividend Policy of Rokiskio suris AB;
5. Increased the reserve for the acquisition of own shares up to kEUR 10,850.
6. Resolved to acquire treasury shares as follows:

Purpose of acquisition of own shares – maintain and increase the price of the company's shares.

Maximal number of the shares to be purchased – total value of the Company's treasury shares may not exceed 1/10 of the Company's Authorized Capital.

Period during which the company may purchase own shares – 18 months from the approval of resolution.

Maximal and minimal purchase price per share – maximal purchase price per share is higher by 10 per cent compared to the Company's share market price at Nasdaq Vilnius Stock Exchange at the time of the resolution's approval by the Board of Directors in regard with the treasury share acquisition, and the minimal purchase price per share is lower by 10 per cent compared to the Company's share market price at Nasdaq Vilnius Stock Exchange at the time of the resolution's approval by the Board of Directors in regard with the treasury share acquisition.

Procedure of selling the treasury shares and minimal sales price – The Company's treasury shares might be cancelled upon a resolution of the general meeting of shareholders or sold under a resolution of the Board of Directors provided the minimal sales price is equal to the acquisition price, and the procedure will ensure equal opportunities for all shareholders to acquire the company's shares.

Following the conditions set herewith and the requirements of the Law on Companies of the Republic of Lithuania, to authorize the Board of Directors to accept resolutions regarding purchase of the Company's own shares, organize purchase and sales of the own shares, establish an order for purchase and sales of the own shares, as well as their price and number, and also complete all other related actions.

7. Elected an audit company UAB PricewaterhouseCoopers to perform an audit of annual consolidated financial statements for the year 2018 and evaluation of the consolidated annual report 2018 of the Group of AB Rokiskio suris and the Parent Company.

**On 20 June 2018, t**he Court of Appeal of the Republic of Lithuania has dismissed judgement of the Panevėžys Regional Court in regards with the claims raised by the Swedish investment company East Capital against AB Rokiškio sūris CEO Antanas Trumpa and discontinued further proceedings in the case having stated that East Capital was no longer entitled to the claim as the company sold its shares. The Court obliged East Capital to cover a part of litigation costs incurred by by Antanas Trumpa, AB Rokiškio sūris and other parties involved in the legal proceedings.

In October 2017, East Capital sold all their shares of AB Rokiškio sūris to INVL Asset Management, UAB, the funds of pension and investment. The new owners of the shares of AB Rokiškio sūris refused to support the claims raised by East Capital.

The ruling of the Court of Appeal of Lithuania as of 20 June 2018 came into force from the day it was adopted.

East Capital (LUX) Baltic Fund covered the legal costs amounting to EUR 62,453.24 adjudged on June 20, 2018, by the Court of Appeal of the Republic of Lithuania for the benefit of Antanas Trumpa, Pieno pramonės investicijų valdymas UAB and Rokiskio suris AB.

**On 31 August 2018,** the Compamny anounced its six-month performance results:

The January-June 2018 consolidated non-audited sales of the Group of Rokiskio suris AB made kEUR 102,202, i.e. by 16.71 per cent less compared to the same period last year. The half year 2017 consolidated sales made kEUR 122,699.

Six month 2018 consolidated non-audited loss of the group of Rokiskio suris AB amounted to kEUR 3,685. Meanwhile, the consolidated net profit of the Group of Rokiskio suris AB amounted to kEUR 844 in the first half year 2017.

The loss was caused by the main reason – adverse market situation in Italy which is the key market for Rokiskio suris AB. Cheese price dropped due to the increased supply from other EU countries, and it played the main role in the fall of the Company's earnings.
Demand for dairy products in other export markets decreased also, and this was an obstacle to redirect sales immediately.

**On 31 August 2018, i**n order to simplify the company's management structure and to achieve more effective governance, the 31 August 2018 Board resolved to terminate the performance of Rokiškio sūris AB subsidiary Utenos pienas and Rokiškio sūris AB subsidiary Ukmergės pieninė, consequently terminating their enrolment in the Registry of Legal Bodies. The resolution was adopted because the above subsidiaries had not exercised any actual performance since the Company established its subsidiaries UAB Rokiskio pienas and UAB Rokiskio pieno gamyba.

**On 7 September 2018,** Rokiškio sūris AB subsidiary Utenos pienas and Rokiškio sūris AB subsidiary Ukmergės pieninė were removed from the Registry of Legal Bodies. The resolution to terminate operations of the subsidiaries was adopted by the Board of Rokiskio suris AB. The resolution was adopted because the above subsidiaries had not exercised any actual performance since the Company established its subsidiaries UAB Rokiskio pienas and UAB Rokiskio pieno gamyba.

**On 20 September 2018,** Based on the resolution of the 27 April 2018 General Meeting of Shareholders of Rokiskio suris AB, on 20 September 2018 the Board of Directors of Rokiskio suris AB decided to launch purchase of ordinary registered shares of Rokiskio suris AB, par value of the shares is equal to EUR 0.29 (twenty nine euro cents). A reserve of kEUR 10,850 is formed for the purchase of own shares. A tender offer will be made to purchase own shares via the securities market Nasdaq Vilnius AB.

Assignments to sell shares will be accumulated during the whole period of share purchasing. If the share offer surpasses number of the shares to be purchased, then the number of buyable shares will be reduced proportionally to all sellers of the shares.

**Conditions of the purchase:**

The beginning of share purchase: 24 September 2018
The end of share purchase: 5 October 2018
The maximum number of shares to buy: 3,586,797 units
Total maximal price of shares to be bought: EUR 9,397,408.14
Price per share: EUR 2.62

**On 8 October 2018**, the Company anounced that during the tender offer made via the securities market Nasdaq Vilnius, within the period from 24 September 2018 to 5 October 2018, AB Rokiskio suris, AB purchased 598,681 units of own shares which makes 1.67 per cent of the Company's Authorized Capital. Price per share: EUR 2.62. Total price of the purchased own shares made EUR 1,568,544.22.

**On 29 November 2018,** based on the resolution of the 27 April 2018 General Meeting of Shareholders of Rokiskio suris AB, on 29 November 2018 the Board of Directors of Rokiskio suris AB decided to launch purchase of ordinary registered shares of Rokiskio suris AB, par value of which is equal to EUR 0.29 (twenty nine euro cents), consequently total nominal value including the shares already purchased would not exceed 1/10 of the Company's Authorized Capital. For the purchase of own shares there is an accumulated and unused reserve of kEUR 9,281. A tender offer will be made to purchase own shares via the securities market Nasdaq Vilnius AB.

Assignments to sell shares will be accumulated during the whole period of share purchasing. If the share offer surpasses number of the shares to be purchased, then the number of buyable shares will be reduced proportionally to all sellers of the shares.

*Conditions of the purchase:*
The beginning of share purchase: 3 December 2018
The end of share purchase: 14 December 2018
The maximum number of shares to buy: 2,988,116 units
Total maximal price of shares to be bought: EUR 7,769,101.60
Price per share: EUR 2.60

**On 17 December 2018,** the Company anounced that during the own share purchase period started from 3 December 2018 until 14 December 2018, Rokiškio sūris, AB acquired 207,636 own shares which makes 0.6 per cent of the Company's Authorized Capital. Price per shares was equal to EUR 2.60. The shares were acquired via a tender offer on the stock exchange market Nasdaq Vilnius. Payments for the shares will be made on 18 December 2018.

Currently Rokiskio suris AB owns 806,317 treasury shares including the shares owned before, and this makes 2.25 per cent of the Company's Authorized Capital.

## 7. Significant developments after the end of the fiscal year

On 27 February 2019, amendments were signed to the credit agreement with SEB Bankas AB, under which the final repayment date for the overdraft facility granted to the borrower (Rokiškio Sūris AB) was extended until 29 February 2020, and the credit line of up to mEUR 34.9 (thirty four million nine hundred thousand) was granted. The Company's assets pledged previously for the benefit of the Bank were extended in order to secure the repayment of the loan, and the claims to receivables were pledged additionally. The interest rate set in the credit agreement was not subject to repricing.

Other information on major developments after the end of fiscal year is provided in comment 35 to the consolidated report of Rokiškio sūris, AB and the financial report of the parent company of 31 December, 2018.

# INFORMATION ON THE OPERATIONS OF THE COMPANY AND THE GROUP OF COMPANIES

## 8. Business environment of the Group of Companies

### Basic Provisions

***Who we are:***

- We process more than 500 thousand tonnes of milk at three milk processing plants
- We manufacture and sell more than 35 thousand tonnes of different cheeses.
- We export approximately two-thirds of our production.
- We are a responsible employer to more than 1,400 employees.

The Company's operations cover raw milk procurement, the manufacture of various dairy products and their sales on the local and export markets.

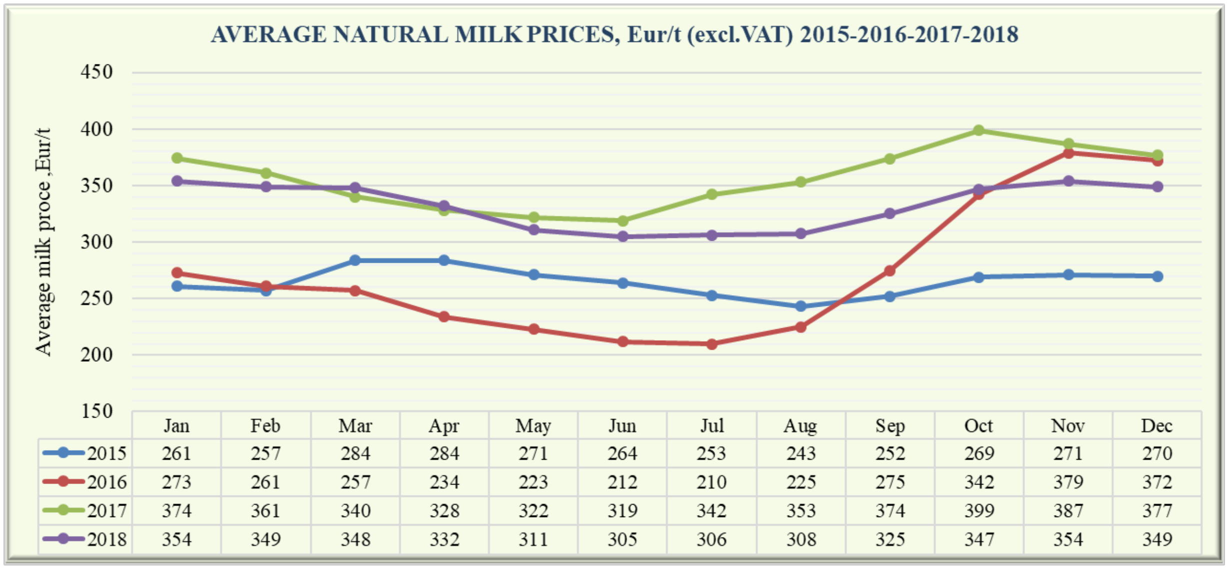
## *Raw milk procurement*

According to the data of ŽŪIKVC (LŽŪMPRIS), in December 2018 in Lithuania, the average purchase price of natural milk (4.39 percent fat content and 3.48 percent protein content) was EUR 313.8 per tonne. In December, the average purchase price of natural milk fell by 0.8 percent compared to November. (In November 2018, the milk purchase price was EUR 316.3 per tonne). The average milk purchase price for the base indicators in December 2018, compared to November, increased by 0.3 percent, and was EUR 240.4 per t. In December 2018, natural milk purchase price was 2.6 percent lower than in December 2017 (In December 2017 it was EUR 322.3 per t).
In Lithuania in December 2018, it was purchased 103.83 thous. tons of milk, 2.0 percent less compared to December 2017.

According to preliminary data of ŽŪIKVC (LŽŪMPRIS), in 2018 it was purchased from Lithuanian milk producers 1 363.01 thou. tons of raw natural fat milk - 2.7 percent less than in 2017, and the average purchase price (excluding VAT) of the said milk from local producers decreased by 5.4 per cent. and amounted to EUR 281.75 / t. During this period, the purchase of raw natural fat milk from farmers and family farms decreased by 4.6 percent. (down to 973.99 thousand tons), from agricultural companies and enterprises - increased by 2.3 percent. (up to 389.03 thousand tons).

According to the data of the Agricultural Information and Rural Business Center on 31 December 2018 in Lithuania, it was registered 257.3 thousand cows - this is 5.6 percent less than in the same period last year (272.6 thousand cows).

The chart below shows the prices of raw milk Rokiškio sūris, AB paid by the Group to large farmers with European-size farms delivering more than 40 t of raw milk per month in 2015-2016-2017-2018.




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | 261 | 257 | 284 | 284 | 271 | 264 | 253 | 243 | 252 | 269 | 271 | 270 |
| 2016 | 273 | 261 | 257 | 234 | 223 | 212 | 210 | 225 | 275 | 342 | 379 | 372 |
| 2017 | 374 | 361 | 340 | 328 | 322 | 319 | 342 | 353 | 374 | 399 | 387 | 377 |
| 2018 | 354 | 349 | 348 | 332 | 311 | 305 | 306 | 308 | 325 | 347 | 354 | 349 |

Since the beginning of 2018, global prices for exported dairy products have declined. This situation on export markets led to a decrease in milk purchase prices compared to the same period last year.

In Lithuania, whose milk supply in the EU makes 1 percent, one farm produces on average just 49 tonnes of milk per year. On average, 11 cows are kept on a farm. The average milk yield per cow in Lithuania is 5.7 tonnes per year.

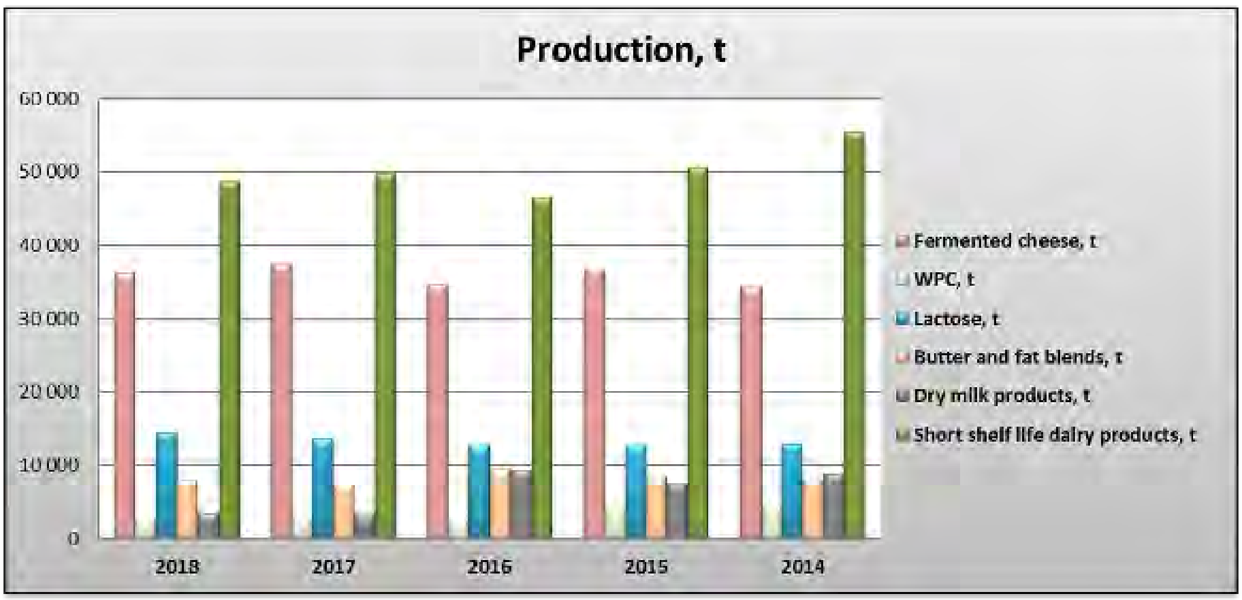
## *Manufacture of dairy products*

Rokiškio sūris, AB Group is one of Lithuania's major dairy companies that manufactures and offers more than 300 products to its customers. This includes not only fermented cheeses bot also a variety of products obtained from whey, such as lactose, 80% WPC, 90% WPC. The Group manufactures milk powder, butter, processed cheeses, curd and curd products, other fresh dairy products.
Thanks to their excellent quality, the products manufactured by the companies of the Group have earned the trust of consumers both in the local and the export markets.
Rokiškio sūris, AB Group carries out its production activity in the towns of Rokiškis (Rokiškio sūris, AB), Utena (Rokiškio pieno gamyba, UAB) and Ukmergė (Ukmergės pieninė, branch of Rokiškio pieno gamyba, UAB).


- Rokiškio sūris, AB (in Rokiškis) specialises in the production and marketing of fermented cheeses and products obtained from whey.
- Rokiškio pieno gamyba, UAB (Utena company) specialises in fresh dairy products for the local market, whey protein concentrate, milk powder and butter production.
- Rokiškio pieno gamyba, UAB (Ukmergė company) specialises in curd and curd products.
- Rokiškio pienas, UAB specialises in the marketing of the complete range of products of the Group in Lithuania, Latvia and Estonia. The company also markets dairy products manufactured by other foreign producers.

The following table and chart show changes in the production volumes of Rokiškio sūris, AB Group in 2014-2018:

| Production / Year | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Fermented cheese, t** | 36.214 | 37.463 | 34.603 | 36.759 | 34.295 |
| **WPC powder, t** | 2.635 | 2.857 | 2.622 | 4.004 | 4.479 |
| **Lactose, t** | 12.405 | 13.661 | 12.746 | 12.774 | 12.878 |
| **Butter and fat blends, t** | 7.891 | 7.285 | 9.391 | 8.455 | 7.960 |
| **Dry milk products, t** | 3.463 | 3.335 | 9.234 | 7.379 | 8.721 |
| **Fresh dairy products, t** | 48.596 | 49.734 | 46.475 | 50.633 | 55.428 |




In 2018, the production of fermented cheeses at Rokiškio sūris, AB decreased by 3.3% compared to 2017. Yet the production of hard cheeses increased by 1.8 times, the production of semi-hard and fresh cheeses dropped by 9.6% and 21.7% respectively. Changes in the range were determined by changes in the cheese market.

In 2018, production of hard cheese (35 kg) continued to grow and the production process improved. The technology of this cheese was created by prof.Angelo Frosio, the Italian cheese expert, together with the company's production experts.

The company produces 35 kg GRANA type hard cheese which is distinctive by mature, rich, and savory flavor. The production process of this type of cheese is very complex, requiring a lot of investment, exceptional knowledge, time and patience. Cheeses of this level can only be created by a very high-tech company with a team of highly qualified specialists.

In 2018, the company's production of lactose decreased by 9.2% compared to 2017. The decline in whey protein concentrate production was due to the assortment of WPC. The decrease in the production of milk sugar was also caused by the amount of lactofiltrate purchased from other companies.

In collaboration with the New Zealand company Fonterra, one of the world's largest dairy product manufacturers, 90% of the WPC production technology has been successfully implemented (Whey Protein Concentrate). This technology is constantly improved and the range of WPC is expanded.

The large-scale reconstruction of the fresh dairy products facility at Utena plant that started in 2015 is in progress. The purpose of the reconstruction is to modernise the existing production technology which will enable to cut production costs and improve the product quality.

In 2017, the laboratory of Rokiškis company started implementation of laboratory information system – a project for transferring data into electronic environment which will offer new information management and analysis possibilities. The project should be completed in 2019.

## 9. Sales of the Group of companies

As every year, the largest part of the company's production is exported. The Group of Rokiskio suris exports its products to 42 countries of the world. In 2018, the group's exports accounted for about 62 percent from total sales. Meanwhile, in 2017, the Group's exports amounted to about 65 percent.

**Sales of the Group of companies by different markets**

| Country | Sold | | | | |
|---|---|---|---|---|---|
| | 2018 | | 2017 | | Change |
| | kEUR | % | kEUR | % | % |
| | 78 093 | 38.34 | 84 137 | 34,54 | **-7.18** |
| **Lithuania** | 109 546 | 53.78 | 132 447 | 54,38 | **-17.29** |
| **European countries** | 1 075 | 0.53 | 479 | 0,20 | **124.43** |
| **Middle East** | 4 370 | 2.15 | 10 091 | 4,14 | **-56.69** |
| **Far East** | 3 654 | 1.79 | 7 197 | 2,96 | **-49.23** |
| **North America** | 6 937 | 3.41 | 9 215 | 3,78 | **-24.72** |
| **Other countries** | **203 675** | **100** | **243 566** | **100** | **-16.38** |

In 2018, the Group's sales revenue amounted to kEUR 203,675. Compared to 2017 (kEUR 243,566) sales revenue decreased by 16.38 percent.
In 2018, total company sales to both European and third countries decreased significantly (over 17%). This was influenced by several factors: low prices of fresh cheese redirected production to more profitable processing and consequently there was a significant increase in the production of hard cheeses, which need time to ripen – and thus the sales of fresh cheese dropped significantly.

Meanwhile, sales to the Middle East grew in connection with the sales of hard cheese to Turkey and sales of fresh cheese and powders to the United Arab Emirates and Saudi Arabia. Sales to China were no longer carried out because the company had no distribution channels, i.e. customers who would be interested in buying the company's production.

In 2018, lactose was still transported to New Zealand, the Philippines, India, Russia and European countries. Exports of fresh cheese to the Far East markets fell by almost half due to the cheaper alternative for those customers to buy mozzarella from US producers.

As before, the company also sells traditional products on its exports markets, including cheese, cream, milk powder and complementary products obtained during cheese production process – WPC and lactose. As before, fresh cheeses (Cagliata and Mozzarella) mostly go to Italy, the Netherlands and Spain.

The main cause of the loss occurred in the beginning of the year due to the unfavorable situation in the most important market of AB „Rokiškio sūris", in Italy. The sharp increase in the supply of cheeses to this market from other EU countries has led to a fall in their prices, which has largely led to losses. In other export markets, demand for dairy products has also declined, which has prevented the swift change of sales directions.

In 2018, sales of fermented cheese decreased by 7602 tonnes. The average price of fermented cheese fell by 4.2 per cent. The decrease in the amount and price of fermented cheeses had the greatest impact on sales.

At the beginning of 2018, the prices of whey products – lactose and WPC – started to fall significantly. Between February and May, selling prices for butter also fell. In 2018, sales of lactose increased by 3867 tonnes, but the sales price compared to 2017 fell by 25 percent. Prices of WPC dropped by 18 percent while sales remained at the same level.

Fat prices remained low throughout the year as compared to 2017 due to the high supply of butter on the market, including imported butter from outside the EU. Milk processors have not seen the anticipated recovery of fat prices in 2018.

The increase of sales to Asia where the strongest growth in the consumption of dairy products is expected in the immediate future, remains a major focus of Rokiškio sūris Group.

## Local market sales

In 2018 the consolidated local market sales of Rokiškis Group amounted to 79.5 mio. EUR, or 5.5% less than in 2017 when it was 84.1 mio. EUR. Product sales prices remained at a similar level, with a slight drop in private label sales (over 15%). Sales were also reduced by other transactions (Fonterra etc.).

In the domestic market in 2018, the Group's sales of branded products amounted to 37.1 thousand tons, which is 3% more than in the previous year.

Rokiškis Group continues to be the second player on the local market with a market share of approx. 23% in 2018. Rokiškis group holds the leading or the second market position in numerous product categories; its performance is somewhat weaker in desserts categories. Rokiškis Group is the market leader in the categories of sour dairy products (kefir, buttermilk), cheeses, processed cheeses and butter.

The company is not strongly involved in small market segments and focuses on mass-production which ensures lower costs and consistently high product quality. Retail networks are the priority marketing channel for the Company; the Company works with them on the basis of mutual cooperation, including the manufacture of private labels.

## 10. Products, brands and achievements

**Reliable profesionals in the dairy industry for over 50 years!**

A key factor is production quality stability which is essential for the implementation of the marketing strategy, as well as continuous strengthening the company's brands. The company has a range of strong brands designated for various consumer groups which are associated with high quality products. The key group of products of the Company is Rokiškio Naminis that is one of he best recognised brands in FMCG (Fast Moving Consumer Goods) sector. The brand refers to the Lithuanian traditions and family values.

The company aims to make its production consistent with the trends of healthy nutrition. According to the data of the Ministry of Health, Lithuanian people receive more sugars every day than it is recommended by the World Health Organization (WHO). As a result, the company contributed to a co-operation agreement initiated by the Ministry of Health Protection to reduce the potential threats to the health of the population and to improve the composition of the products produced in Lithuania. Consequently the company reduced amount of sugars in the Bifi Active yogurt line.

In the international exhibition AGROBALT 2018, in the cathegory named „**Best for children (for the attention to the children health)**", a new product – yogurt „Bifi Active" was awarded **GOLDEN MEDAL!**


No less important – the award granted to a curd cheese „Rokiškio GRAIKIŠKAS" at the Lithuanian Industry Confederation's competition „Product of the Year 2018" where the cheese received the golden medal and was titled with the name of The Product of the year! It has a lower sugar content, high quality black chocolate is used in the production.

AB „Rokiškio sūris“ group also has a wide range of high quality and exceptional value added products in other product categories. News of the year 2018 – dried curd cheese "Rokiškio NAMINIS"; processed sausage cheese Rokiškio GRAND; Eco-friendly family of products TIKRAS has been supplemented with new organic products: curd blocks, sour milk in a container.





The following products of Rokiškio sūris, AB were declared the most popular goods in their categories at the **2017 Most Popular Goods** competition organised for the eighth year in a row by the Lithuanian Association of Trade Undertakings:

- Kefir, curded milk, curded buttermilk – **Rokiškio NAMINIS kefir, 2.5% 0.9 kg package**
- Fermented cheese – **Visiems processed cheese, 45%, 240 g.**
- Processed cheese – **Visiems processed cheese, 330 g.**
- Sour buttermilk – **Rokiškio BIFI ACTIVE, 0.3%, 0.8 kg.**

In order to present a range of cheeses: from fresh cheeses to hard, as well as lactose, butter, employees of AB „Rokiškio sūris“ participate in various exhibitions: International, the largest food and beverage exhibition "SIAL China 2018" in Shanghai, China (May 16-18, 2018); International Food Industry Exhibition, held every two years at SIAL Paris 2018 Paris, France (October 21-25, 2018).

## 11. Risk factors and risk management

Risk is understood as a hindrance to achieve the set targets due to potential evens or their possible impact on business. The Company's objectives also include long-term strategic goals and specific actions related to the operations. The Management of the Company is responsible for managing the Company's risks and the assessment of negative impact on the set targets and outcomes. The identification of specific risk and the management thereof is attributed to the respective functions implemented in the Company. Given the external and internal environment, the risk level is assessed when adopting both strategic and operational decisions. Risk management forms an integral part of the Company's operational processes, therefore potential risks are under permanent monitoring and evaluation.

The Group's core business is milk processing. Milk processing business is related to raw material suppliers, competition in raw milk market, raw milk price fluctuations. Shortage of raw milk, which promotes the constant fluctuation of milk prices, may affect the performance of the issuer.

Specialization in the production of fermented cheeses determines the main part of the income. The process of maturing the cheeses is quite long. Therefore, it is difficult to react quickly to market changes, which may affect the performance of the company.

High competition for dairy products in domestic and export markets, cheaper Polish products, restrictions to the Russian market limits sales.

Group‘s credit risk is related to receivables. The risk that partners fail to meet their obligations is controlled. The Group has insured its customers with credit insurance. Customers with higher financial risk are subject to a prepayment system.

The Group's activities are under constant control of food safety, environmental and social responsibility audits. Food safety systems are in place and operate in the group‘s companies. The company has been awarded the specific quality certificates of HALAL and KOSHER (for the products such as Lactose, WPC, SMP, FMP, Butter milk powder, Butter). This ensures consumer confidence in product safety. Certified organic products are labeled with additional information.

The goal of the Group's management is to produce safe and high-quality milk products with minimal impact on the environment. The Group is constantly looking for ways to optimize production, reduce costs and minimize risk factors and manage them as much as possible.

| Risk Factor | Source of Risk | Risk Management. |
|---|---|---|
| **Economic Factors: Supply of raw material** | Small farms;<br>Seasonality;<br>Competition;<br>Absence of a long-term regulatory framework.<br>Fluctuation of raw milk prices in winter and summer.<br>Significant changes in milk prices on global markets | In order to mitigate the potential risks and their impact, dairy producers are paid additionaly to the milk price for long-term cooperation, for higher milk quality indicators, loyalty, and balance in seasonality of milk production.<br>Risk is managed by additional import of milk from other countries (Estonia, Latvia) and diversification of raw milk purchase from different size suppliers in Lithuania. |
| **Product sales** | The Group's core business is milk processing. The main product is fermented cheese.<br>Cheese sales account for most of the revenue.<br>The Company's income, profits and cash flows may be negatively affected by changes in the demand and prices of cheeses and other products - milk sugar, butter, WPC.<br>The production of long ripening hard cheese is a long process that lasts from 9 to 24 months.<br>This long process can negatively affect the company's cash flows and performance.<br>Internal competition between local producers. | Searching for alternatives to import production.<br>Increasing the range.<br>Search for new markets.<br>Cooperation with business partners.<br>Risk assessment for each client. |

| | | |
|---|---|---|
| | Cheaper Polish production on the Lithuanian market.<br>Increase in the number and range of cheaper products from other EU countries. | |
| **Environmental Factors** | We consume a lot of energy and natural resources in our operations. This poses direct and/or indirect risk of environmental pollution, as does air pollution from technological equipment. | Replacement of vehicles with new ones, maintenance, operation conditions control.<br>Selection of energy suppliers.<br>Resource conservation, accounting and control measures.<br>Control, automatisation and modernisation of technological processes.<br>The monitoring of the consumption and impact of natural resources. |
| | The use of chemical substances. This poses a risk to employees, products, and the environment. | Staff training, personal protection measures.<br>Accounting and control.<br>Process automatisation. |
| | Physical environmental pollution: noise, odour, light | Control measurements and assessment.<br>The deployment of technical measures.<br>Focus on design works.<br>In 2018, a waste water disposal facility for industrial waste water was installed. |
| | Industrial and surface wastewater management.<br>Release of industrial and surface wastewater containing pollutants. | Maintenance, operation conditions, process control.<br>Analysis of the concentrations of contaminants, accounting of contaminant releases.<br>The use of city wastewater purification reserves.<br>Cleaning and maintenance of sand oil precipitators.<br>In 2018 the diameter of the pipeline and the replacement of wells were renewed and increased in the respective sections of the industrial waste water pipeline. |
| | Poor treatment of waste generated during operation poses environmental risk. | Waste separation, process management.<br>Ensuring adequate storage conditions.<br>Staff training.<br>Transfer to legitimate managers. |
| | Regulation and compliance. The risk manifests itself in the large scope and developments of legal regulations. | Certified management system in compliance with ISO 14001:2015 Environmental management system. Requirements and usage guidelines.<br>Continuous assessment of legal acts and developments. |
| | The interests of the population and self-government institutions related to the environmental impact of the Company. The Company is located in the industrial area of the city and | Disseminating information about important developments at the company in the local media and online.<br>Active co-operation with self-government authorities, people's and business communities. |

| | | |
|---|---|---|
| | borders on other business undertakings as well as a residential area. | Assessment of the impact of planned business operations in accordance with the established procedure.<br>Climate control chambers have been installed in the production and storage rooms, which not only maintain the set temperature and humidity parameters, but also operate in recuperation mode. Installing freeze production machines eliminates compressed water produced by frozen ice, while reducing power consumption. |
| **Energy-related risk** | The Company's operations involve high consumption of electricity, heat energy and water.<br>The operation of all industrial and non-industrial equipment is based on electricity consumption. This poses a risk of uninterrupted electricity supply.<br>Electricity, heat energy (steam) and water supply affects the industrial-technological process. | There are three 10KV high-voltage distribution facilities in the territory that feed energy to three power transformers.<br>If voltage is lost in one substation, feeding continues from another one.<br>Four water supply inlets are available: two from Rokiškio vandenys, UAB and two from own wells.<br>Water turbidity meters installed in the introductions of UAB Rokiškio vandenys, which ensure the quality of the supplied water for production processes.<br>Strict contractual terms and conditions for heat energy (steam) supply from Rokiškis ŠTR define maximum demand for pressure and temperature.<br>Installed thermal energy vapor accounting with controlled and assured consumption and needs of relevant workshops.<br>Three hot water boilers are installed at the production facility. |
| **Food safety and quality** | In order to implement one of the key objectives of Rokiškio sūris, AB, i.e. to ensure food safety and quality and prevent product recalls, the existing potential risk factors (biological, chemical, physical) as well as the conditions conducive to the occurrence and increase thereof have been identified. Risk assessment has been performed to identify the probability of risk and the gravity thereof;<br>Risk assessment covers the entire production chain – from raw materials procurement to delivery to the customer. | Identification of key active risk control measures;<br>Assessment of the efficiency of operational controls to mitigate the risks to a tolerable level;<br>The development of appropriate action plans aimed at the improvement of the control system;<br>Constant risk management and the monitoring of set targets. |
| **Information security** | IT risks arise from the use of illegal software, lost and | Only legal and licensed IT software is used to prevent possible risks. |

| | | |
|---|---|---|
| | unrecoverable data and data vulnerability. | Configured firewall is used to prevent unauthorised access from the outside.<br>Unauthorised data access is controlled by granting employees only those rights and roles that are necessary for their work.<br>Test environment is used to test software modifications. Protection against accidental data loss is ensured through creation of back-up copies.<br>Antivirus software is installed in all computers of the Company. |
| **Occupational risk factors:**<br>**Physical factors** | Inadequate workplace equipment;<br>Non-compliance with the minimum requirements to workplace equipment;<br>Mobile self-propelled/non-self-propelled work equipment;<br>Potentially dangerous machinery;<br>Stability and firmness of construction works;<br>Evacuation routes and exits;<br>Fire detection and fire extinguishing;<br>Electrical installations;<br>The activities of other undertakings in the process of providing services and performing other works at the Company. | Workplaces and work equipment are under regular maintenance. Identified irregularities that might affect employee safety and health are addressed.<br>Work equipment control devices are clearly visible, identifiable and appropriately labelled. Work equipment is equipped with a control system allowing to stop them fully and safely. Emergency stop devices are installed for this purpose. Where there is a risk that contact with the moving parts of a piece of work equipment may cause employee trauma, such parts must be covered and protective devices must be installed to prevent access to danger zones. Work equipment is appropriately labelled with safety and health warnings to ensure employee safety. Employees receive appropriate briefing on the use of work equipment, they receive on-site training at the workplace and are made aware of potential hazards related to work equipment.<br>The installation and structure of mobile work equipment is designed to ensure minimum risk exposure for employees. Such equipment is under continuous maintenance, employees using the equipment receive training and undergo periodic health checks.<br>The maintenance of potentially dangerous machinery is carried out in accordance with the Law on the Maintenance of Potentially Dangerous Machinery. Maintenance of potentially dangerous machinery is performed, supervisors of potentially dangerous machinery are appointed. Employees operating potentially dangerous machinery receive training, their qualification is reviewed on a regular basis, they undergo periodic health checks.<br>Maintenance of construction works is |

| | | |
|---|---|---|
| | | performed in order to ensure stability and firmness of construction works in accordance with the construction technical regulation. The condition of construction works is under regular monitoring, periodic inspections of construction works are carried out.<br>Evacuation routes are appropriately maintained and identified.<br>Considering the size and the function of construction works, the equipment located inside as well as the characteristics of materials stored in the construction works, workplaces are provided with adequate fire extinguishing means and fire safety engineering systems, with due regard to the number of employees at the workplace. Fire extinguishers and fire safety systems are maintained and tested on a regular basis. Reconstructed fire reservoir. It fully complies with the relevant laws of the Republic of Lithuania. Fire extinguishing means are adequately labelled. Workplaces are equipped with a ventilation system. Ventilation equipment is maintained and renovated on a regular basis. Danger zones of the workplaces are appropriately marked.<br>Workplace floors are firm and stable. Employees are provided with special anti-slip footwear.<br>Electrical installations are fitted in the manner that prevents the risk of fire and employees are protected against direct or indirect contact with electrical installations. Resistance of electrical installations is periodically measured in accordance with the procedure laid down in the laws.<br>A description of the procedure for co-operation and co-ordinated action is prepared and coordinators are appointed to ensure employee safety and health in order to prevent the risks which arise from the activities of other undertakings as well as the risks to employees of such undertakings which arise from the activities of the Company. |
| **Physical: Noise** | Work equipment | The use of personal protection means, mandatory health checks for noise, staff trainings. Equipped with high-pressure washing stations that fully control the dose of chemicals needed to clean and disinfect premises and improve staff conditions. |

| | | |
|---|---|---|
| **Chemical factors** | Use of chemical substances during laboratory tests, cleaning process of work equipment and premises. | Occupational risk assessment in workplaces where chemical substances are used. Mandatory health checks. Awareness raising and training of employees. The use of personal protective means where there is exposure to hazardous chemical factors. Artificial ventilation system is installed. |
| **Ergonomic factors** | Manual work is present in many workplaces. | Occupational risk assessment. Mandatory health checks. Manual and power-driven carts are used to address ergonomic risk factors. Lifts are also used. Robot technology is deployed at the Company to prevent the lifting of heavy weight. Robotic milk sugar bagging line is installed. Cheese maturing facility is equipped with a cheese packaging device; a vacuum lift for shifting heavy cheeses is also installed |
| **Social factors** | Employee Search and Recruitment.<br><br>Employee qualification and employee integration into work processes.<br><br>Employee retention and reduction of turnover. | Employee search in the Employement Agency.<br>Cooperation with educational institutions.<br>Recommendations of employees working in the company.<br>Internal resources of the company (encourages employees to improve their skills).<br><br>The company has a system for assessing and developing employee performance. Every year, employee training plans are drawn up. The training is organized both by sending employees to external seminars organized by the suppliers and within the group.<br><br>The company strives to build a stable team by maintaining good relationships, empowering to grow, participate in decision-making, giving employee benefits under the Collective Agreement.<br><br>These social factors do not depend solely on the company's actions. The company may be forced to increase investment in robotic production processes, i.e. to replace manual work with robots. |

## 12. Information about the aims of financial risk management and the use of hedging measures

The Company and the Group face various financial risks in their operations. The general risk monitoring program of the Group focuses on uncertainties of the financial markets and aims to mitigate possible impact on the financial results of the Group's operations.

The Group has general liability insurance against claims arising from its operations and damages to the Group's products or services. The insurance policy is valid throughout the world.

Risk management is the responsibility of the Management of the Company. The Company does not have a written document which sets out the general principles of risk management.

A detailed description of the financial risk factors to which the Company and the Group are exposed is provided in comment 3 to the consolidated report of Rokiškio sūris, AB and the financial report of the parent company dated 31 December, 2018.

## 13. Key aspects of the internal control and risk management systems associated with the formation of consolidated financial accounts

The supervision of the drawing up of the Company's consolidated financial accounts, the internal control and financial risk management systems and compliance with the laws on the drawing up of consolidated financial accounts is carried out by the Audit Committee.

The consolidated accounts of Rokiškio sūris, AB and the financial accounts of the Company are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted for application in the European Union.

The Audit Committee supervises the preparation process of the financial accounts of the Company and Subsidiaries, reviews IFRS so as to ensure timely implementation of all changes to IFRS in the financial reports, analyses the transactions relevant to the operations of the Company and Subsidiaries, ensures information collection from the companies of the Group as well as timely processing and preparation of the information for financial accounting purposes, informs the Board of the Company about significant internal control irregularities related to financial accounts that have been identified by external and internal audit and makes recommendations regarding ways of addressing them.
The preparation of IFRS-compliant financial statements involves the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates are based on the knowledge of the management about current situation and actions. The financial accounts include consolidated financial accounting of the Group and individual financial accounting of the Company.

Subsidiaries are the entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is normally exercised though the ownership of more than a half of the voting rights. When assessing whether the Group controls another company, the existence and effect of the shares or convertible potential shares with voting rights currently held is taken into account. Subsidiaries are fully consolidated from the date when the Group acquires control over these companies, and cease to be consolidated from the date when this control is lost.
The Audit Committee makes recommendations to the Board regarding the choice of external audit undertaking and monitors the way in which the external auditor and the audit undertaking complies with the principles of independence and impartiality

## 14. Food safety and quality

Thanks to their flawless quality, the dairy products manufactured by the Company enjoy high international recognition. The internationally-certified food safety and environmental systems deployed by the Company ensure the possibility to offer a wide range of delicious products to the consumers. Experience obtained through many years of work as well as continuing attention to the deployment of new technologies allow the Company to maintain competitiveness in raw milk procurement and product sale markets.

Production of hard cheese is a long process which may take between a few months and a few years. Such production particularity does not allow instant response to changes in the cheese market which might influence operational results.

The Companies focus on food safety and quality in order to satisfy customer needs and comply with environmental requirements. Rokiškio sūris, AB was the first company in Lithuania to certify its Food Safety System, and the first milk processing undertaking to certify its Quality management and Environment management systems in accordance with the international ISO requirements (ISO 9001, ISO 14001).

Food safety is the most important aspect of the companies' performance. In an effort to enhance food safety, one of the companies of Rokiškio sūris, AB – the company in Rokiškis, upgraded the existing food safety system and was certified in accordance with the Certification scheme for the certification of food safety systems FSSC 22000 in 2013. The Scheme covers ISO 22000: 2005 and ISO/TS 22002-1:2009. The food safety scheme is recognised by the Global Food Safety Initiative GFSI *and can replace such previously recognised food safety standards as BRC, IFS and SQF).*

Rokiškio pieno gamyba, UAB (plant in Utena) and Rokiškio pieno gamyba, UAB branch Ukmergės pieninė (plant in Ukmerge) are both certified according to the requirements of Environmental Management (ISO 14001) and Food Safety (ISO 22000) international standards. In 2016 the Companies were certified in accordance with the requirements of the Scheme *Food Safety Management System under FSSC 22000*.

The requirements of the standards served as the framework for the development of rules designed to ensure the manufacturing of stable, uniform, high-quality and safe products in compliance with the policy of the organisation. The system covers the processes from the procurement of the raw materials till the satisfaction of consumer needs; it is reviewed and improved on a regular basis in order to maintain high product quality. Food safety, quality and environmental systems are reviewed on a regular basis and improved in order to ensure that all products are of a high quality and meet the expectations of the clients.

In 2018 the food safety management system in all the companies of the Group was reviewed, improved and certified according to the new FSSC 22000 Version 4.1:2017 requirements. They include new requirements for food safety risk assessment and control measures, food counterfeiting vulnerability assessment and control measures, service, allergen management, environmental hygiene control.

The international certification company BUREAU VERITAS Lit carries out surveillance audit in the Company every year and repeated system certification (re-certification) every 3 years. During the most recent integrated management system review the auditors issued a highly favourable assessment of Rokiškio sūris, AB.

Kasmet tarptautinė sertifikavimo įmonė  BUREAU VERITAS Lit, Bendrovėjės įmonėse atlieka priežiūros auditus, o kas 3 metai atliekamas sistemos pakartotinis sertifikavimas (persertifikavimas).

2018 m. įmonėse atlikti maisto saugos sistemų auditai buvo įvertinti labai palankiai.

Companies will periodically carry out non-scheduled audits without prior notice under the new FSSC 22000 Version 4.1: 2017 requirements.

Certification under the Food Safety System Certification Scheme FSSC 22000 serves to demonstrate that the Company's operations process and the resources related thereto are under control. The inter-connected processes are perceived and managed as a single system, which increases the Company's performance and efficiency. A properly operating food safety system allows to manage the identified risks both at critical and important control points related to production processes, transportation and consumption.

The Management of the Company performs annual review and approval of the food safety, quality and environmental policy which provides for continuous improvement. We believe it is never enough to "do things right". We know that the things we do right today will be done even better tomorrow!'"

The Company has created the atmosphere where every employee takes part in the struggle for the goals set and the tasks raised.

The Company has prepared and deployed effective minimum programmes which stipulate the conditions, measures and rules to prevent biological, chemical and physical pollution and help ensure the production of safe products.

Food safety system certification in accordance with the requirements of the new version of FSSC 22000 is planned in 2018 in order to improve the food safety management system currently used by the companies. They provide for additional requirements which necessitate a review of the current system. The main changes have to do with food safety risk assessment and control measures, assessment and control measures of exposure to the risk of counterfeiting, services, allergens management and environmental hygiene control.

In 2007 the State Food and Veterinary Service of the Republic of Lithuania conformed the compliance of dairy products to the requirements of the new EU hygiene regulations and issued the following veterinary approval numbers:

- Rokiškio sūris, AB LT 73-01 P EB;
- Rokiškio pieno gamyba, UAB LT 82-01 P EB;
- Ukmergės pieninė, Branch of Rokiškio pieno gamyba, UAB LT 81-01 EB.

The laboratory of Rokiškis company is certified in accordance with LST EN ISO/IES 17025 international standard. The operations of the laboratories of Utena and Ukmergė plants have been assessed under the description of the procedure for issuing laboratory certification authorisations of food management undertakings approved by the State Food and Veterinary Service.

In 2003, the public institution EKOAGROS certified that Rokiškio sūris, AB complies with the requirements laid down in EU Council Regulation EC No. 889/2008 and is a certified manufacturer of organic products: hard cheese BIO, Cagliata BIO, Mozzarella BIO, cheese Gouda BIO. The annual inspections and the certificates issued by the public institution EKOAGROS demonstrate that the Company is in compliance with the established requirements. Strict requirements to the manufacturing process and component parts thereof apply in organic products production.

Special HALAL and KOSHER (Lactose, WPC, skimmed and full milk powder, whey powder, butter) quality certificates have been issued for certain products of the Company (Lactose, WPC, butter, skimmed milk powder, fermented cheeses).

Rokiškio sūris, AB has the status of a certified exporter to the Republic of South Korea.

Rokiškio sūris, AB is entered in the list of the Certification and Accreditation Administration of the People's Republic of China (23 August, 2016).

The activities of the State Food and Veterinary Service received a positive evaluation during the audit by competent Mexican authorities, which serves as a confirmation that the Company is also an authorised exporter to the country.

Rokiškio pieno gamyba, UAB and Ukmergės pieninė Branch of Rokiškio pieno gamyba, UAB became certified manufacturers of organic products in 2017 – short shelf live dairy products for the local market such as various yoghurts, sour cream, kefir, milk, curd, curd cheese, as well as butter and skimmed milk powder. In 2018 production of organic sour milk and new packaging curd was started.

## 15. Environment protection

The risks caused by manufacturing operations is managed in accordance with the Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (integrated pollution prevention and control) (IPPC Directive). Rokiškio sūris AB is classified as an installation required to hold IPPC permit. IPPC permit was issued on 30 December, 2005 and renewed on 12 September, 2014. The Company has introduced the best available manufacturing techniques (BREF), resource consumption and emission levels match those achieved in the European Union.

In 2018 the Company carried out four environmental monitoring measures designed to monitor environmental impact: 1) Rokiškio sūris, AB program for monitoring the releases of treated wastewater into wastewater receiver – Ruopiškio (Alsetos) lake in Rokiškis district; 2) program for monitoring the ground water of Rokiškio sūris, AB water extraction plant; 3) program for monitoring the ground water of Rokiškio sūris, AB petrol stations in Rokiškis and Obeliai. The three monitoring programs are being carried out by environmental engineering surveys undertaking Geoaplinka, UAB; 4) monitoring releases/emissions from emission sources. Statutory surveys are performed by authorised undertakings. Reports are submitted to the Environmental Protection Agency, no adverse impact has been identified.

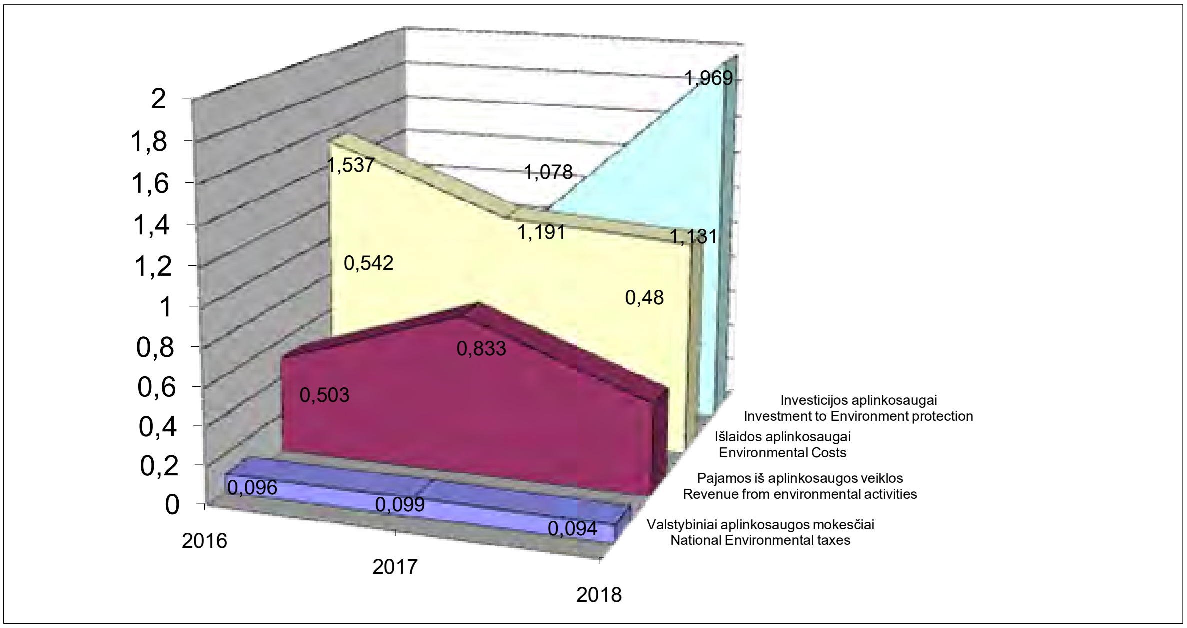
In order to manage its environmental risks, Rokiškio sūris, AB has voluntarily introduced ISO 14001 Environmental management system standard in 2001. The management system has been certified and independent surveys are being performed by Bureau Veritas Lit, UAB. The ISO 14001:2015/LST EN ISO 14001:2015 certificate is valid until 19 June, 2019.

External audit identified one irregularity in complying with the requirements of the international internal audit standard (ISO 14001:2005) in 2017. Plans for corrective action were made, internal audit was to be performed within three months to verify compliance with the new requirements. The requirements have been complied with, internal audit has been performed, the irregularity has been addressed. No comments were received and no irregularities were identified by internal audit controls in 2018.

When implementing its environmental policy, Rokiškio sūris, AB seeks to reduce environmental impact, implement pollution prevention measures, waste generation so that the operations do not cause undesired impact on air, water and soil. Seeking continuous improvement and mitigation of environmental risks, environmental targets have been set. The assessment and analysis of the operation is performed regularly.

**Environmental activities (mio EUR)**

| Year | **2016** | **2017** | **2018** |
|---|---|---|---|
| State environmental fees | 0.096 | 0.099 | 0.094 |
| Investments in the sphere of environmental protection | 0.503 | 0.833 | 0.480 |
| Revenue from environmental activity | 1.537 | 1.191 | 1.131 |
| Expenditure for environmental activity | 0.542 | 1.078 | 1.969 |




## Non-financial information
## Main environmental indicators 2018

| | | |
|---|---|---|
| Emissions of pollutants from stationary sources | Environmental Protection Agency, Annual Report on Environmental Protection 2018. | 9.652 t. |
| Groundwater consumption | Environmental Protection Agency, Annual Report on Accounting of Water Consumption 2018. | 1,002,008 $m^3$ |
| Quantity of reused water | Environmental Protection Agency, Annual Report on Accounting of Water Consumption 2018. | 67,027 $m^3$ |
| Releases of wastewater discharged | Environmental Protection Agency, Annual Report on Waste Water handling 2018. | 22.412 t. |
| Waste generated and handled (* of which hazardous) | Department of Environmental Protection, Product, Packaging and Waste Accounting Information System (GPAIS). | 3,118.686 t<br>*24.251 t |
| Chemicals used | Environment Agency, Data on chemical substances and preparations in 2018 | 2,018.66 t |
| Fuel used for road transport | Accounting system Navision Atalant | 4,451.7 t |
| Produced electricity | Photovoltaic power plant produced electricity in 2018, ESO. | 26,611 kWh |
| Electricity and thermal energy consumed | Consumption of energy resources in 2018. ESO, AB Panevėžio energija. | 99,952 MWh |

## Disclosure of Information on Environmental and Climate Change Factors:

AB Rokiškio sūris does not participate in the greenhouse gas (GHG) emissions scheme because it does not meet the criteria set out in Directive 2003/87 / EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community. It is already known that the EU institution reports that GHG emissions are given in $CO_2$ equivalents, as the various greenhouse gases are assessed on the basis of their global warming potential. The EU institutions and bodies do not have a common approach to this task, so other institutions or companies are facing this problem. For the EU's climate policy to be credible, it is important for the EU institutions and bodies to set an example and lead the way.

## 16. Research and development activities

The constant goal of the companies of AB „Rokiškio sūris“ group is to supply to the market - both local and export - high quality and safe production to the maximum extent possible. To this end, research activities are carried out both internally and in cooperation with scientific institutions such as KTU FTMC, Vilnius University. The largest part of the research is done by the company's production specialists together with prof. Angelo Frosio from Italy (co-founder and collaborator of *Centro Latte Lodi* and *Scuola d'Arte Bergognone*).

As one of the largest dairy companies in the world – Fonterra – has become a shareholder of Rokiskio suris AB, the company's specialists can use the knowledge and research possibilities of this company in their research activities. Research and experiments with Fonterra specialists are carried out both within the company itself and at the Fonterra Research Laboratory, located in the Research and Development Center of the company. Laboratory tests of products are performed both in the laboratories of the companies of the group and in other laboratories of Lithuania and foreign countries, such as the National Institute of Food and Veterinary Risk Assessment (Lithuania), KTU MI (Lithuania), Eurofins (Germany, Poland, China), Campden Bri food and drink innovation (UK), Galab laboratories (Germany), Qlip quality assurance in agrofood (the Netherlands), Mérieux NutriSciences Italia (Italy). Company's laboratory in Rokiskis is accredited, certificate no. LA01.129. The aim of these activities is to ensure product safety, improve recipes, achieve product exclusivity and more efficient production processes, as well as develop new products.

In order to better understand the needs of the market, the company is constantly cooperating with an expert in the field, NIELSEN, a research company, both in purchasing its services and participating in seminars. Another method of market research is participation in global exhibitions of major regions, cooperation with competent specialists of major clients and representatives of major suppliers.

As a result of these activities, the company constantly offers the market completely new or improved products tailored to both the specific market and the specific customer. Seeing that the needs of the market are changing more and more rapidly, the company will continue to strengthen its units in charge of research and development in order to respond to it.

## 17. FINANCIAL PERFORMANCE INDICATORS

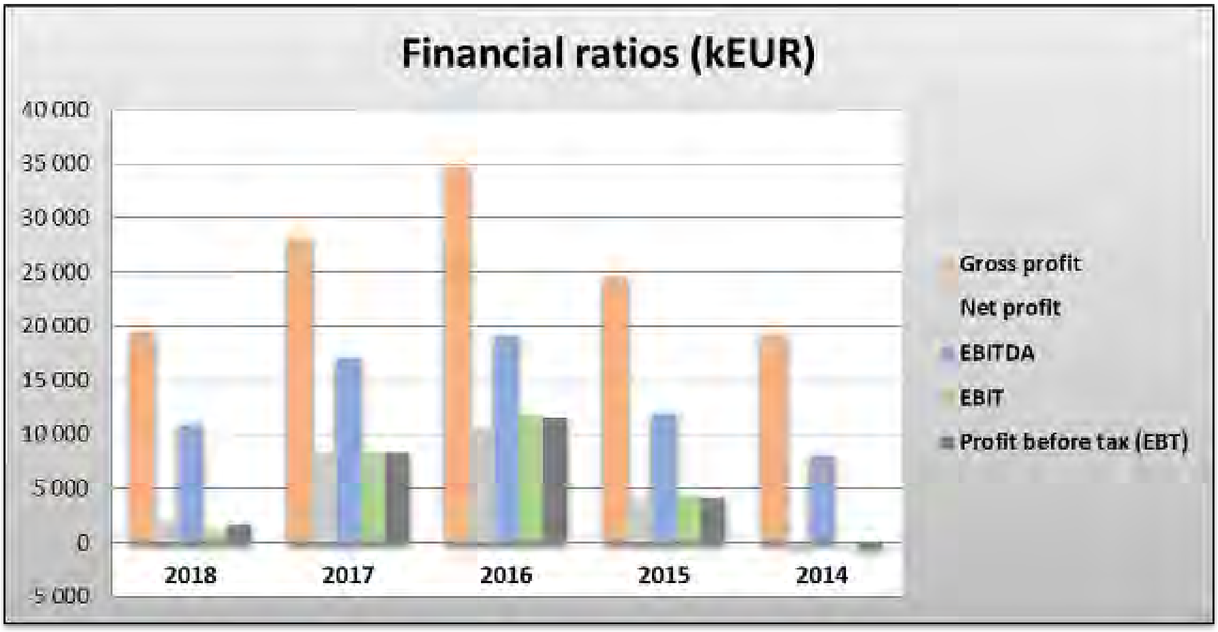
### Alternative performance indicators

Alongside with the financial performance indicators prepared in accordance with International Financial Reporting Standards (IFRS), AB "Rokiškio sūris" also presents the financial performance indicators that are not indicated by the IFRS. These alternative performance indicators are important indicators of its performance for investors and other users of financial statements. Alternative performance indicators should be treated as additional information prepared in accordance with IFRS.

The company below presents alternative performance indicators and their calculation methodology:

| *Financial performance (thou. EUR)* | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | | | | |
| Sales revenues | 203 675 | 243 566 | 226 196 | 196 504 | 249 251 |
| Gross profit | 19 500 | 28 150 | 34 687 | 24 550 | 19 202 |
| EBITDA | 10 865 | 17 042 | 19 174 | 11 926 | 8 096 |
| EBIT | 1 193 | 8 330 | 11 723 | 4 267 | (199) |
| Operational profits | 1 648 | 8 330 | 11 723 | 4 267 | (199) |
| Earnings before tax EBT | 1 619 | 8 290 | 11 607 | 4 066 | (604) |
| Net profit/loss | 1 918 | 8 156 | 10 451 | 3 895 | (383) |
| | | | | | |
| Fixed assets | 64 140 | 74 070 | 60 623 | 56 324 | 43 731 |
| Current assets | 106 071 | 88 589 | 81 789 | 98 283 | 97 024 |
| Total assets | 170 211 | 162 659 | 142 412 | 154 607 | 140 754 |
| Shareholders ' equity | 130 319 | 134 096 | 122 066 | 115 633 | 98 347 |
| | | | | | |
| **Profitability (%)** | | | | | |
| Return on assets [ROA] | 1.15 | 5.35 | 7.04 | 2.64 | (0.26) |
| Return on equity [ROE] | 1.45 | 6.37 | 8.79 | 3.64 | (0.39) |
| Gross profit margin | 9.57 | 11.56 | 15.33 | 12.49 | 7.70 |
| EBITDA margin | 5.33 | 7.00 | 8.48 | 6.07 | 3.25 |
| EBIT margin | 0.59 | 3.42 | 5.18 | 2.17 | (0.08) |
| Returned on Capital Employed [ROCE] | 0.76 | 5.18 | 8.34 | 3.06 | (0.16) |
| Profitability rate [EBT margin] | 0.79 | 3.40 | 5.13 | 2.07 | (0.24) |
| Net profit margin | 0.94 | 3.35 | 4.62 | 1.98 | (0.15) |
| | | | | | |
| **Financial structure** | | | | | |
| Liabilities-to-equity ratio | 0.31 | 0.21 | 0.17 | 0.34 | 0.43 |
| Equity capital to assets ratio | 0.77 | 0.82 | 0.86 | 0.75 | 0.70 |
| Debt-to-equity ratio | 0.11 | 0.01 | 0.02 | 0.13 | 0.16 |
| Debt ratio | 0.23 | 0.18 | 0.14 | 0.25 | 0.30 |
| General liquidity ratio | 2.92 | 3.56 | 5.00 | 2.86 | 2.44 |
| | | | | | |
| **Market value indicators** | | | | | |
| Price/earnings ratio (P/E ratio) | 50.20 | 11.00 | 5.53 | 12.91 | - |
| Net earnings per share | 0.05 | 0.25 | 0.32 | 0.11 | (0.01) |

| Ratio | Method of calculation | Meaning of ratio |
|---|---|---|
| **EBITDA** | Earnings before Interest, Tax, Depretiation and Amoritization | EBITDA – Operating profit before depreciation of fixed assets, amortization and impairment costs helps investors to assess the potential for profit before investing in fixed assets. |
| **EBITDA margin** | EBITDA / Income | EBITDA - the relationship with income shows the effectiveness of company performance |
| **EBIT** | Profit before tax and interest, i.e. net profit + income tax + financial activity costs. | EBIT – operational profit. EBIT is a very important indicator, as all liabilities to creditors are paid from the operational profit. This indicator well reflects the company's ability to generate cash flow. |
| **EBT** | Profit before tax, i.e. net profit + profit tax. | Profit before deduction of income tax and investing and financing activities at net value |
| **Return on assets [ROA]** | The ratio of EBIT for the past 12 months to the average of the total assets over the past 12 months. | This indicator shows how much the company's assets are effectively managed, i.e. share of net profit to every euro of the company's assets, which is one of the most popular valuation rates |
| **Return on equity [ROE]** | The ratio of the net profit of the last 12 months to the average equity of the last 12 months. | The return on equity shows how much euro s of net profit is attributable to one euro of equity. This indicator is important for the shareholders, taking into account their past return on investment. |
| **Returned on Capital Employed [ROCE]** | The ratio of operating profit (EBIT) to operating income over the last 12 months and the average capital employed over the past 12 months. | The ROCE Profitability Index evaluates the recoverability of funds required by the firm for its regular operations. It is often compared to the loan rates on the market of that year. ROCE is considered to be above the cost of borrowed capital at that time. |
| **Liability to equity ratio** | Liability/Equity capital | The ratio of liabilities to equity shows what the total amount of long-term and short-term liabilities of the company is per euro of equity. |
| **Debt-to-assets ratio** | Financial debts (long-term + short-term) / Assets | It is a financial indicator comparing a company's financial debts with its entire assets. The coefficient shows what part of the company's assets is financed by borrowed funds. |
| **Debt-to-equity ratio** | Financial debts (long-term + short-term) / Equity | This is one of the key financial leverage indicators. The debt-to-equity ratio shows how many euros of short-term and long-term debt are per euro of equity. In calculating debts, all liabilities of the company related to interest payment are assessed. |
| **Debt ratio** | Total liabilities / Total assets | The loss coefficient reflects the part of the Company's assets acquired with borrowed funds. |
| **General liquidity ratio** | The ratio of current assets to current liabilities | The current liquidity ratio shows the ability of the company to settle short-term liabilities using its current assets. |
| **Price/earnings ratio (P/E ratio)** | Share price at end of period / (Net profit / Number of shares) | The share price / earnings ratio reflects how much the investor pays for one euro of net profit earned by the company in the past period. |
| **Net earnings per share** | Net profit / Number of shares | Earnings per share show how much of the net profit earned by the company is attributable to one share in circulation. |




**Profit/loss report**

The 2018 sales revenue of the Group amounted to kEUR 203,675. The main part of the revenue (62.2%) was the sales revenue of cheese and other dairy products (67.2% in 2017). Compared to 2017, the sales revenue of the Group decreased by 16.38%. This was mostly the result of the decreased prices of fermented cheeses, WPC, lactose, and export cream. In terms of quantity, in 2018 the sales of fermented cheeses decreased by 20.25% compared to 2017.

The 2018 consolidated audited profit of Rokiškio sūris, AB amounted to kEUR 1,918, i.e. 76,48% less than in 2017. The 2018 consolidated audited profits of the Group amounted to kEUR 8,156. The decline of net profits in 2018 was due to the decrease of the price and volumes of fermented cheese. The decrease in prices also affected the products made from whey - milk sugar and WPC. Milk sugar prices fell by 25% and WPC by 18.35% compared to 2017.

The main segment, i.e. the sale of cheeses and other dairy products, generated approx. 13.5% of net profits. The remaining part of the profit came from the sale of fresh dairy products and other products the sales volume.

The 2018 net profit margin amounted to 0.94% (3.35% in 2017).

EDITDA amounted to kEUR 10,865 and was 36.24% less compared to 2017. The 2018 EBITDA margin amounted to 5.33%. (7.0% in 2017).

**Costs:**

In 2018 the sales costs of the Group amounted to kEUR 184,175 (kEUR 215,416 in 2017). In 2018 the sales costs decreased by 14.5%, or kEUR 31,241. This change was due to the decrease of milk procurement prices.

## 18. Operations of the Group of companies by segment

The business operations of Rokiškio sūris, AB comprise the following segments: hard cheese, semi-hard cheese, butter, milk, cream, sour cream, curded milk, yogurt, curd, curd cheese, etc. Based on similarities of products, manufacturing process, customer group and distribution method, the segments were combined into two main segments presented in the financial statements.

The Group's main business segments provided in financial statements are as follows:

- Fresh dairy products

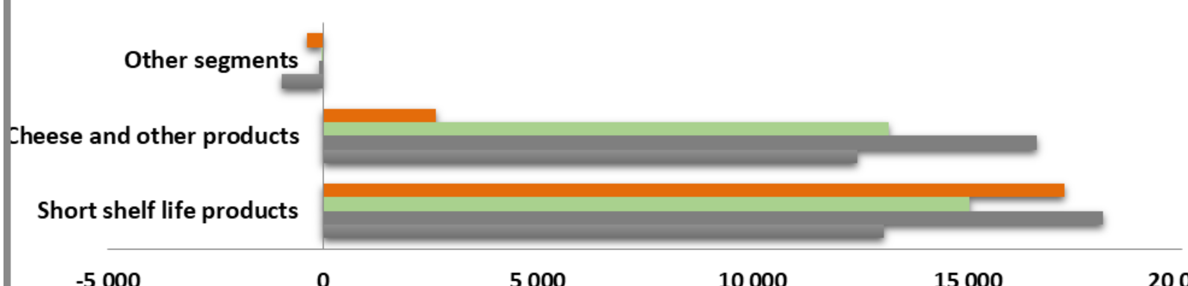
- Cheese and other dairy products.

Other operations of the Group consist mostly of raw milk collection; the volume of the segment is too small to merit individual reporting. Transactions between the business segments are on normal commercial terms and conditions. There are 2 external customers in the fresh dairy products sector the individual revenues whereof account for more than 10% of the total segment revenue.

The below table indicates information on the impact of each segment to the financial operation results of the Group.

| | 2018 | 2017 | Change (%) |
|---|---|---|---|
| **Total sales revenue (thousand EUR)** | **203 675** | **243 566** | **-16.38** |
| Fresh dairy products | 76 009 | 79 165 | -3.99 |
| Cheese and other dairy products | 126 759 | 163 622 | -22.53 |
| Other segments | 907 | 779 | 16.43 |
| | | | |
| **Total gross profit (thousand EUR):** | **19 500** | **28 150** | **-30.75** |
| Fresh dairy products | 17 251 | 15 038 | 14.72 |
| Cheese and other dairy products | 2 632 | 13 156 | -79.99 |
| Other segments | -383 | -44 | 770.45 |

## Gross profit by segment (thousand EUR)




| | Short shelf life products | Cheese and other products | Other segments |
|---|---|---|---|
| 2018 | 17 251 | 2 632 | -383 |
| 2017 | 15 038 | 13 156 | -44 |
| 2016 | 18 150 | 16 628 | -91 |
| 2015 | 13 057 | 12 453 | -960 |

## 19. Investments

The company allocates a significant amount of funds to investments in order to implement its strategic goals. During the financial year 2018, the value of investments made by the Group amounted to mEUR 9.8. However, the planned investment value was estimated at mEUR 15.1.

The planned investments of AB „Rokiškio sūris" group could not be implemented due to the extension of the duration of the projects carried out with the support of the National Paying Agency under the Order of the Minister of Agriculture of the Republic of Lithuania of April 26, 2018. The duration of the 24-month project was extended to 36 months. This was especially important for the investment in the construction of a long-term maturing chamber. Unfavorable weather conditions at the end of 2017 and early 2018 severely hampered construction work.

In accordance with the 7 May 2018 Order of the Minister of Agriculture on the amendment of the Rules on Support Administration, the modification of the investments carried out with the support was partly allowed. The procedure for changing the investment was delayed until the end of 2018. For these reasons, investments made by AB Rokiškio sūris and UAB Rokiškio pieno gamyba in 2018 with support of 3.2 million euros have been transferred to the financial year 2019. Other planned investments of EUR 1.9 million in 2018 were not used by the Group.

By June 30, 2019 the Group of AB „Rokiškio sūris" will submit the second payment request for the support amounting to mEUR 1.7.

Of the 9.8 million euro, the majority of investments carried out by the Group of AB Rokiškio sūris, i.e. EUR 3.5 million was used for the largest investment in recent years, the construction of a long ripening chamber. The value of the building was EUR 2.6 million, the remainder being the investment in ripening and refrigeration equipment.

This investment will significantly increase the ripening capacity of cheeses and create added value for the Company. Thanks to this building, the ripening capacity of hard cheese is doubled. The company is able to rip 12,000 tonnes of cheese at the same time. The ripening period for hard cheese is between 9 and 24 months.

The rest of the investments were directed to other Group companies. In the subsidiary UAB Rokiškio pieno gamyba, the largest investments were made for the production of dry powder (packing line) and production of fresh dairy products (liquid milk product dispensing machine, yoghurt mixing unit). CIP equipment for milk truck cleaning.

The main investments of Ukmergė company are to improve and expand the production of cottage cheese, blue cheese and processed curd cheese (curd blocks, pumps, universal processed cheese making machine).

## 20. Plans and forecasts for the operations of the Group

The operational plans and objectives of Rokiškio sūris, AB are associated with the implementation of the updated 2018 – 2020 strategic plan of the Group of companies; the plan provides for an objective to increase milk procurement and processing volumes, improve production efficiency through process optimisation, manufacture high added-value products, enhance the trust in its products, promote healthy lifestyle and thus increase the per-capita consumption of dairy products.

In 2019 the Company plans to invest EUR 10.1 millions into the implementation of the objectives and investments towards the implementation and development of its objectives.

The main investment areas for 2019 include:

- Expanding the production of long ripening cheese, innovative technologies in the production of fresh dairy products and deeper processing of whey products.
- Increasing the competitiveness of the Company by focusing on the sales of cheeses, butter and products obtained from whey to the Far East and other global markets.
- Conservation of energy resources, curbing adverse environmental impact.
- Improvement of working conditions for employees.
- Improving sanitary and hygiene levels in production units.
- Addressing customer needs for the company’s products.

In 2019, investment will be continued by completing investments in Rokiškis and Utena and Ukmergė plants, with the support of the National Paying Agency. Also in 2019 Rokiškio sūris AB will invest in expanding the production of long maturing cheeses.

To find new world markets and to meet demands of new customers, it is planned to introduce cheese dosing and weighing lines. It is planned to buy a salting solution filtration line and brining containers in the cheese brining plant.

Energy resources savings include:

• to replace the refrigeration compressor capacitor, which will allow more efficient cold production;
• install a heat pump to utilize heat that builds up in wastewater;
• Install accounting systems for electricity, air and water consumption.

In order to improve working conditions of employees the household premises in both Rokiškis and Utena will be renovated.

As every year, investments in the renewal of the worn-out vehicles are planned.

It is planned to invest in a subsidiary company in Utena for the production of prolonged storage fresh dairy products and to upgrade and modernize the existing equipment (lines, capacities, ventilation system). For dry dairy products, to build gas generators, new screw conveyors for dryers. Butter workshop - packing machine. Carry out refrigeration and roof repairs, repair sewage pipes.

Ukmergė company is planning to invest in expanding curd production plant and packing curd.

## Plans in the sales markets

As was the case in 2018, the Company shall continue to focus on the Asian markets that continue to show a strong growth of demand for dairy products, thanks to the growing consumption and purchasing power. In addition to lactose and Mozzarella, there is also aplanned to offer hard cheeses, milk powder and perhaps even some products with a longer shelf life. Efforts to penetrate the markers of Japan, Singapore, Indonesia, Philippines and other Asian countries will continue.

A strong focus will remain on the former countries of the Soviet Union, such as Kazakhstan, Uzbekistan and Azerbaijan. The plans of the Company include expansion of the exports of high added-value products to other countries, i.e. enter retail markets rather than trading wholesale.

In the segment of fresh dairy products, it is planned to strengthen its position in the major trade networks in the Baltic States by expanding sales of own branded products. But this does not mean that the production of so-called "private label" production, which is based on orders from retail chains, will be abandoned.

# INFORMATION ON THE COMPANY'S SHAREHOLDERS AND SHARES

## 21. Information on the Company's Authorized capital

As December 31, 2018, the Authorized capital of Rokiškio sūris, AB consisted of:

| Type of shares | Number of shares (units) | Par value EUR) | Total par value, (EUR) | Share of authorized capital (%) |
|---|---|---|---|---|
| Ordinary registered shares | 35,867,970 | 0.29 | 10,401,711.30 | 100.00 |

## 22. Contracts of the Company with the financial brokerage undertakings

Rokiškio sūris, AB has a contract with FMĮ Orion Securities, UAB (address: 4, A.Tumėno g., LT-01109. Vilnius, phone No. +370 5 231 3833, info@orion.lt ) regarding the administration of securities issued by the Company and provision of investment services.

## 23. Data about trade in issuer's securities on regulated markets

35,867,970 units of ordinary registered shares of Rokiškio sūris, AB are entered in **NASDAQ Vilnius official trading list for the Baltics** . (Vilnius Stock Exchange symbol RSU1L). Par value of one share: EUR 0.29.

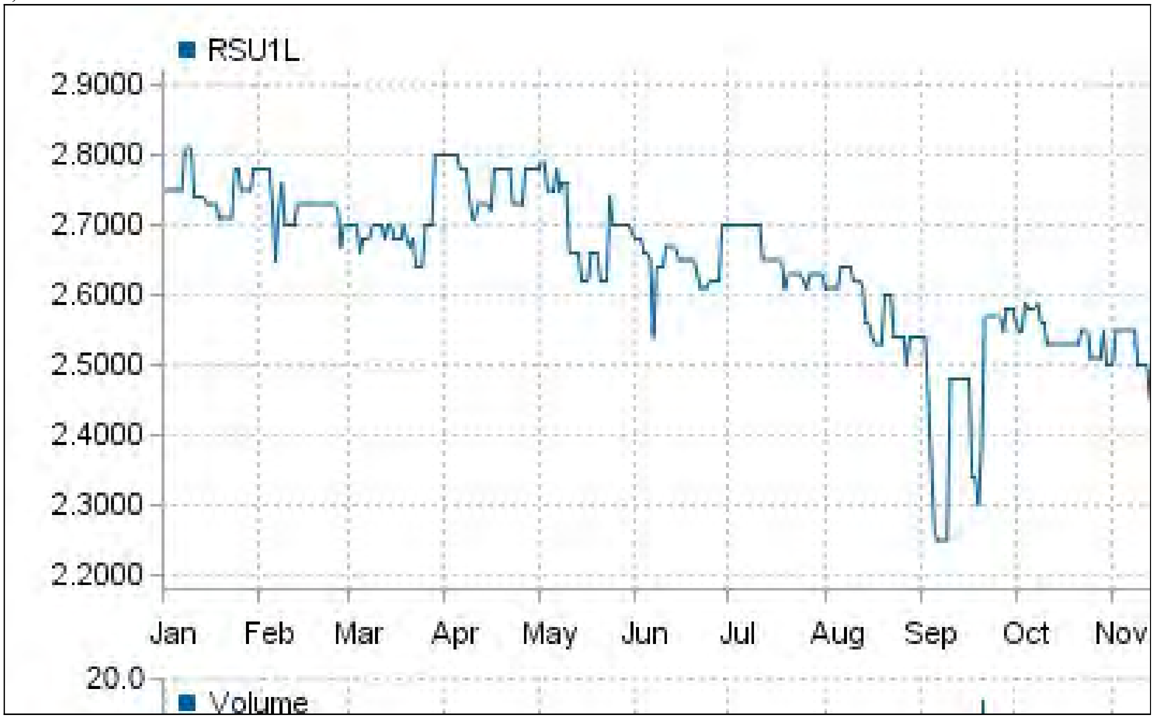
The company has been listed since 25 July, 1995.
The Company's shares are listed in OMX Baltic Benchmark index.
The Company has not issued debt securities for public stock trading.
The Company has not issued or registered debt securities for non-public stock trading.
There are no securities which do not certify participation in the Authorized Capital but the turnover whereof is regulated under the Law on Securities of the Republic of Lithuania.
There was no trading on other stock exchanges and other organised markets.

**Trading statistics:**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Price at the most recent trading session, EUR | 2.51 | 2.75 | 1.77 | 1.42 | 1.38 |
| Highest price, EUR | 2.81 | 2.99 | 1.84 | 1.50 | 1.75 |
| Lowest price, EUR | 2.25 | 1.65 | 1.30 | 1.35 | 1.38 |
| Turnover, units | 277,058 | 1,230,178 | 362,586 | 1,086,633 | 1,605,109 |
| Turnover, mio EUR | 0.73 | 2.75 | 0.55 | 1.51 | 2.55 |
| Capitalisation, mio EUR | 90.03 | 98.64 | 63.49 | 50.93 | 49.50 |

**Share price and turnover dynamics during the reporting period**

Price, EUR



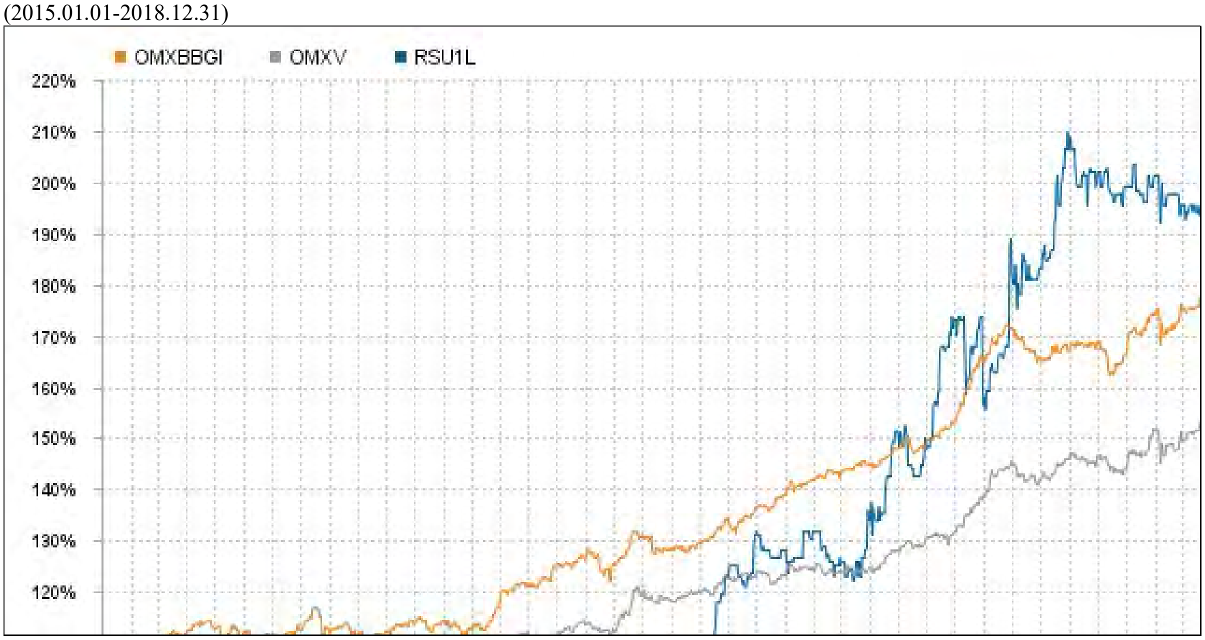

Source: NASDAQ Vilnius, AB website
https://www.nasdaqbaltic.com/market/?instrument=LT0000100372&list=2&pg=details&tab=historical&lang=en&currency=0&date=&start=01.01.2018&end=31.12.2018

**Share price and turnover dynamics during 4 years' period**


Source: NASDAQ Vilnius, AB website
https://www.nasdaqbaltic.com/market/?instrument=LT0000100372&list=2&pg=details&tab=historical&lang=en&currency=0&date=&start=01.01.2015&end=31.12.2018

**Dynamics of the Company's shares (RSU1L), OMX Baltic Benchmark and OMX Vilnius indexes:**

(2015.01.01-2018.12.31)




Source: NASDAQ Vilnius, AB website
https://nasdaqbaltic.com/market/?pg=charts&lang=lt&idx_main%5B%5D=OMXBBGI&idx_main%5B%5D=OMXV&add_index=OMXBBPI&add_equity=LT0000128696&idx_equity%5B%5D=LT0000100372&period=other&start=2015.01.01&end=2018.12.31

Chart data:

| Ratio/Shares | 2015.01.01 | 2018.12.31 | +/-% |
|---|---|---|---|
| OMX Baltic Benchmark GI | 566.56 | 878.81 | 55.23 |
| OMX Vilnius | 452.42 | 616.90 | 36.36 |
| RSU1L | 1.38 EUR | 2.51 EUR | 81.88 |

## 24. Limitation on transference of securities

There are no limitations to share packages or any claims against the Company or other holders of the securities.

## 25. Procedure for amending the Articles of Association

The procedure for amending the Articles of Association of the Company is provided in the laws of the Republic of Lithuania and the Articles of Association of the Company. Decisions to amend the Articles of Association of the Company are adopted by a qualified 2/3 majority of the votes held by the shareholders attending the meeting, except for the cases laid down in the Law on Stock Corporations of the Republic of Lithuania.

When the general meeting of shareholders adopts a decision to amend the Articles of Association of the Company, a new working of the Articles of Association shall be drawn up; it shall be signed by a person authorised by the general meeting of shareholders.

Any amendments of or additions to the Articles of Association of the Company shall enter into force only after they are registered in accordance with the procedure established in the laws of the Republic of Lithuania.

In 2018, the Company's Articles of Association were not amended.

## 26. Information about the shareholders of the Company

As of 31 December, 2018, the total number of shareholders of Rokiškio sūris, AB was 5,263.

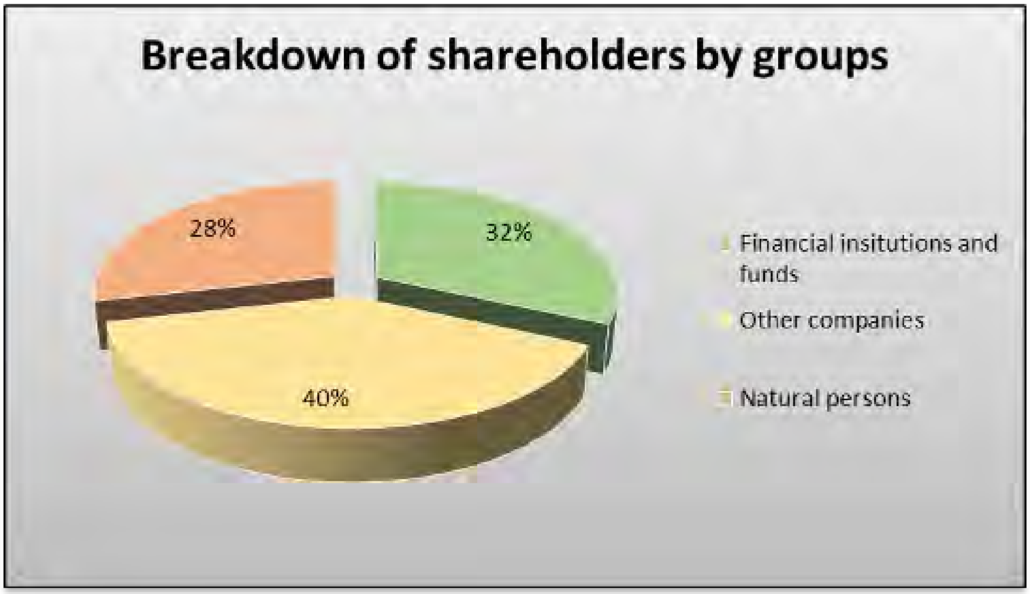
**Package held by a group of shareholders (as of 31 December, 2018):**

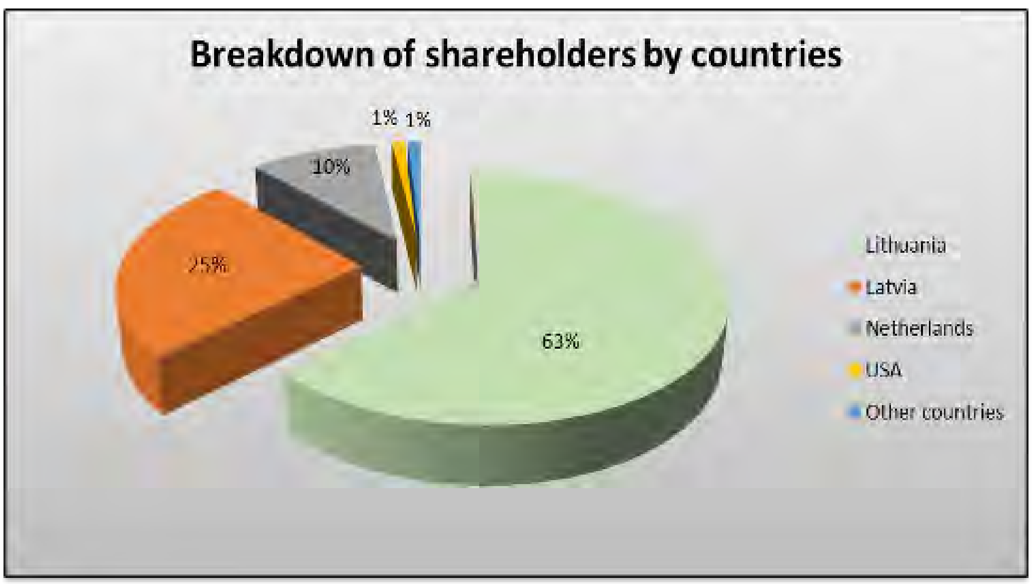
| Name, surname<br>Company name<br>Registration number | Address | Held under ownership right | | | With associated persons* | |
|---|---|---|---|---|---|---|
| | | Number of ordinary registered shares | Share of capital % | Share of votes % | Share of capital % | Share of votes % |
| **UAB ”Pieno pramonės investicijų valdymas” Code 173748857** | Pramonės g. 3, Rokiškis Lietuva | 9 758 312 | 27.21 | 27.83 | | |
| **SIA “RSU Holding”, reg.Nr.40103739795** | Elizabetes iela 45/47, LV-1010 Riga | 8 953 883 | 24.96 | 25.54 | | |
| **Antanas Trumpa Board Chairman** | Sodų 41a, Rokiškis Lietuva | 6 980 233 | 19.46 | 19.91 | 81.86* | 83.75* |
| **Fonterra (Europe) Coöperatie U.A., CCI 50122541** | Barbara Strozzilaan 356-360, EurBld2, 3e verdieping, 1083HN Amsterdamas, Nyderlandai | 3 586 797 | 10.00 | 10.23 | | |
| **Dalius Trumpa CEO** | Sodų g.31, Rokiškis Lietuva | 83 500 | 0.23 | 0.24 | | |

* The group of jointly-acting persons consists of: Pieno pramonės investicijų valdymas, UAB (27.21% the authorized capital and 27.83% votes of the Company), SIA RSU Holding (24.96% of the authorized capital and 25.54%votes of the Company), strategic investor Fonterra (Europe) Coöperatie U.A. (10.00% of the authorised capital and 10.91% votes of the Company), Antanas Trumpa (19.46% of authorized capital and 19.91% votes of the Company) and Company CEO Dalius Trumpa (0.23% of the authorized capital and 0.24% votes of the Company).

Percentage of votes owned and owned by persons with a right of ownership was calculated without the number of treasury shares (806,317 shares of AB Rokiškio sūris).

**Distribution of shareholders of Rokiškio sūris, AB as of 31 December, 2018**




## 27. Rights of Shareholders

**Non-property rights of shareholders:**

1) the right to attend general meetings of shareholders;
2) the right to make advance inquiries addressed to the company in regards with the items on the agenda of general meeting of shareholders;
3) the right to vote at the general meeting of shareholders in accordance with the rights granted by shares;
4) the right to receive company information specified in Article 18(1) of the Law on Stock Corporations of the Republic of Lithuania;

5) the right to approach a court with a claim for compensation of damages to the Company caused by failure to perform or poor performance on the part of the Company CEO and Board members of their duties established in the Lam on Stock Companies and other laws of the Republic of Lithuania as well as in the present Articles of Association , also in other cases established under the law.
6) other non-property rights established in the laws of the Republic of Lithuania.

**Property rights of shareholders:**

1) the right to receive a part of the profit of the Company (dividend);
2) the right to receive funds of the Company when the authorised capital of the Company is reduced in order to pay the funds of the Company to the shareholders;
3) receive shares free of charge when the authorised capital is increased with the funds of the Company, except for the derogation established in Article 42(3) of the Law on Stock Corporations of the Republic of Lithuania and in the case established in Article $47^1$ of the Law on Stock Corporations of the Republic of Lithuania.
4) priority right in acquiring the shares or convertible bonds issued by the Company, unless the general meeting of shareholders decides to revoke the priority right for all shareholders in accordance with procedure laid down in the Law on Stock Corporations of the Republic of Lithuania;
5) lend funds to the Company in the manner established in the laws; when borrowing from its shareholders, the Company shall be prohibited form pledging its assets to the shareholders. When the Company borrows from a shareholder, the interest must not exceed the average interest rate of the local commercial banks on the day of contracting. In this case the Company and shareholders may not agree to apply a higher interest rate;
6) receive a part of the assets of the Company if it enters into liquidation;
7) other property rights established in the laws of the Republic of Lithuania.

The rights stipulated in paragraphs 1, 2, 3 and 4 shall apply to the persons who were shareholders of the Company in the end of the tenth business day after the general meeting of shareholders which adopted the respective decision.

## 28. Information about the purchase of own shares by issuer

At the beginning of the reporting year, AB „Rokiškio sūris“ did not own any shares. In 2018, AB Rokiškio sūris acquired 806,317 of its own shares, which represents 2.25 percent of the authorized capital of the company. The shares were acquired in accordance with the decision of the general meeting of shareholders of AB „Rokiškio sūris“ held on 27 April 2018.

The shares were acquired at the following stages:

• From September 24, 2018 to October 5, 2018, the Company acquired 598,681 shares, which accounted for 1.67 percent of the Company's authorized capital. The purchase price of one share was EUR 2.62.

• From December 3, 2018 to December 14, 2018, the Company acquired 207,636 of its own shares, representing 0.6 percent of the company's authorized capital. The purchase price of one share was EUR 2.60.

Shares were acquired through the Nasdaq Vilnius Stock Exchange official offer market. The total price of shares acquired by AB „Rokiškio sūris“ was 2,108,397.82 EUR.

During the reporting period, AB „Rokiškio sūris“ did not transfer its own shares.

## 29. Dividends

The decision on the distribution and payment of dividends is made by the general meeting of shareholders, distributing the profit of the company to be distributed.

The Annual General Meeting of Shareholders of AB „Rokiškio sūris“, held on April 27, 2018, approved the audited consolidated and Company's financial statements for 2017 and the Company's profit allocation for 2017. Dividends totaled EUR 3,586,797 or EUR 0.10 per ordinary registered share.

**Dividends assessed and paid and the indicators thereof during 10 recent years:**

| Year | Dividend amount, EUR | Dividend amount per share, EUR | Net profit per share, EUR | Dividend payment coefficient |
|---|---|---|---|---|
| 2007 | 2,867,855.42 | 0.0695 | 0.2346 | 0.30 |
| 2008 | Dividends were not paid | | | |
| 2009 | 244,579.30 | 0.0290 | 0.1101 | 0.26 |
| 2010 | 1,038,808.21 | 0.0290 | 0.1883 | 0.15 |
| 2011 | 1,015,578.08 | 0.0290 | 0.2288 | 0.13 |
| 2012 | 1,015,578.08 | 0.0290 | 0.2433 | 0.12 |
| 2013 | 1,015,578.08 | 0.0290 | 0.2693 | 0.11 |
| 2014 | Dividends were not paid | | | |
| 2015 | 2,341,737.37 | 0.0700 | 0.1086 | 0.64 |
| 2016 | 3,228,117.30 | 0.1000 | 0.3162 | 0.32 |
| 2017 | 3,586,797.00 | 0.1000 | 0.2481 | 0.40 |

On 27 April 2018, the General Meeting of Shareholders of AB „Rokiškio sūris“ approved the Dividend Policy. In accordance with this approved policy, the Board of the Company, when proposing to distribute the dividends to the General Meeting of Shareholders, will follow the signed Shareholders' Agreement, according to which dividends will be allocated 100% of the Company's profit for the financial period minus the Company's funds for investment (CAPEX), working capital and / or other purposes. If the Company's Board of Directors foresees a large amount of investment and therefore, according to the dividend allocation provisions described above, the Company's profit for the financial period would not be sufficient to pay dividends, the Board of the Company, taking into account the Company's financial situation and trends in the global dairy market, will endeavor to maintain the continuity of dividends paid in previous financial periods.

The general meeting of shareholders must not decide to assess and pay dividends if at least one of the following conditions exists:

1) the Company has outstanding liabilities the maturity whereof has expired prior to the date of the decision;
2) the amount of the distributable profit (loss) of the fiscal year is negative (the Company has generated a loss);
3) the own capital of the Company is below the aggregate amount of the authorised capital of the Company, the mandatory reserve, the revaluation reserve and the reserve for the acquisition of own shares, or would fall below the amount after the dividends are paid.

The Company must not pay dividends, annual payments to Board members and employee bonuses, unless it has paid statutory taxes within the established time limits.

The persons who were shareholders of the Company or were otherwise legally entitled to dividends at the end of the rights accounting day of the general meeting of shareholders which declared the dividends (at the end of the tenth day after the general meeting of shareholders that issued the decision) shall be entitled to collect dividends.

The Company pays dividends within one month from the date of the decision to distribute the profit. Dividends may be granted for a financial year or less than a financial year.

# MANAGEMENT OF THE COMPANY

## 30. Management bodies of the Company

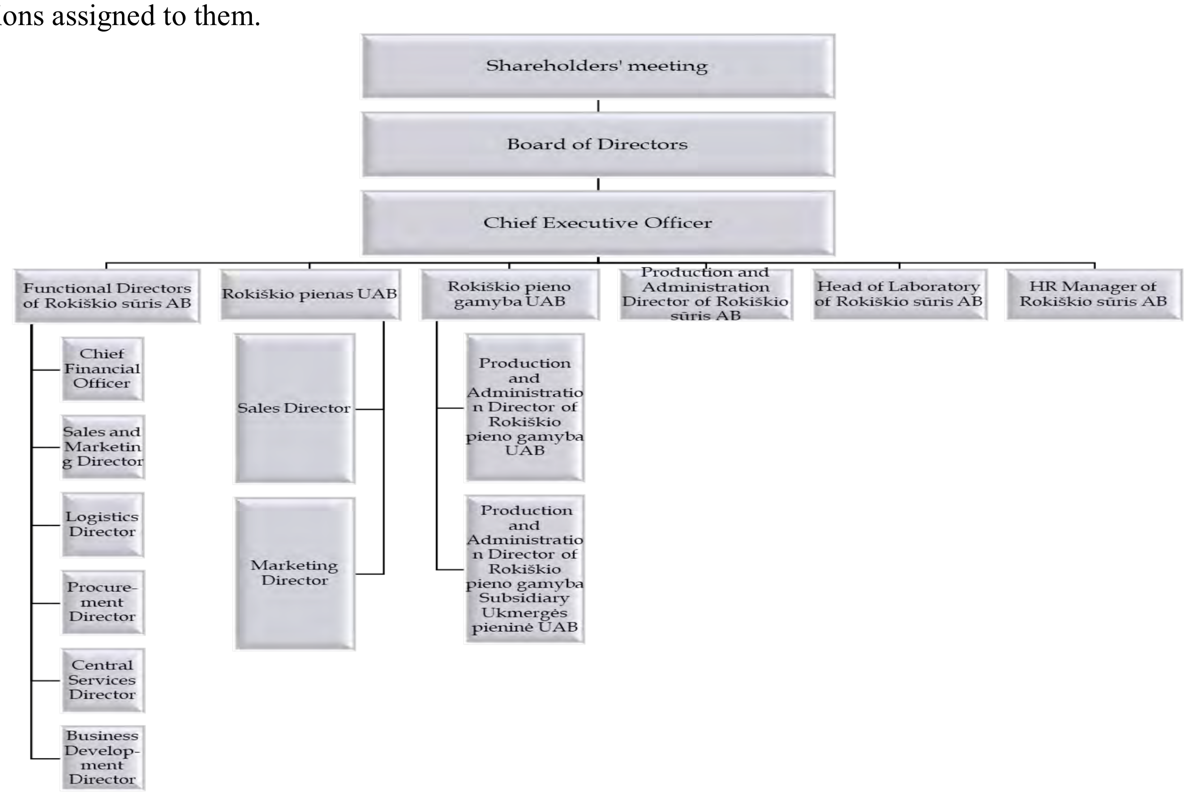
The following management bodies of the Company are provided for in the Articles of Association of the Rokiškio sūris, AB entered in the Register of Legal Persons:

- General meeting of shareholders,
- Board
- Company CEO (Director)

The Supervisory Board shall not be formed at the Company.

## 31. Organizational structure of the management of the Company and the Company group

The management structure of Rokiškio sūris, AB is organised on the basis of the principal functions, i.e. sales, production, finance management, milk procurement, central services and development. The strategy, tactics and objectives of the Group are set forth by functional director in accordance with the functions assigned to them.



# GENERAL MEETING OF SHAREHOLDERS

## 32. Information on the powers of and the procedure for convening the General Meeting of Shareholders

The powers of and the procedure for convening the General Meeting of Shareholders shall not differ from those provided for in the Law on Companies.

The right of initiative to convene the General Meeting of Shareholders of Rokiškio sūris, AB shall be exercised by the Board and shareholders whose shares grant at least 1/10 of all votes at the General Meeting of Shareholders.

A notice of the convening of the General Meeting of Shareholders of the Company must be published in the Republic of Lithuania and all other EU member states as well as countries of the European Economic Area not later than 21 days before the General Meeting of Shareholders according to the procedure laid down in the Law on Securities. A notice of the convening of the General Meeting of Shareholders shall also be published in the electronic publication *Juridinių Asmenų Vieši Pranešimai* (Public Notices of Legal Entities) issued by the State Enterprise Centre of Registers (VĮ Registrų Centras) as provided for in the Articles of Association.

The persons who were shareholders of the Company at the close of the accounting day of the General Meeting of Shareholders shall have the right to attend and vote at the General Meeting of Shareholders or repeat General Meeting of Shareholders in person, unless otherwise provided for by laws, or may authorise other persons to vote for them as proxies or may conclude an agreement on the disposal of the voting right with third parties. The shareholder's right to attend the General Meeting of Shareholders shall also cover the right to speak and to enquire. The record date of the meeting of a public limited liability company shall be the fifth working day before the General Meeting of Shareholders or the fifth working day before the repeat General Meeting of Shareholders.

A shareholder may vote in writing by filling in a general ballot paper. The form of a general ballot paper is available on the website of the Company www.rokiskio.com, in the section "For investors", and is also provided with draft resolutions submitted by the Company via the Central Storage Facility. The filled-in general ballot paper shall be signed by the shareholder or his authorised person. The filled-in general ballot paper signed by the shareholder or another person entitled to vote as well as the document confirming the right to vote shall be submitted to the Company in writing not later than the last working day before the Meeting, by sending them by registered mail to the following address: Pramonės g. 3, LT- 42150, Rokiškis, or delivering to the registered office of the Company against its signed acknowledgement on working days.

The Company shall not provide a possibility to attend the Meeting and to vote by means of electronic communications.

A General Meeting of Shareholders may take decisions and shall be held valid if attended by the shareholders who hold the shares carrying not less than ½ of all votes. After the presence of a quorum has been established, the quorum shall be deemed to be present throughout the Meeting. If the quorum is not present, the General Meeting of Shareholders shall be considered invalid and a repeat General Meeting of Shareholders must be convened, which shall be authorised to take decisions only on the issues on the agenda of the meeting that was not held and to which the quorum requirement shall not apply. The repeat General Meeting of Shareholders shall be convened after the lapse of at least 14 days and not later than after the lapse of 21 days following the day of the General Meeting of Shareholders which was not held. The shareholders must be notified of the repeat General

Meeting of Shareholders in the manner specified in Article $26^1$(3) of the Law on Companies not later than 14 days before the repeat General Meeting of Shareholders.

An annual general meeting of shareholders must be held every year not later than within four months from the end of the financial year.

The shareholders who hold shares carrying at least 1/20 of all the votes shall have the right to propose issues to supplement the agenda. Draft decisions on the proposed issues or, when it is not mandatory to adopt decisions, explanatory notes on each proposed issue of the agenda of the General Meeting of Shareholders shall be submitted alongside with the proposal. A proposal to supplement the agenda shall be submitted in writing, by sending it by registered mail to the address of Rokiškio sūris, AB: Pramonės g.3, LT-42150 Rokiškis, or by e-mail: rokiskio.suris@rokiskio.com.The agenda shall be supplemented where the proposal is received not later than 14 days before the General Meeting of Shareholders.

The shareholders who hold shares carrying at least 1/20 of all the votes shall have the right to propose new draft decisions on issues on the agenda of the Meeting. Proposed draft decisions shall be submitted in writing, by sending them by registered mail to the address of Rokiškio sūris, AB: Pramonės g.3, LT-42150 Rokiškis, or by e-mail: rokiskio.suris@rokiskio.com. The shareholders shall also have the right to propose draft decisions on the issues of the agenda of the Meeting in writing during the Meeting.

The shareholders attending the general meeting of shareholders shall be registered in the shareholder registration list. This list must indicate the number of votes granted to each shareholder by the shares held by him.

A person attending the General Meeting of Shareholders and entitled to vote shall produce a document which is a proof of his identity. A person who is not a shareholder must additionally produce a document confirming his right to vote at the General Meeting of Shareholders. The requirement to present the document confirming a person's identity shall not apply if votes are cast in writing by filling in a general voting ballot. The form of a general ballot paper is available on the website of the Company www.rokiskio.com, in the section "For investors".

If a shareholder requests so, the Company shall, at least 10 days before the General Meeting of Shareholders, send the general ballot paper by registered mail or deliver it to the shareholder in person against his signed acknowledgement of receipt. The filled-in general ballot paper shall be signed by the shareholder or his authorised person. The filled-in general ballot paper signed by the shareholder or another person entitled to vote as well as the document confirming the right to vote shall be submitted to the Company in writing not later than the last working day before the Meeting, by sending them by registered mail to the following address: Pramonės g. 3, LT- 42150, Rokiškis, or delivering to the registered office of the Company, by the address indicated above, against its signed acknowledgement on working days.

The right to vote at other General Meetings of Shareholders shall be granted only by fully paid-up shares. Each share shall give one vote at the General Meeting of Shareholders.

The General Meeting of Shareholders shall have the exclusive right to:

1) amend the Articles of Association of the Company;
2) change the registered office of the Company;
3) elect the members of the Supervisory Board; if the Supervisory Board is not formed, elect members of the Board, if neither the Supervisory Board nor the Board is formed, elect the Manager of the Company;

4) remove the Supervisory Board or its members, also the Board or its members elected by the General Meeting of Shareholders and the Manager of the Company;
5) select and remove an auditor or an audit firm for carrying out the audit of a set of annual financial statements, establish payment conditions for audit services;
6) determine the class, number, nominal value and the minimum issue price of the shares issued by the Company;
7) take a decision on conversion of the Company's shares of one class into shares of another class, approve the share conversion procedure;
8) take a decision on changing the number of shares of the same class issued by the Company or the nominal value of the shares without changing the amount of the authorised capital;
9) approve the set of annual financial statements;
10) take a decision on profit/loss distribution;
11) take a decision on the building-up, use, reduction and liquidation of reserves;
12) approve the set of interim financial statements drawn up for the purpose of adoption of a decision on the allocation of dividends for a period shorter than the financial year;
13) take a decision on the allocation of dividends for a period shorter than the financial year;
14) take a decision on the issue of convertible debentures;
15) take a decision on withdrawal for all the shareholders the right of pre-emption in acquiring the Company's shares or convertible debentures of a specific issue;
16) take a decision on increase of the authorised capital;
17) take a decision on reduction of the authorised capital, except where otherwise provided for by the Law on Companies;
18) take a decision on the Company's acquisition of its own shares;
19) take a decision on allocation of the Shares to employees and/or members of the management bodies;
20) to approve the Rules of the Allocation of Shares;
21) take a decision on the reorganisation or split-off of the Company and approve the terms of reorganisation or split-off;
22) take a decision on conversion of the Company;
23) take a decision on the restructuring of the Company in the cases specified by the Law on Restructuring of Enterprises;
24) take a decision on liquidation of the Company or on cancellation of the liquidation of the Company, except where otherwise provided for by the Law on Companies;
25) elect and remove the liquidator of the Company, except where otherwise provided for by the Law on Companies.

The General Meeting of Shareholders may also decide on other matters assigned to its powers by the Articles of Association of the Company, unless these have been assigned under the Law on Companies to the powers of other bodies of the Company and provided that, in their essence, these are not the functions of the management bodies.

A decision of the General Meeting of Shareholders shall be considered taken if more votes of the shareholders have been cast for it than against it, except for the issues mentioned in Points 1, 6, 7, 8, 10, 11, 13, 14, 15, 16, 17, 20, 21, 22, and 24 above, a decision on which shall be taken by 2/3 (two thirds) of all the votes carried by the shares held by the shareholders attending the Meeting, and the issue mentioned in Point 15, a decision on which shall require 3/4 (three thirds) of all the votes carried by the shares held by the shareholders attending the Meeting and entitled to vote on this issue.

**General Meetings of Shareholders convened in 2018:**

During 2018, one general meeting of shareholders of AB "Rokiškio sūris" was convened and held on the initiative and decision of the Board of the Company.

At the Annual General Meeting of Shareholders held on April 27, 2018, the shareholders were informed about the consolidated annual report of AB Rokiškio sūris for 2017 and the auditor's report on the consolidated financial statements for 2017 and the annual report. Dividends per one ordinary registered share of EUR 0.10 (total dividend payout of EUR 3,586,797), approved dividend policy of the Company, decision to purchase up to 10 per cent of own shares and the audit company PricewaterhouseCoopers UAB was appointed for the audit of the annual consolidated financial statements of AB „Rokiškio sūris“ group and the parent company for 2018.

The General Manager of the Company, Chairman of the Board of the Company, Chief Financial Officer and Chief Executive Officer of the Company participated in the General Meeting of Shareholders of the Company in 2018 AB Rokiškio sūris.

## 33. Board of the Company

The Board shall be a collegial management body of the company which has 5 (five) members. The members of the Board shall be elected and removed from office by the General Meeting of Shareholders in accordance with the procedure laid down by the Law on Companies. The members of the Board shall elect the Chairperson of the Board. The number of the terms of office of a member of the Board shall not be limited. Only a natural person may be elected a member of the Board. The following persons may not be a member of the Board: a member of the Supervisory Board of the Company (should the Supervisory Board be formed in the Company) and a person who may not hold this office under legal acts. The powers of the members of the Board are defined in the Law on Companies and in the Articles of Association of the Company.

If the Board is removed from office, resigns, or discontinues to perform its duties for any other reasons before the end of the term of office, a new Board shall be elected for a new term of office of the Board. If individual members of the Board are elected, they shall serve only until the expiry of the term of office of the current Board.

The Board may adopt decisions and its meeting shall be deemed to have been held when the meeting is attended by 2/3 or more of the Members of the Board. The Members of the Board who have voted in advance shall also be deemed to be present at the meeting. A decision of the Board shall be adopted if more votes for it are received than the votes against it.

In 2018, 6 Board meetings took place (14 Board meetings in 2017). All Board members attended all Board meetings. Members of the Board who were unable to attend the meeting attended in the way of a telephone conference. Three meetings were held in accordance with a predetermined schedule of Board meetings, and other meetings were convened according to the procedure provided for in the Law on Companies of the Republic of Lithuania and the Rules of Procedure of the Board and in case of important issues requiring a decision of the Board. The Board approved the Company's consolidated and Company's financial statements for the year 2017 and the Annual Report, proposed to the General Meeting of Shareholders to approve the 2017 profit distribution project, the Company's dividend policy and the candidacy of the Company's audit company. The Board of the Company adopted a decision to terminate the activities of AB “Rokiškio sūris” branches “Utenos pienas” and “Ukmergės pieninė”, and in accordance with the decision of the General Meeting of Shareholders, executed the purchase of own shares, during which 806,317 of own shares were bought, which is 2.25 percent of the Company's authorized capital.

Members of the Board are paid bonuses for their work on the Board in accordance with the procedure laid down in Article 59 of the Law on Companies of the Republic of Lithuania. The amount of bonuses depends on the performance of the Company. The decision on the payment of bonuses shall be taken by the General Meeting of Shareholders.

No other additional payments related to the motivation system are provided for the Chairperson of the Board.

## Members of the Board of Rokiškio sūris, AB

(Elected at the General Meeting of Shareholders held on 13 December 2017)

### Antanas Trumpa – the Chairperson of the Board (from 13 December 2017)

| | |
|---|---|
| Work experience | Antanas Trumpa worked in the Company since 1966<br>1971–2017 – the Manager (Director) of the Company |
| Education | In 1966, he graduated from Kaunas Polytechnic Institute, Faculty of Equipment for Food Industry, and acquired the qualification of Mechanical Engineer In 1979, he defended the Ph. D. thesis titled “Organisation of Operation of Vacuum Apparatus” in Kaunas Polytechnic Institute On 12 October 1994, the Lithuanian Science Council nostrificated the thesis for a doctoral degree |
| Shares of Rokiškio sūris, AB held | Antanas Trumpa directly holds 6,980,233 shares (19.46% of the authorised capital and 19.91% votes). His holding jointly with other persons amounts to 29,362,725 shares (81.86% of the authorised capital and 83.75% votes) |
| Participation in the activities of other companies | Board Chairperson at Rokiškio Pienas (code 300561844, adr. Pramones str.8, Utena), UAB and Rokiškio Pieno Gamyba UAB (code 303055649, adr. Pramonės g.8, Utena).<br>Shareholder of Pieno Pramonės Investicijų Valdymas, UAB, (code 173748857, adr. Pramonės str.3, Rokiškis) owning 7,152, i.e. 70.95%, of the shares of and voting rights in the company. |

### Antanas Kavaliauskas – Deputy Chairperson of the Board

He is a member of the Board since 2005 (and was elected for a new 4-years term of office by the General Meeting of Shareholders held on 13 December 2017)

| | |
|---|---|
| Work experience | From 2002, Chief Financial Officer of Rokiškio Sūris, AB (code 173057512, adr. Pramones str.3, Rokiškis). |
| Education | Faculty of Management of Kaunas University of Technology; Master of Financial Management Member of ACCA (Association of Chartered Certified Accountants) |
| Shares of Rokiškio sūris, AB held | No shares held |
| Participation in the activities of other companies | Shareholder of Pieno Pramonės Investicijų Valdymas, UAB (code 173748857, adr. Pramonės str.3, Rokiškis) owning 3.91% of the shares of and voting rights in the company.<br>Board Chairperson of the Latvian-based SIA Jekabpils Piena Kombinats (code 45402008851, adr. Akmenu iela 1, Jekabpils, Latvia) no shares held. |

**Paul M Campbell** – Member of the Board of the Company
(Elected for a 4-year term of office at the General Meeting of Shareholders held on 13 December 2017)

| | |
|---|---|
| Work experience | Director for Special Projects at Fonterra Co-operative Group Ltd. He works in the Co-operative since 1984 and held various posts in Fonterra in the following fields: general management, management of joint ventures, marketing, engineering and finance in New Zealand, Japan, and North Africa Currently, Paul M Campbell resides in London |
| Education | The University of Canterbury in New Zealand; Chemical and Industrial Engineering<br>Massey University in New Zealand; Diploma in Dairy Industry Science and Technology |
| Shares of Rokiškio sūris, AB held | No shares held |
| Participation in other activities | Mr Campbell is director of many international joint ventures of Fonterra. The main employer - Fonterra logistics (UK) Ltd.,(company number 03718518 adr., Delta 200, Delta Business Park., Great Western Way, Swindor SN5 7XP, UK). Position – Director Special Projects. |

**Ramūnas Vanagas** – Member of the Board of the Company
A member of the Board since 2006 (elected for a new 4-years term of office by the General Meeting of Shareholders on 13 December 2017)

| | |
|---|---|
| Work experience | From 2005, Business Development Director of Rokiškio Sūris, AB (code 173057512, adr. Pramones str. 3, Rokiškis). |
| Education | Lithuanian Academy of Agriculture; major in Economics and Management |
| Shares of Rokiškio sūris, AB held | No shares held |
| Participation in the activities of other companies | Shareholder of Pieno Pramonės Investicijų Valdymas (code 173748857, adr. Pramonės str.3, Rokiškis), UAB owning 3.91% of the shares of and voting rights in the company<br>Board person of the Latvian-based SIA Jekabpils Piena Kombinats (code 45402008851, adr. Akmenu iela 1, Jekabpils, Latvia) no shares held. |

**Darius Norkus** – Member of the Board of the Company
A member of the Board since 2008 (elected for a new 4-years term of office by the General Meeting of Shareholders on 13 December 2017)

| | |
|---|---|
| Work experience | From 2001, Sales and Marketing Director Rokiskio suris AB (code 173057512, adr. Pramones str. 3, Rokiškis). |
| Education | Kaunas University of Technology; Diploma of Engineer (1993)<br>Baltic Management Institute, Master's Degree in Business Administration (EMBA programme, 2000). |
| Shares of Rokiškio sūris, AB held | No shares held |

| | |
|---|---|
| Participation in the activities of other companies | Shareholder of Pieno Pramonės Investicijų Valdymas, UAB (code 173748857, adr. Pramonės str.3, Rokiškis), owning 3.91% of the shares of and voting rights in the company. |

**Manager (Director) of the Company**

The Manager (Director) of the Company shall be a single-person management body, who shall organise daily activities of the Company, considers and decides on issues of the Long-term Strategic Plan and Business Plan of the Company. In the Company's relations with other persons, the Director shall act at his own discretion on behalf of the Company.

The Manager of the Company shall take part in all General Meetings of Shareholders held (including those in the reporting period).

The duties and powers of the Director are defined in the Law on Companies and in the Articles of Association of the Company.

**Dalius Trumpa – Manager (Director) of the Company**
(appointed by the Board of the Company as of 1 January 2018)

| | |
|---|---|
| Work experience | Dalius Trumpa works in Rokiškio sūris, AB since 1991<br>2002–2006, Production Director of Rokiškio sūris, AB 2007–2017, Deputy Director of Rokiškio sūris, AB<br>From 1 January 2018, Director of Rokiškio Sūris, AB<br>From 2 January 2007, Director of the subsidiary Rokiškio Pienas, UAB (code 300561844, adr. Pramones str.8, Utena).<br>From 29 April 2013, Director of the subsidiary Rokiškio Pieno Gamyba, UAB (code 303055649, adr.Pramones str.8, Utena). |
| Education | Kaunas University of Technology; major in Food Industry Machinery and Apparatus; Mechanical Engineer. |
| Shares of Rokiškio sūris, AB held | He directly holds 83,500 shares (0.23% of the authorised capital and 0.24% votes).<br>His holding jointly with other persons amounts to 29,362,725 shares (81.86% of the authorised capital and 83.75% votes). |
| Participation in the activities of other companies | From 2004, Director of Rokvalda UAB (code 300059165, adr. Basanavičiaus str.16A-125, Vilnius), holding 100% of shares and votes.<br>From 2010, Chairperson of the Board of the Latvian-based SIA Kaunata (code 240300369, adr. Rogs, Kaunata pag., Rezeknes nov., Latvia) holding no shares of the company<br>From 11 December 2013, Director of SIA RSU Holding (code 40103739795, adr.Elizabetes iela 45/47, Riga), owning 100% of the company's shares<br>Shareholder of Pieno Pramonės Investicijų Valdymas UAB (code 173748857, adr. Pramones str.3, Rokiškis) owning 3.91% of the shares of and voting rights in the company. |

## 34. Committees set up in the Company

**Audit Committee of Rokiškio sūris, AB**

The Audit Committee of the Company consists of 3 members, including 2 independent ones The term of office of the Audit Committee is four years The members of the Audit Committee shall be elected by the General Meeting of Shareholders upon the recommendation of the Board of the Company. The members of the Audit Committee were elected by the General Meeting of Shareholders held on 28 April 2017. The term of office of the Audit Committee shall end on 28 April 2021.

The Audit Committee is a collegial body, which adopts decisions at its meetings. The Audit Committee may adopt decisions and its meeting shall be deemed to have been held when it is attended by at least 2 (two) members of the Committee. A decision shall be deemed to have been adopted when it is voted for by at least two members of the Audit Committee attending the meeting.

The functions, rights, and obligations of the Audit Committee shall be governed by the Provisions for the Establishment and Activities of the Audit Committee of Rokiškio sūris, AB approved by the General Meeting of Shareholders of the Company as well as in other documents governing the activities of the Audit Committee.

**Main functions of the Audit Committee**

1. To monitor the process of preparation of the financial statements of the Company and its subsidiaries;
2. To monitor the efficiency of the internal control, risk management, and internal audit systems of the Company;
3. To provide recommendations to the Board of the Company on the selection of an external audit firm and to monitor the process of the audit;
4. To monitor the compliance of the external auditor and audit firm with the principles of independence and impartiality;
5. To inform the Board of the Company about any significant internal control deficiencies relating to financial statements found by external and internal audit and to provide recommendations on their correction;
6. To act fairly and responsibly in the interest for the benefit of the Company and its shareholders.

In 2017, the Audit Committee held 3 meetings. The meetings discussed annual and six-month financial statements and provided their opinions. The Audit Committee presented reports on the functions assigned, i.e. the monitoring of the preparation of financial statements, the Company's internal control, risk management, and internal audit systems and also monitored the compliance of the audit firm PricewaterhouseCoopers UAB with the principles of independence and impartiality.
The Audit Committee monitored and controlled compliance with specific requirements regarding statutory audit of public-interest entities pursuant to Regulation (EU) No 537/2014 of the European Parliament and of the Council in the purchase of non-audit services.

**Members of the Audit Committee:**

Kęstutis Kirejevas – an independent member, Director of EuropaPrint, UAB, holding no shares of Rokiškio sūris, AB

Kęstutis Gataveckas – an independent member, Director of Perlo Paslaugos, UAB, holding no shares of Rokiškio sūris, AB
Rasa Žukauskaitė – an employee of Rokiskio Suris AB, Finance Department, holding 2 shares of Rokiškio sūris, AB

No other committees are established in the Company

In 2018, the Audit Committee held 8 meetings. During the meetings, the financial statements for the end of the year and the half-year were discussed and conclusions were drawn. The Audit Committee provided reports on the functions assigned to them, i.e. monitoring of prepared financial reports, Company's internal control risk management, internal audit systems, as well as monitoring if the audit company UAB PricewaterhouseCoopers follows the principles of independence and objectivity.

In accordance with Regulation (EU) No.537/2014 of the European Parliament and of the Council, observed and controlled compliance with specific statutory audit requirements for non-audit services for public interest entities.

**Members of the Audit Committee:**

Kęstutis Kirejevas – an independent member, Director of EuropaPrint, UAB, holding no shares of Rokiškio sūris, AB
Kęstutis Gataveckas – an independent member, Director of Perlo Paslaugos, UAB, holding no shares of Rokiškio sūris, AB
Rasa Žukauskaitė – an employee of Rokiskio Suris AB, Finance Department, holding 2 shares of Rokiškio sūris, AB

No other committees are established in the Company

## 35. Management of the Company

**Members of the management team of the Company**

| Position | Forename and surname | In office since |
|---|---|---|
| Director* | Dalius Trumpa | 01/01/2018 |
| Chief Financial Officer | Antanas Kavaliauskas | 01/05/2002 |
| Business Development Director | Ramūnas Vanagas | 27/09/2005 |
| Central Services Director | Jonas Kvedaravičius | 01/05/2002 |
| Logistics Director | Jonas Kubilius | 16/05/2002 |
| Procurement Director | Evaldas Dikmonas | 14/05/2002 |
| Sales and Marketing Director | Darius Norkus | 18/07/2001 |

**Management team bonus system**

The members of the management team of the Company are paid wages and also receive variable components of pay which depend on the performance of the Company, market situation and other factors. There is no management team bonus systems established in the Company.

## 36. Employees

In 2018, the average number of employees of Rokiškio sūris, AB was 1,484. Compared to 2017 (1,542), it decreased by 3.8% or 58 employees. The decrease in the number of employees is related to the decrease of raw milk purchase points, which reduced the number of employees of milk purchase points and employees of logistics department.

In 2018, workers accounted for 82.5% of all employees of the Company (as compares to 82.0% in 2017), specialists accounted for 17.0% (17.4% in 2017), the number of the managerial staff accounted for 8 employees, or 0.54% of the whole staff (0.65% in 2017), 2 senior managers retired.

**Employees of the Group of the Company by categories**

| Employee group | Average number of employees | | Change |
|---|---|---|---|
| | 2018.12.31 | 2017.12.31 | (%) |
| **Management*** | 8 | 10 | **-20.0** |
| **Specialists** | 252 | 268 | **-5.97** |
| **Workers** | 1224 | 1264 | **-3.16** |
| **Total:** | **1484** | **1542** | **-3.76** |

*The managerial staff of the Company shall be understood as its Directors

As of 31 December 2018, men accounted for 53.8% of the employees of Rokiškio Sūris, AB and women accounted for 46.2% (as compares to the respective numbers of 52.2% and 46.8% recorded on 31 December 2017).

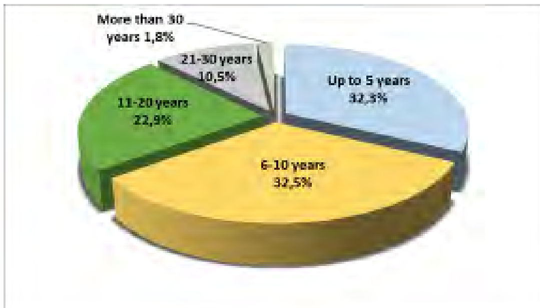
The average age of the employees of the Group of the Company was 45. In 2017, the average age of the employees was the same.

The Company employs people with high qualifications. Out of them, 11.0% were graduates of higher education institutions (10.7% in 2017), 50.8% had professional post-secondary education (50.5% in 2017), 38.1% were people with secondary education (38.5% in 2017), and 0.06% had partially completed secondary education (0.01% in 2017).

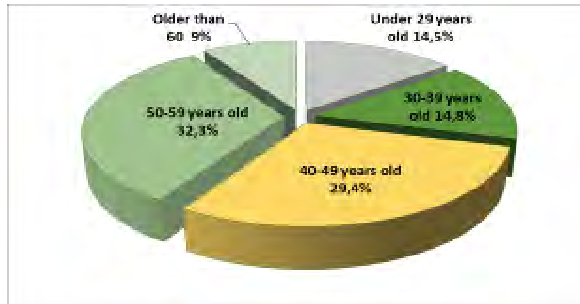
**Educational background of the employees of the Rokiškio sūris, AB Group**

| Education | 2018.12.31 | 2017.12.31 | Change (%) |
|---|---|---|---|
| **Higher** | 163 | 165 | **-1.21** |
| **Professional post-secondary** | 754 | 780 | **-3.33** |
| **Secondary** | 566 | 594 | **-4.71** |
| **Partially completed secondary** | 1 | 3 | **-66.67** |

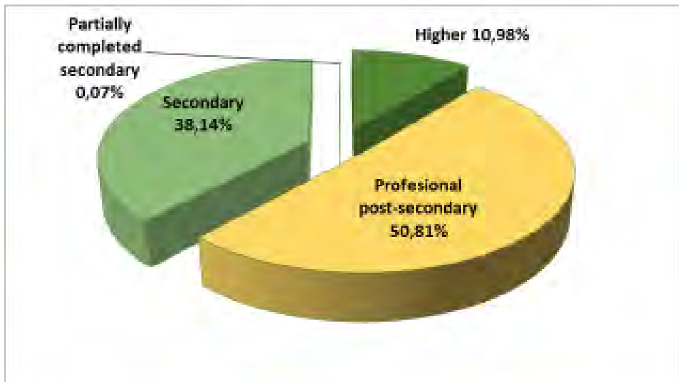
**Work experience**




**Age of employees**




**Education of employees**




## Labour remuneration system

The Company has an efficient and fair remuneration system in place. Its aim is to attract, maintain, and motivate employees. All employment contracts with employees of the Company, including those with the managerial staff, have been drawn up in accordance with the requirements of the Labour Code of the Republic of Lithuania. Employees are hired and dismissed in accordance with the requirements of the Labour Code.

**Average monthly salary at the Rokiškio sūris, AB Group, by employee groups**

| **Employee group** | **Average monthly wages (gross), EUR** | | **Change (%)** |
|---|---|---|---|
| | **2018.12.31** | **2017.12.31** | |
| Managerial staff | 2091 | 1878 | 4.97 |
| Specialists | 976 | 948 | 8.34 |
| Workers | 965 | 911 | 8.58 |
| **Group average** | **973** | **935** | **6.61** |

The average monthly wages are calculated in accordance with Resolution No 496 of the Government of the Republic of Lithuania dated 21 June 2017.

Wages payable to the employees of Rokiškio sūris, AB include the following components:

1) fixed remuneration for work performed, i.e. the monthly salary provided for in the employment contract;
2) piece-work pay, i.e. remuneration for workers of production shops, sales divisions, and warehouses is paid according to the volume of their actual work and at approved rates;

3) variable component of remuneration in accordance with the Regulations of the Incentive Fund approved in the Collective Agreement.

From 2018, the Company has been applying a remuneration procedure, which establishes variable components of pay depending on the performance of the Company, market situation, and other factors. Variable components of pay are allocated to every division in accordance with the approved functional management system. The remuneration procedure is subject to approval by the Manager of the Company.

Every production shop or division of the Company has an approved procedure for the distribution of the incentive fund which provides for employee appraisal criteria and incentives for employees. Employee appraisal is one of the key tasks of the Company in ensuring efficient work organisation in the pursuance of its objectives, building positive relationship between managers and their subordinates, and fostering staff motivation.

Employees of the companies of the Group are guaranteed the right to participate in activities of trade unions. The companies have a trade union committee, which defends its members' labour, economic, and social rights and interests, right to employment, social guarantees, takes care of the professional qualification improvement, builds up professional ethics, and works towards increasing the wages and other income of food industry workers.

## Collective agreement

The Company has a collective agreement in place. The agreement is signed between the Director of Rokiškio sūris, AB and the Chairman of the Trade Union Committee of the Food Sector Trade Union at Rokiškio sūris, AB. The purpose of the collective agreement is to create conditions for coordinated activities of the staff, to ensure that different categories of employees enjoy standards of work, wages, safety and health at work as well as other working conditions above those set forth in the laws, resolutions of the Government, and other legislative acts of the Republic of Lithuania and create better work and social guarantees to employees of the Company.

The rights and obligations of the Company's employees are laid down in their job descriptions. The employment contracts do not provide for any special rights or obligations.

## Competence development

Development of human resources and improvement of their special and general skills are among the key priorities for Rokiškio sūris, AB because only well-educated employees possessing appropriate knowledge and experience are capable of creating a high-quality product. Development plans are drawn up on a yearly basis with regard to the objectives of the Company and the relevance of employee competences to achieving those objectives. The Company's employees are provided with possibilities to deepen their knowledge and receive training at various workshops, seminars, and conferences. The Company also supports vocational training at the country's universities, colleges or other educational institutions providing qualification degrees. There is a strong focus on the learning of foreign languages.

Rokiškio sūris, AB also offers special training courses to the country's farmers so that they can successfully manage the health of their herd, ensure proper maintenance of their milking, cooling and storage equipment and modernise their milk farms. State-of-the-art milk farms, milk quality and herd health are crucial for the success of the dairy business.

## Ethical employment policy

In 2018, the Company implemented an ethical employment policy, according to which the Company carries out its activities on the basis of internationally recognised human and workers' rights according to the Charter of Human Rights and the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, applies the principles of socially responsible business, and acts in a transparent, reliable and fair manner.

## 37. Information on agreements between the Company and members of its bodies, members of its committees, or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of change of control of the issuer.

There are no agreements between the Company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of change of control of the Company. All employment contracts with employees of the Company, including those with the members of its management, have been drawn up in accordance with the requirements of the Labour Code of the Republic of Lithuania. The Company does not provide for any additional payments in the form of shares.

# INFORMATION ON RELATED-PARTY TRANSACTIONS AND SIGNIFICANT AGREEMENTS

## 38. Related parties of the Rokiškio sūris, AB Group

The group of parties acting in concert includes the following: Pieno Pramonės Investicijų Valdymas UAB (27.21% of the authorised capital and 27.83% votes in the Company), SIA RSU Holding (24.96% of the authorised capital and 25.54% votes in the Company), Fonterra (Europe) Coöperatie U.A. (the Netherlands) (10.00% of the authorised capital and 10.91% votes in the Company), Antanas Trumpa (19.46% of the authorised capital and 19.91% votes in the Company), and Dalius Trumpa (83,500 shares, 0.23% of the authorised capital and 0.24% votes in the Company). The group of parties acting in concert controls 81.86% of the authorised capital and 83.75% votes in the Company.

The remaining 16.49% part of the Company's shares is owned by minority shareholders who are Lithuanian and foreign natural and legal persons.

The private limited liability company Pieno Pramonės Investicijų Valdymas is controlled by Antanas Trumpa (as the majority shareholder holding 70.95% of the shares of and votes in Pieno Pramonės Investicijų Valdymas UAB). SIA RSU Holding is controlled by Dalius Trumpa (the sole shareholder holding 100% of the shares of and votes in SIA RSU Holding).

Certain cooperative societies engaged in milk production are considered to be related parties of the Company because the Company may exert significant influence over the day-to-day activities of these societies through the close family members of the Company's directors and some of its employees.

## 39. Related-party transactions and significant agreements

During 2018, the company had no transactions with related parties that met the criteria set out in Article $37_2$. All related party transactions included the purchase of raw milk from related parties and sales of dairy products to related parties, see Note to the Consolidated Financial Statements of the Company "Transactions with Related Parties". Transactions were made under usual market conditions, classified as ordinary economic activities and had no significant impact on the company. The company considers the companies of the Fonterra Group as related parties – Fonterra (Europe) Coöperatie U.A., company reg. code 50122541, registered at Barbara Strozzilaan 356-360, 1083 HN Amsterdam, the Netherlands and Fonterra Ingredients Limited, registered office at 109 Fanshawe Street, 1010 Auckland, New Zealand (sales of dairy products) and KB Dzūkijos Pienas, company code 300058288, registered office: Varanausko km., Krokialaukio sen., Alytus district (raw milk purchase).

Interested-person/related-party transactions are disclosed in Note 33 to the Consolidated Financial Statements of the Company for 2018.

## 40. Information on injurious transaction concluded on behalf of the issuer

During the reporting period, there were no injurious transactions failing to comply with the Company's objectives or normal market conditions, infringing the interests of the shareholders or other groups of persons, or adversely affecting of threatening to adversely affect in future the Company's operations or performance. There were no transactions concluded due to conflicts of interests between the obligations of the Company's managers, controlling shareholders, or other related parties toward the Company and their private interests and/or obligations.

# OTHER INFORMATION

## 41. Information on audit

The consolidated balance sheet of Rokiškio sūris, AB as of 31 December 2018 and the related statement of comprehensive income, cash flow statement, and statement of changes in equity for the year then ended were audited and the annual report was assessed by PricewaterhouseCoopers UAB, an international audit firm.

The audit firm for performing of the audit of annual financial statements shall be selected and payment conditions for audit services shall be established by the General Meeting of Shareholders. Since the company is listed and maintains its accounting in accordance with the International Financial Reporting Standards, the shareholders of the Company are obliged to select an international audit firm.

PricewaterhouseCoopers International Limited (PwC) is a network ofaudit andtax advice firms, a member of the so-called Big Four (the others are KPMG, Ernst & Young, and Deloitte Touche Tohmatsu). PricewaterhouseCoopers UAB (PricewaterhouseCoopers Lietuva) is a legally independent firm in Lithuania, a member of the global PwC network.

PricewaterhouseCoopers UAB provides audit, accounting, advisory, tax and legal services to international companies and large Lithuanian enterprises.

In 2018, the Rokiškio sūris, AB Group paid the audit firm an amount of EUR 58,500 for the work performed.

## 42. Details on publicly disclosed information

All the 2018 information publicly disclosed by Rokiškio sūris, AB is available on the website of the Company, www.rokiskio.com, in the section "For investors > Essential events".

Summary of the disclosed information:

| Publication date | Brief description of the notice |
|---|---|
| 2018.04.04 | Convocation of the 27 April 2018 General Meeting of Shareholders of Rokiskio suris AB |
| 2018.04.04 | The Board of Rokiskio suris proposes to pay the dividends of total 3 586 797 EUR, an equivalent of 0.10 EUR per share |
| 2018.04.27 | Resolutions approved by the 27 April 2018 General Shareholders' meeting of Rokiskio suris AB |
| 2018.04.27 | Audited annual information of AB Rokiskio suris for the year 2017 |
| 2018.05.03 | Regarding payout of dividends related to the year 2017 |
| 2018.06.21 | Regarding a judgement of the Court of Appeal of the Republic of Lithuania |
| 2018.07.13 | East Capital (LUX) Baltic Fund covered legal costs of the lost claim |
| 2018.07.18 | Dates of periodic information disclosure of Rokiskio suris AB for the year 2018 |
| 2018.08.31 | Six month 2018 operational results of the Group of Rokiskio suris AB |
| 2018.08.31 | Regarding termination of operations of subsidiaries of Rokiskio sūris AB |
| 2018.09.10 | Regarding signing out subsidiaries of Rokiskio suris AB |
| 2018.09.20 | Regarding purchase of own shares of Rokiskio suris AB |
| 2018.10.08 | Rokiškio sūris, AB bought 1.67 per cent of own shares |
| 2018.09.22 | Information on Rokiskio suris AB issued shares and votes |
| 2018.11.29 | Regarding purchase of own shares of Rokiskio suris AB |
| 2018.12.17 | Rokiškio sūris, AB, acquired own shares |
| 2018.12.18 | Information on Rokiskio suris AB issued shares and votes |
| 2018.12.28 | Dates of periodic information disclosure of Rokiskio suris AB for the yrar 2019 |

The company makes available public information in the Central Storage Facility on the website of Nasdaq Vilnius AB, http://www.nasdaqbaltic.com, and on the website of the Company, www.rokiskio.com

# ROKIŠKIO SŪRIS AB Governance Report

The Corporate Governance Report of the Public limited liability company Rokiškio sūris has been prepared in accordance with the Law on Corporate Financial Accountability of the Republic of Lithuania (*applicable to the preparation of annual reports of the enterprise for reporting periods beginning on 1 January 2017 and later*).

1. ***Reference to the applicable corporate governance code and the place of its publication, and (or) reference to the all necessary published information regarding management practices of the entity***

2018 Consolidated Report along with the Company's Management Report and the audited financial statements of the Company and its Group are published on the Company's website www.rokiskio.com and on the website of the Stock Exchange AB Nasdaq Vilnius www.nasdaqbaltic.com

2. ***In case of derogation from the provisions of the applicable corporate governance code and (or) when the provisions are not complied with, such provisions and the reasons thereof shall be indicated***

Information on compliance with and / or non-compliance with the Corporate Governance Code is provided in a structured table (No.2).

3. ***Information regarding the level of risk and risk management – management of risks related to the financial reporting, risk mitigation measures, and internal control systems implemented at the entity shall be described***

The Company provides information on the extent of risk and risk management, risk mitigation measures and internal control system implemented by the company in 2018, see Clauses 11, 12 and 13 of the consolidated annual report.

4. ***Information regarding significant directly or indirectly managed holdings***

The Company provides information regarding the significant directly or indirectly managed holdings in Clause 26 of the consolidated annual report of 2018.

5. ***Information regarding transactions with related parties, according to the Law on Companies Article 37$^2$ (by specifying the counterparty (legal form, name, code, register of the legal entity in which the person is stored, premises (address); name, surname, address of the natural person and the value of the transaction);***

In 2018, the Company did not have any Transactions with Related Parties, which would be applicable to the Law on Companies Article $37^2$. The more specific information is provided in Clause 39 of the consolidated annual report of 2018.

6. ***Information regarding the shareholders who have special rights of control and the description of such rights***

There are no shareholders having special rights of control in the Company.

7. ***Information regarding all current restrictions on voting rights (such as the restrictions on voting rights of persons having a certain percentage or number of the votes, the deadlines by which voting rights may be exercised or systems, according to which the property rights granted by the securities are to be separated from the holder of those securities)***

No restrictions on voting rights are applied in the Company. All shareholders have equal property and non-property rights (except for the Company's own shares that do not have voting rights).

8. ***Information regarding the rules governing the appointment and dismissal of board members, as well as the amendment of the company's articles of association***

The Company has no rules regulating the amendments to the Company's Articles of Association, election and replacement of the members of the Board of the Company. The Company operates in accordance with the Law on Companies of the Republic of Lithuania, the Articles of Association of the Company and other legal acts.

More detailed information is provided in Clauses 25 and 33 of the consolidated annual report of 2018.

9. ***Information regarding the powers of the board members***

The Board members have not authorized other persons to perform the functions assigned to the competence of the Board. The members of the Board of the Company operate in accordance with the Law on Companies, the Articles of Association of the Company and the Rules of Procedure of the Board.

10. ***Information regarding the competence of the general meeting of shareholders, the rights of shareholders and implementation thereof, if such information is not established in the applicable legislation***

The company provides information regarding the competence of the general meeting of shareholders, the rights of shareholders, and implementation thereof, as well as the procedure for convening the meetings of shareholders, in Clause 32 of the consolidated annual report of 2018.

11. ***Information regarding the composition of the management, supervisory bodies, and the committees thereof, as well as the fields of activity of the aforesaid bodies and the manager of the company***

Information on the management, supervisory bodies and the committees thereof is provided in Clauses 34 and 35 of the consolidated annual report of 2018.

12. ***Description of diversity policy applicable in appointing the manager of the company, management, and supervisory bodies, related to the aspects such as age, gender, education, professional experience; objectives of such policy, methods of implementation thereof, and***

***results of the reference period. if the diversity policy is not applied, the reasons thereof shall be indicated***

The company has no policy of diversity in the selection of manager and management and supervisory bodies. The requirements for candidates to nominate members of the Company's management bodies do not discriminate against candidates for age, gender, education or professional experience. The Company does not impose any restrictions on the nomination of persons for gender or age. The key criteria for selecting members of the management bodies is the candidate's competence.

***13. Information on the renumeration of each management, supervisory member (medium-term renumeration, stating premiums, bonuses, tantjams and other benefits***

Amount of money and average amounts of money allocated to one member of the management body, assets and guarantees provided to the members of the Board, the Chief Executive Officer and Chief Financial Officer of AB „Rokiškio sūris“ during 2018:

| Governing Bodies | Number of persons | Estimated Total Amount, (Salaries, and Tantjems), kEUR | TOTAL average amount per person, (Salaries, and Tantjems), kEUR | incl. average amount of salary | incl. average amount of tantjems | incl. average amount of bonuses |
|---|---|---|---|---|---|---|
| **Board members*** | 5 | 1,209 | 241.8 | 13.7 | 226.4 | 0 |
| **The Company‘s CEO and CFO** | 2 | 100.53 | 50.26 | 24 | 28.6 | 0 |

** All members of the Board were employees of the Company. Estimated and paid amounts in 2018 (salaries) are related to employment relationships.*

During the reporting period, the Company did not grant any loans, or issued any guarantees or asset assignments to the members of the Board of Directors, the Company's Chief Executive Officer and the Chief Financial Officer.

***14. Information on all agreements between shareholders (their terms and conditions)***

On October 13, 2017 it was signed the Strategic Investment Agreement and Shareholders Agreement between the Company's shareholders – UAB Pieno pramonės investicijų valdymas, SIA RSU Holding, Antanas Trumpa and Ledina Trumpienė, Dalius Trumpa and Rasa Trumpienė, Strategic Investor – Fonterra (Europe) Coöperatie UA and the Company – AB „Rokiškio sūris“.

The Company has no data on other agreements between shareholders.

# PURSUE THE GOVERNANCE REPORT

Rokiskio suris AB, following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of AB NASDAQ Vilnius, discloses its compliance with the Corporate Governance Code for the Companies, whose securities are traded on the regulated market, as approved by the NASDAQ Vilnius AB, and its specific provisions and recommendations. If any of the provisions or recommendations of the Codex are not respected due to any reasons, the explicable information is provided herein.

Structured table No. 2.

| PRINCIPLES/ RECOMMENDATIONS | Yes/ No/ Not applicable | COMMENTARY |
|---|---|---|
| **Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights**<br>**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 | All shareholders have equal access to the information and / or documents provided for in legal acts and participate in making important decisions for the company.<br>The Company provides information through the Nasdaq Vilnius Stock Exchange Central Regulated Information Base in Lithuanian and English simultaneously. The information is published immediately at once, thus ensuring the simultaneous provision of information to all. |
| 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 authorized capital of the Company consists of ordinary registered shares, which grant equal voting, ownership, dividend and other rights to all shareholders of the Company. |
| 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 Company enables investors to familiarize themselves with the rights granted by the new or already issued shares well in advance. |

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| 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 Articles of Association of the Company, important transactions, such as decisions on the execution, assignment, lease, pledge and mortgage of long-term assets the book value of which exceeds 1/5 of the authorized capital of the company, as well as decisions on fulfillment of obligations of other persons exceeding 1/5 of the authorized capital of the company, and decisions to purchase fixed assets at a price greater than 1/5 of the company's share capital, do not require approbation by the Company's shareholders. Due to extremely important transactions, such as the transfer of all or almost all of the Company's assets, the Company would be guided by the Law on Companies of the Republic of Lithuania and other legal acts establishing requirements for the approval of such transactions. |
| 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 | All shareholders of the Company are informed about the date, place and time of the General Meeting of Shareholders in accordance with the established procedure in advance, in accordance with the terms established by legal acts, announcing the General Meeting of Shareholders, agenda, and draft resolutions in the Central Regulated Information Base of AB Nasdaq Vilnius Stock Exchange. The Company specifies the date of the General Meeting of Shareholders and may propose draft resolutions in the Notice of the General Meeting of Shareholders to be convened on the Company's website www.rokiskio.com<br><br>In the notice of the convention of the General Meeting of Shareholders, the Company shall indicate when the shareholders may supplement the agenda of the General Shareholders Meeting and propose draft resolutions. |
| 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 documents prepared for General meeting of shareholders including draft resolutions of the meeting are available not later than 21 day prior the date of general meeting of shareholders as required by the Law on Joint stock companies. The documents placed on the website of NASDAQ Vilnius security exchange and the company website are available in Lithuanian and English languages.<br><br>Resolutions accepted by the general meeting of shareholders including financial reports, the audit report, annual report, amendments of articles of association etc. are announce in Lithuanian and English languages are announced via the central base of regulated information of NASDAQ Vilnius security exchange and the company website www.rokiskio.com |

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| 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 | The shareholders of the Company have the right to participate in the General Meeting of Shareholders both personally and through a representative, if the person has the appropriate authorization or the contract of transfer of voting rights concluded with him/her in accordance with the procedure established by legal acts, as well as the conditions for the shareholders to vote by filling in the general voting bulletin as provided by the Law on Companies of the Republic of Lithuania. |
| 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. | No | The company does not comply with the provisions of this recommendation as there is no possibility to ensure the security of the information transmitted and it is not possible to identify the person who participated and voted. |
| 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 | When announcing the General Meeting of Shareholders, and if the agenda of the General Meeting of Shareholders includes the issue of electing new members of the collegial body or electing the audit firm, it shall disclose in the draft resolutions the nominations of the proposed new members of the collegial body and the proposed election company.<br>Information about the candidates to the members of the collegial body shall be provided in advance by publishing this information on the Nasdaq Vilnius Stock Exchange website, on the website of AB „Rokiškio sūris“ www.rokiskio.com, or by publishing it to the shareholders participating in the general meeting during the meeting if the shareholders, whose shares give at least 1/20 of all votes, propose an additional candidate during the meeting.<br>In its annual and six-month interim report, the company publicly informs about the positions held by the collegial body, work experience and education. |
| 1.10. Members of the company's collegial management body, heads of the administration[1] 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 | Yes | Members of the company's collegial body and heads of administration participate in the general meetings of shareholders. Proposed nominees for members of the collegial body are also present if the election of new members is included on the agenda of the general meeting. |

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

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| the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders. | | |
| **Principle 2: Supervisory board**<br><br>**2.1. Functions and liability of the supervisory board**<br>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.<br>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. | N/A | According to the Articles of Association of AB „Rokiškio sūris", only one collegial body - the Board - has been formed in the Company. The Supervisory Board is not formed in the Company. The company's shareholders decided to delegate all management functions to the collegial body - the Board. |
| 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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |
| 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. Independent[2] 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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

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| **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. | N/A | See point 2.1.1 |
| **2.2. Formation of the supervisory board**<br>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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |

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| 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. | N/A | See point 2.1.1 |
| 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. | N/A | See point 2.1.1 |
| 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 organization 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 objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures. | N/A | See point 2.1.1 |
| **Principle 3: Management Board**<br><br>**3.1. Functions and liability of the management board**<br>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 | Only one collegial body is formed in the company and it is the board.<br><br>The company's shareholders decided to delegate all management functions to the collegial body - the board. They are confident that one collegial body - the Board - is sufficient to ensure effective management of the company.<br><br>The Board of the Company is responsible for the proper strategic management of the Company (approves the Company's operational strategy, approves the annual budget and operational objectives, adopts important decisions in the legal acts regarding the organizational management structure of the Company). |
| 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 | Yes | The company follows the company's strategic plan, according to which the mission of the company's management bodies is to create and maintain a strong, competitive, financially capable and technically modern company that creates and maximizes shareholder value.<br><br>According to the information available to the company, all members of the Board act in the best interests of the company and shareholders, are guided by the interests of the company and not by themselves or by third parties, trying to maintain |

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| striving to achieve sustainable business development. | | their independence in decision making |
| 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 | The Board ensures that the laws and company internal policies applicable to the company and its entire group are respected. The company also operates a risk management and control program. Risk management is carried out by the management of the Company. |
| 3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards. | Yes | The company has a policy of internal control and business ethics. The Company has adopted a Business Ethics Policy that clearly and publicly declares a negative attitude towards bribery and corruption. The provisions of this policy apply to all employees, agents, intermediaries, suppliers and subcontractors of the Company. |
| 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 | When appointing the Chief Executive Officer, the Board takes into account the candidate's qualifications, experience and competence. |
| **3.2. Formation of the management board** | | |
| 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 whole, diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The members of the Board of the Company are elected by the General Meeting of Shareholders. The members of the Board of the Company are qualified and competent to perform their functions, having a long experience in management. One member of the board is delegated by the strategic investor (Fonterra) who has extensive experience in developing, managing and developing corporate strategy in international companies. |
| 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 | Yes | Information about candidates to the Company's Board of Directors is provided to the shareholders together with the documents of the shareholders' meeting following the requirements of the Law on Public Limited Liability Companies of the Republic of Lithuania. Shareholders may see the documents prior the meeting. Information about the members of the Board of Directors (names, education, qualifications, professional experience, participation in the activities of other companies, other important professional obligations) is provided in the periodical reports. |

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

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| basis, collect data provided in this paragraph on its members and disclose it in the company's annual report. | | |
| 3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company. | Yes | All new members of the Board are familiarized with their duties, company structure and activities. |
| 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 | The members of the Board are elected for a 4-year term. The number of terms is unlimited.<br>Members of the Board are elected by the GMS. Shareholders who nominate and vote for the Board of Directors follow their own approach, which candidates are best to represent the interests of the shareholders. |
| 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. | No | Former CEO of the Company has been appointed Chairman of the Board of the Company. The members of the Board of Directors, appointed the former CEO of the Company based on his long-term management experience and competence to take the chair of the Board. |
| 3.2.6. 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 independent[4], 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. | Yes | Each member of the collegial body fulfills his/ her functions properly: actively participates at the meetings of collegial body, and devotes sufficient time to perform his/ her duties as a member of the collegial body. The quorum of each meeting was regulated so the Board of Directors would be enabled to accept decisions constructively. In 2018, there were 6 meetings of the Board. All Board meetings were attended by all members of the Board. |
| 3.2.7. 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. | No | Currently there are no independent members on the Board of Directors. During the last tenures of the Board of Directors there was one vacant place intended to an independent member, however this vacancy had not been filled in up to the end of term. Candidates to the Board may be proposed by shareholders whose shares provide at least 1/20 of total votes. When the new statements regarding election of collegial bodies provided by the Law on Companies of the Republic of Lithuania come into force on 01/07/2018, the Company will pursue the statements in the election of new collegial bodies of the Company. |
| 3.2.8. The members of the management board should act in good faith, with care and responsibility for the | Yes | Remuneration (tantjems) is paid for the work on the Board to its members, by decision of the |

[4] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

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| 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. | | General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania. The members of the Board are not remunerated for their performance and participation in the meetings. |
| 3.2.9. 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 organization 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 | By the Company's information, all Board members should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders. They are guided by the Company's interests but not their own or any third parties seeking to maintain their independence in decision-making, and they do not accept any unjustified privileges that would compromise their independence. |
| 3.2.10. Each year, the Board should evaluate its performance. It should include an assessment of the board's structure, work organization and ability to act as a group, as well as an assessment of the competence and work efficiency of each board member, and an assessment of whether the board has achieved its operational objectives. The Board should, at least once a year, publicly disclose relevant information about its internal structure and operational procedures, without prejudice to the law governing the processing of personal data. | No | There is no practice of collegial body assessment. As all members of the Board of Directors belong to the Company's execute management (the Company's executive directors), effective since 2001, therefore it does not conduct the assessment of its ability to act as a group, as well as competence and work efficiency. |
| **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. | No | The Company does not have a Supervisory Board. Shareholders of the company decided to delegate all management functions to one collegial body – the Board. They are confident that one collegial body – the Board – is sufficient to ensure effective management of the Company. |

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| 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 ensured. Meetings of the company's collegial bodies should be convened at least once per quarter. | Yes | Board meetings are held according to the schedule approved in advance by the Board's work regulations, ie. at least once every 3 months and more often if necessary.<br>Along with the notice of the summoned meeting all members of the Board receive a written agenda of the Board meeting, indicating the issues to be discussed at the meeting not later than 5 (five) days prior the Board meeting. Planned Board meetings are convened by the Board Chairman, in his absence – the Deputy Board Chairman. |
| 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 | The agenda might be supplemented only if all members of the Board of Directors present at the meeting, and they all agree that the item is important enough to be put on the agenda. |
| 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. | No | The Company does not have a Supervisory Board and this statement is not applied. |

**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.

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| 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[5]. | Yes/No | The Company has established the Audit Committee. The Committee was formed and elected by the 24th April 2009 general meeting of shareholders. The meeting approved Regulations of establishment and performance of the Audit Committee. The 28 April 2017 General Meeting of Shareholders elected 3 members of the Audit Committee, two of which are independent members. Members of the Audit Committee are elected for four year term.<br>The Audit Committee is an independent, and objective committee carrying out the functions of supervision, analyzing, evaluation and consultation in order to improve general organization and create value added. The main function of the Committee is systematic and versatile evaluation, as well as encouragement of better risk management, and sufficient control and maintenance procedures resulting in submission of recommendations to the Board of Directors and management.<br>The nomination and remuneration committees are not formed at the Company. |
| 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. | | |
| 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 to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole. | N/A | The Board of the Company does not perform the functions assigned to the Audit Committee. |
| 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 | The Audit Committee consists of 3 members, two of whom are independent, with at least 5 years of experience in accounting, with relevant experience in finance and accounting in listed companies. The Chairman of the Board is not a member of the Committee. |
| 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 | Yes | The Audit Committee follows the regulations of the Committee approved by the General Meeting of Shareholders. These Regulations establish the rules defining the rights and duties of the Audit Committee, the size of the Audit Committee, the period of membership of the Audit Committee, the requirements for the education, professional experience and independence principles of the |

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

| | | |
|---|---|---|
| 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. | | members of the Audit Committee.<br>The Audit Committee annually submits an annual activity report to the General Meeting of Shareholders, announcing the composition of the Committee, the number of meetings and the attendance of the members, describing the work performed and presenting the results. |
| 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 | The members of the collegial body take decisions at the meetings of their members, but in certain cases the committee invites the head of the Company and the responsible employees of the Company to attend its meetings, who are responsible for the areas of activity of the issues under discussion. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders. |
| **5.2. Nomination committee** | | |
| 5.2.1. The key functions of the nomination committee should be the following:<br>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;<br>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;<br>3) devote the attention necessary to ensure succession planning. | No | The Nomination Committee is not formed in the Company. |
| 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:<br>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;<br>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;<br>3) review, on a regular basis, the remuneration policy and its implementation. | No | There is no Remuneration Committee in the Company.<br>The company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits, pension modules and severance payments. The Company is approved by the Company's management in coordination with the Trade Union Committee operating in the Company. |
| **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[6]. | Yes | he Audit Committee follows the provisions of the Audit Committee approved by the General Meeting of Shareholders of the Company.<br>The Audit Committee carries out independent, objective monitoring, investigation, evaluation and advisory activities to improve the company's performance and create added value. |
| 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 Committee are provided with detailed information on the specific accounting, financial and operational characteristics of the company and, upon request, information on the execution of important transactions. |
| 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 | The Audit Committee decides on the participation of other persons in its meetings and, if necessary, the Audit Committee invites the Head of the Company and the responsible employees of the Company to its meetings, who are responsible for the areas of activity of the issues under consideration. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders. |

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

| | | |
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| 5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program 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 | The Audit Committee is informed about the work performed by the Internal Auditor and receives conclusions about the research performed. Each year, the Audit Committee receives reports from external auditors describing all relationships between the independent auditor and the Company and its group. |
| 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 | The Company has provided employees with the opportunity to submit complaints or anonymous reports about violations committed in the Company, however the Company has not received such complaints or reports during the reporting period. |
| 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 | The Audit Committee analyzes and evaluates the Company's annual and semi-annual financial statements, makes recommendations to the Board for their approval, together with its activity reports for that period. |
| **Principle 6: Prevention and disclosure of conflicts of interest**<br>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 | Members of the Company's management bodies behave in such a way that there is no conflict of interest with the Company. During the reporting period, there is no known conflict of interest between the Company and the member of its management body. |
| **Principle 7: Remuneration policy of the company**<br>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. | Yes/ No | The Company has implemented and operates a remuneration policy approved by the Company's management, but it is not published on the Company's website.<br>The Company will follow the recommendations of Principle 7 when the respective laws and other legal acts of the Republic of Lithuania are adopted. |

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| 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. | Yes | The Company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits, pension modules and severance payments. This procedure is approved by the management of the Company in agreement with the Trade Union Committee. |
| 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. | Yes | See point 3.2.8 |
| 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. | Yes | Termination benefits shall be granted in accordance with the provisions of Chapter 5 of the Labor Code of the Republic of Lithuania and the provisions of the Collective Agreement in the Company. |
| 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. | No | The Company does not apply a system of financial incentives. |
| 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. | No | See point 7.1 |

| | | |
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| 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. | No | See point 7.1 |
| **Principle 8: Role of stakeholders in corporate governance**<br>The corporate governance framework should recognize 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 | The corporate governance framework assures the rights of stakeholders that are protected by law are respected. The company applies a Corporate Contract with employees, and the contract is signed by the CEO and Trade Union. Also it is ensured the interest holders are able to participate in governance. For example, participation of the company's employees and raw milk suppliers in the company's Capital. The greatest part of shareholders is the company's employees. The interest holders have the right to receive information required. In addition, the Company has made it possible to report unlawful or unethical practices confidentially. |
| 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 authorized 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. | | |
| **Principle 9: Disclosure of information**<br>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: | Yes | The information contained in this recommendation shall be disclosed in the annual and semi-annual reports of the Company in accordance with the requirements of legal acts regulating data processing and confidential information procedures. This information is published on the website of AB Nasdaq Vilnius Stock Exchange and on the Company's website. |
| 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.<br>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 Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts. | | |
| 9.1.11. 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 | The Company discloses information on the Company's and the Group's consolidated results. The information is disclosed in the consolidated annual report and consolidated financial statements. |

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| 9.2. 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. | Yes/ No | The information specified in the recommendation is presented in the Company's annual and semi-annual reports. The Company will implement the recommendations of Principle 7 once the legislation governing is adopted. |
| 9.3. 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 | The Company discloses all regulated information through the news distribution system of AB Nasdaq Vilnius. This ensures that it is accessible to the widest possible public. The information is simultaneously available in Lithuanian and English. In addition, the company publishes information before or after the Nasdaq Vilnius trading session so that all shareholders and investors of the company have equal access to information and make appropriate investment decisions. The Company shall not disclose information that may affect the price of the securities issued by it in the comments, interviews or other ways until such information is made public through the Central Regulatory Information Base. |
| **Principle 10: Selection of the company's audit firm**<br>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 | An independent audit company performs auditing of the Company's and its subsidiaries individual and consolidated (the group) annual financial reports in accordance with International Accounting Standards applicable in the EU. An independent auditing company also evaluates conformity of annual report to the audited financial statements. |
| 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 | The Board of Directors proposes an auditing firm to the general meeting of shareholders. |
| 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 | Information on remuneration to the audit company is made public in the Company's annual reports. The audit firm provides non-audit services only with the approval of the Audit Committee. In 2018, the audit firm did not receive any remuneration for the non-audit services provided. |

# • 2018 SOCIAL RESPONSIBILITY REPORT

## ROKIŠKIO SŪRIS, AB

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# ABOUT THE REPORT

The Social Responsibility Report (hereinafter - the Report) is presented for the purposes of transparency and accountability of the business activity of Rokiškio sūris, AB (hereinafter - the Company). The Report covers the achievements as well as the activities of the Company in the sphere of social responsibility related to the environment, relations with the employees and the society. The Report outlines the actions of the Company and changes in the sphere of social responsibility during 2018.

The Social Responsibility Report presented by Rokiškio sūris, AB, has been drawn up by taking into account the fundamentals of Global Compact and the guidelines of the Global Reporting Initiative (GRI) which help to assess and demonstrate the indicators related to economics, environment, employees, human rights, community and market.

The Report is presented in Lithuanian and English, it is available on the website of the Company at www.rokiskio.com; it is also published on Nasdaq Baltic website alongside with the annual report.

# ABOUT THE COMPANY

## Corporate Strategy and Objectives

Rokiškio sūris, AB carries out its activity in accordance with the 3-year strategic plan the key provisions whereof are outlined below:

**MISSION**

- ***ROKIŠKIO SŪRIS, AB = RELIABLE DAIRY INDUSTRY PROFESSIONALS***

**VISION**

- ***PROCESSING MORE THAN 1 MILLION TONNES OF RAW MILK PER YEAR, AS LITHUANIA TURNS INTO BALTLANDIA***

**OBJECTIVES**

- ***REGIONAL LEADERSHIP IN MILK PROCESSING SECTOR***
- ***FLEXIBLE PRODUCTION AND SALES OF TOP-QUALITY PRODUCTS EXCEEDING CONSUMER EXPECTATIONS***
- ***BEING THE MOST ATTRACTIVE AND RELIABLE DAIRY PRODUCTION PARTNER FOR FARMERS***
- ***CREATING CONTINUOUS ADDED VALUE FOR SHAREHOLDERS***

## Corporate Activity

Milk processing is the principal business activity of the Group. The main products include cheese, butter, dry dairy products and fresh dairy products. Rokišio sūris, AB Group carries out its production activity in the towns of Rokiškis (Rokiškio sūris, AB), Utena (Rokiškio pieno gamyba, UAB) and Ukmergė (Ukmergės pieninė, subsidiary of Rokiškio pieno gamyba, UAB).

- Rokiškio sūris, AB (in Rokiškis) specialises in the production and marketing of fermented cheeses and products obtained from whey.

- Rokiškio pieno gamyba, UAB (Utena company) specialises in the production of fresh dairy products, whey protein concentrate, milk powder and butter.

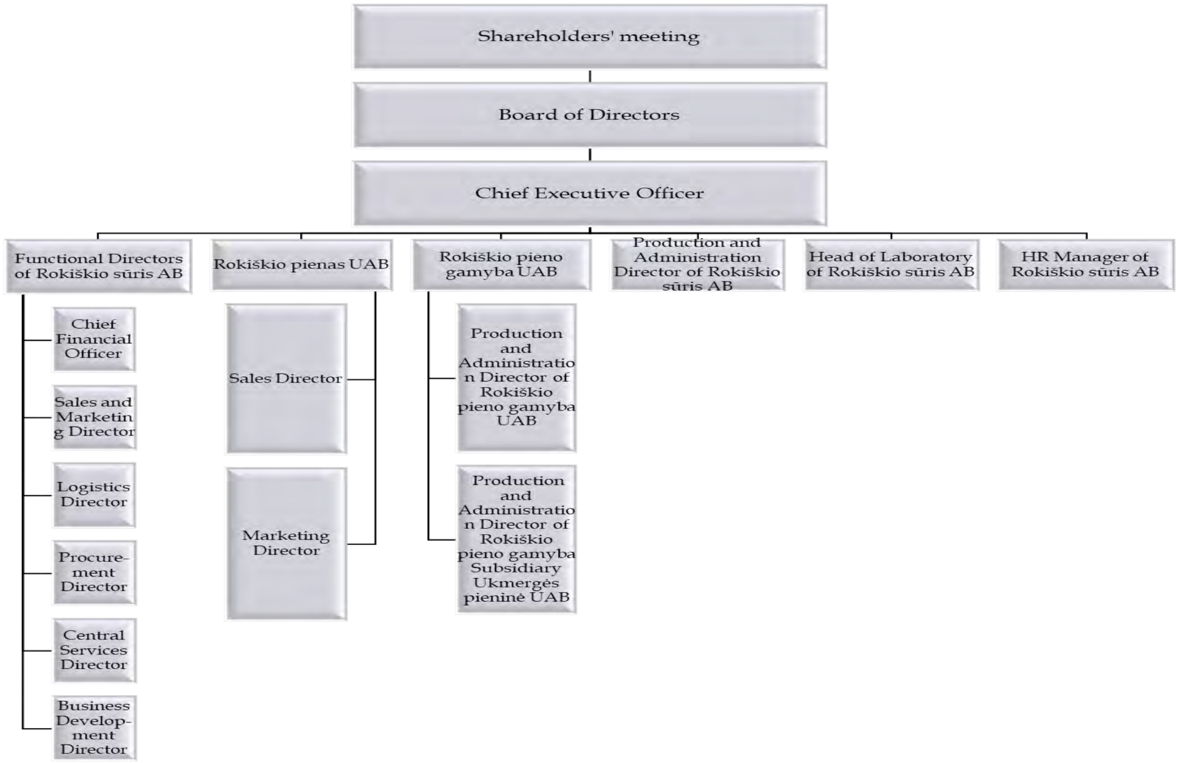
- Rokiškio pieno gamyba, UAB (Ukmergė company) specialises in the production of curd and curd products as well as brined cheeses.

- Rokiškio pienas, UAB specialises in the marketing of the complete range of products of the Group in Lithuania, Latvia and Estonia.

The procurement of raw milk takes place throughout the territory of Lithuania and in other countries by setting up our own milk procurement network or using the services of intermediaries.

## The Structure of Rokiškio sūris, AB Group

The management structure of Rokiškio sūris, AB Group (hereinafter - the Group) is organised based on the key functions, i.e. sales, manufacturing, finance management, milk procurement, logistics, central services and business development. Functional directors form and develop the strategy, tactics and targets of the Group based on these functions.




## Board Members of Rokiškio sūris, AB:

(Elected by the General Meeting of Shareholders on 13 December, 2017)

| | | |
|---|---|---|
| Chairman of the Board of the Company | Antanas Trumpa | Since 13 December, 2017 |
| Deputy Chairman of the Board | Antanas Kavaliauskas | Board member since 2005 (elected for a new 4-years term by the General Meeting of Shareholders on 13 December, 2017) |
| Board member | Ramūnas Vanagas | Board member since 2006 (elected for a new 4-years term by the General Meeting of Shareholders on 13 December, 2017) |
| Board member | Paul M Campbell | (Elected for a 4-years term by the General Meeting of Shareholders on 13 December, 2017) |
| Board member | Darius Norkus | Board member since 2008 (elected for a new 4-years term by the General Meeting of Shareholders on 13 December, 2017) |

## Management of the Company

**Members of the Management of the Company**

| Position | Name, surname | Holds the position since |
|---|---|---|
| Director | Dalius Trumpa | 1 January, 2018 |
| Director, Finance | Antanas Kavaliauskas | 1 May, 2002 |
| Director, Development | Ramūnas Vanagas | 27 September, 2005 |
| Director, Central services | Jonas Kvedaravičius | 1 May, 2002 |
| Director, Logistics | Jonas Kubilius | 16 May, 2002 |
| Director, Procurement | Evaldas Dikmonas | 14 May, 2002 |
| Director, Sales and Marketing | Darius Norkus | 18 July, 2001 |

# 2018 BUSINESS OVERVIEW

The business overview of the Company is presented in the 2018 Consolidated Annual Report, page No. 75

# CORPORATE SOCIAL RESPONSIBILITY

## The Principles of Social Responsibility

The social responsibility activities of Rokiškio sūris, AB are based on the values and the key business principles of the Company: socially responsible and transparent business, introduction of rational innovations as well as maintenance and development of competent staff. With the view of maintaining the status of a socially responsible and transparent business partner, the Company seeks to maintain good relations with employees and the society by being a transparent and responsible player in the market as well as in the environmental sphere.

The SA8000 Social Accountability standard has been introduced in the subsidiaries Rokiškio pienas, UAB and Rokiškio pieno gamyba, UAB since 2012. The standard is a set of requirements to businesses eager to demonstrate their socially responsible attitude towards the creation and maintenance of working conditions by means of an independent assessment. The purpose of SA8000 is to lay down requirements based on the international standards of human rights and national labour legislation which protect all employees falling within the management scope and the control of the company who manufacture the products or provide the services of the company, including employees hired by the company as well as its suppliers and sub-suppliers.

The framework of the standard provides for the following corporate policy: “When conducting its business, the Company relies upon internationally recognised human and employee rights. We seek that all employees enjoy fair and respectful treatment. We expect and seek that our suppliers and subcontractors, as well as relevant downstream actors in the supply chain adhere to the same principles. We believe that dialogue between the employer and employees can contribute towards sustainable success of the company and its employees.”

Compliance with the social responsibility requirements of the standard will enable the Company to:

- shape, maintain and implement policies and procedures in order to handle the issues which fall within the scope of its management and influence;

- provide assurance to the parties concerned that the corporate policy, procedures and practices comply with the requirements of the Standard.

The Principles of Social Responsibility:

Accountability (for impact to the community, economy and environment);
Transparency (in adopting decisions which affect the community and the environment);
Ethical (decent) conduct;
Respect to the interests of the parties concerned (listening and taking action);
Respect to the rule of law;
Adherence to international standards of conduct;
Respect to the human rights.

Social responsibility and support measures are important in order to maintain good partnership relations with local communities and the society on the national scale.

## Risk factors

| Recruitment and employment | Employee competences, and integration into work procedures | Employee retention and reduction of turnover level |
|---|---|---|
| •Recruitment via the Labor Exchange base.<br>•Cooperation with education institutions.<br>•Recommendations of current employees.<br>•Internal human resources (employee empowerment to train and improve). | •Performance evaluation and training system.<br>•Training plans made yearly.<br>•External as well as internal training sessions. | •The company is keen to have a stabile team in the way of retention of good relationship, and providing favourable conditions for personal improvement, participation in decision making, as well as various privileges in accordance with the Labor Agreement. |

These social risk factors do not depend solely on the company's actions. the company may be forced to increase investment in robotization production processes, i.e. manual work would be replaced by robots.

## Employees

Employees are the most important asset of the Company; they determine the efficiency and success of the Company. The corporate human resources policy is aimed specifically at the development of competent employees, team work and shaping of organisational culture.

The Company and its employees operate in the framework of the collective agreement, the rules of procedure, the procedure for organising internal training, ethical employment policy, the policy of business ethics and the policy of equal opportunity adopted by the Company.

In 2018 the average number of employees of Rokiškio sūris, AB was 1,484; in comparison with 2017 (1,542), it decreased by 3.8 per cent or 58 employees. The decrease in the number of employees has to do with the decrease of milk collection points, and consequently less keepers of milk collection points as well as logistics staff.

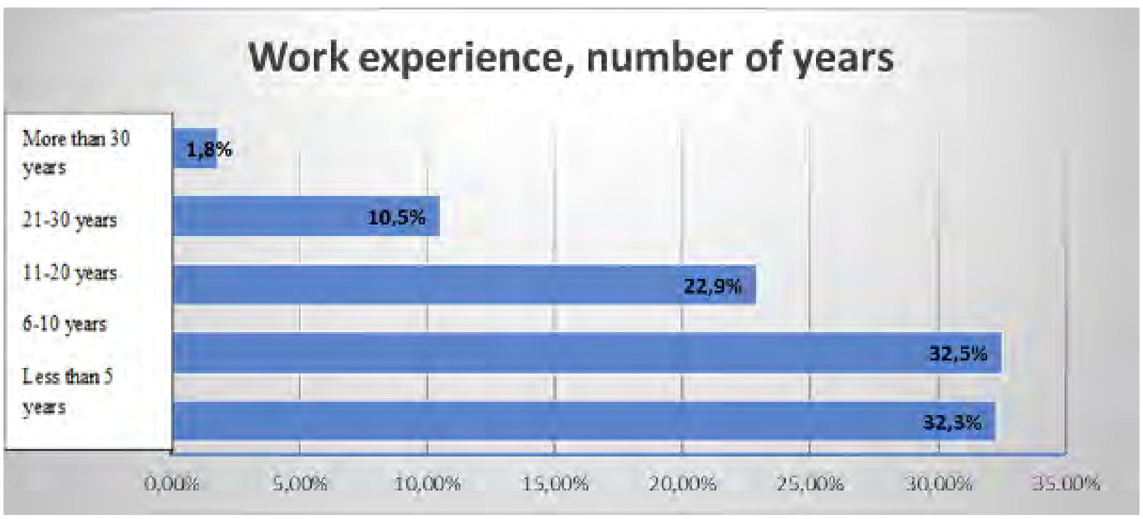
In 2018 workers accounted for 82.50 per cent (82.0 per cent in 2017) of all employees of the Company; professionals accounted for 17.0 per cent (17.4 per cent in 2017) and the number of management personnel was 8 employees (0.54 per cent) (0.65 per cent in 2017), 2 top managers retired.

## Employees of the Group of the Company by category

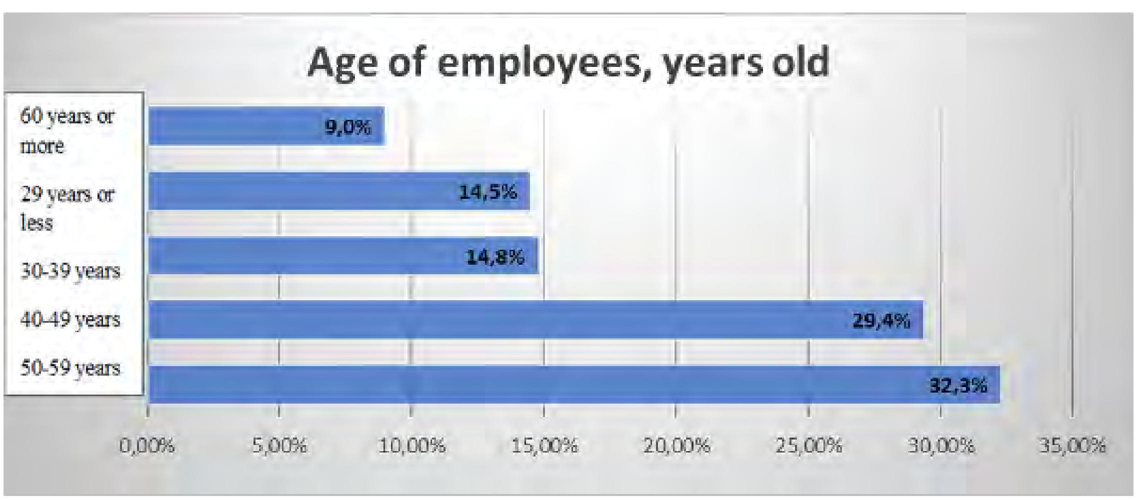
| Employee group | Average number of employees | | Change |
|---|---|---|---|
| | 31 Dec., 2018 | 31 Dec., 2017 | (per cent) |
| **Management*** | 8 | 10 | **-20.00** |
| **Professionals** | 252 | 268 | **-5.97** |
| **Workers** | 1,224 | 1,264 | **-3.16** |
| **Total:** | **1,484** | **1,542** | **-3.76** |

* Directors are classified as the management of the Company

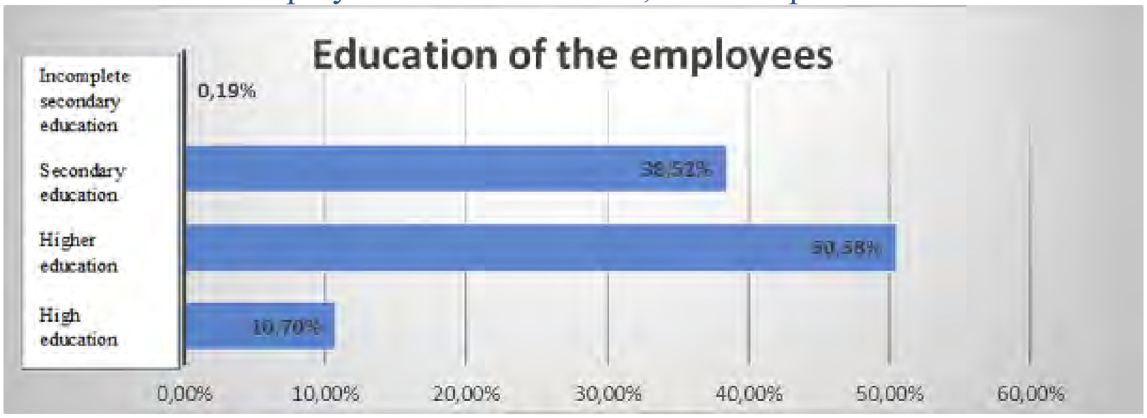
As of 31 December, 2018, 53.8 per cent of the employees of Rokiškio sūris, AB were male and 46.2 per cent - female (53.2 per cent and 46.8 per cent respectfully as of 31 December, 2017).




Average age of the company's employees – 45 years old. It has not changed compared to 2017.



## Education of the employees of Rokiškio sūris, AB Group




The Company employs highly qualified employees, including: 11.0 per cent of employees with high education (10.7 per cent in 2017), 50.8 per cent with higher education (50.5 per cent in 2017), 38.1 per cent with secondary education (38.5 per cent in 2017) and 0.07 per cent with incomplete secondary education (0.01 per cent in 2017).

| Education | 31 Dec., 2018 | 31 Dec., 2017 | Change (per cent) |
|---|---|---|---|
| **High** | 163 | 165 | **-1.21** |
| **Higher** | 754 | 780 | **-3.33** |
| **Secondary** | 566 | 594 | **-4.71** |
| **Incomplete secondary** | 1 | 3 | **-66.67** |

## Work environment

## Ethical Employment

Starting from February 2018, the Company has a documented Policy of Ethical Employment aimed at establishing the standards of conduct promoted by the Company:

*On the free choice of employment.* We do not tolerate forced, compulsory or involuntary work.

*On the freedom of association and the right to collective bargaining.* We respect the right of our workers to join or form a trade union of their choice and engage in collective bargaining regarding working conditions. We refrain from any measures restricting the right of the workers; we create possibilities and refrain from interfering with parallel measures for independent and free associations and bargaining.

*On health and safety.* We provide a safe, hygienic and hazard-free work environment by continuously taking appropriate action to prevent damage to human health in connection with the direct work of the employee, or damage which may arise at work, by mitigating the causes of the hazards that are typical to the work environment. In order to promote safety and health, we seek to involve the workers into the activity by offering safety and health at work training to new and existing employees.

*On remuneration and benefits.* The workers receive their agreed wages that may not be below the minimum wage established by the Government and/or the subsistence minimum. We refrain from any wage withholdings other than those stipulated in the laws of the RL.

*On working hours.* We ensure that the working time of the employees complies with the provisions and mandatory legal regulations of the RL on working time and overtime, work breaks, resting hours, holidays, including maternity and paternity leaves.

*On discrimination.* We do not tolerate discrimination in the spheres of employment, remuneration, education, career and employment relationships. All employees have equal access to personal development and career opportunities.

We do not tolerate employee discrimination based on gender, race, nationality, language, origin, social standing, faith, beliefs or views, age, sexual orientation, disability, ethnicity, religion or other grounds.

*On permanent employment.* When hiring on a permanent basis, we always offer permanent employment based on official employment relationship established in the laws and the practice.

*On abductive and inhumane behaviour.* We do not tolerate ill-treatment, belittlement and insults against employees, he/she can't be subjected to mockery or harassment, he/she can't be coaxed, blackmailed, manipulated or otherwise forced to do anything contrary to the law, conscience or other principles. The employees of the Company are respected and their dignity is protected.

In order to ensure that the commitments are clear and comprehensible, we communicate this policy to all our employees and the parties concerned (as appropriate).

The Management is committed to continuous monitoring of the way in which this policy is implemented in the course of daily activities.

## Equal Opportunities

The Company has a documented Policy for Equal Opportunities which states that all employees have equal opportunities at work. Employment and hiring procedures are established solely on the basis of personal business characteristics and criteria related to the work in the respective position. In all cases, the focus is on one's ability to perform well.

The Company organises the work in such a way that all social groups are represented in the staff and that every single employee feels respected and is able to use his/her skills to the full extent.

When organising its business activity, the Company seeks to create an environment where individual differences and contributions of all or its employees are acknowledged and appreciated. Every single employee has the right to work in an environment that promotes respect to the dignity of every person.

All employees have access to education, skills development and professional advancement. The Company organises its business activity in such a way that all employees have access to equal working conditions, skills improvement opportunities, vocational training, retraining, acquisition of work experience and enjoy equal benefits regardless of their gender, race, nationality, language, origin, social standing, faith, beliefs or views, age, sexual orientation, disability, ethnicity or religion.

All employees must comply with this policy in order to ensure equal opportunities and prevent discrimination. Employees must refrain from discrimination, harassment, mockery or threats against other employees based on their gender, race, nationality, language, origin, social standing, faith, beliefs or views, age, sexual orientation, disability, ethnicity or religion, while the latter must not persecute or take other enforcement measures against employees who make unjustified allegations.

## Respect to human rights

In order to create a positive working environment, the company works attentively to ensure that its activities do not violate other people's rights, and honour the fundamental values of respect for employees, honesty and openness.

The Company does not tolerate any physical, sexual or verbal abuse, intimidation or threatening degradation or rude behavior. All employees of the Company are respected and their dignity is protected. The Company does not tolerate discrimination based on race, gender, political or religious beliefs, health or disability.

It is not tolerated the interference in the private, family or household life of employees. Taking into account the laws of the Republic of Lithuania, we manage and use personal data for specific purposes and only with the consent of the person concerned.

## Remuneration Policy

Remuneration policy is an integral part of the internal rules of procedure, the collective agreement and the remuneration procedure of the Company which cover internal documents on conducting the business of the Company and internal control standards of the Company.

Responsibility for the implementation of the provisions of the Company is defined in the Internal Rules of Procedure of the Company.

Remuneration policy (work pay procedure) has been approved at the meeting of the Board of the Company, upon the approval of the trade union committee. A remuneration committee has not been formed at the Company.

The internal rules of procedure of the Company in the sphere of ethics and the conflict of interest ensures that the persons concerned are not involved in any processes that might give rise to a conflict of interest, therefore the persons concerned are not involved in remuneration policy-making.

The remuneration package of employees of the Company consists of financial, non-financial and emotional compensation.

*The system of financial compensation includes:*

1) fixed remuneration for the work performed, i.e. the monthly salary stipulated in the employment contract. Fixed salary forms the principal component of remuneration. The salary of individual employees is determined on the basis of the person’s position and his/her performance.
2) piecework pay – remuneration paid to the workers of production shops and employees of sale department warehouses based on the quantity of actual work and pre-approved rates. The rates are approved by the meeting of the Management of the Company, subject to the approval of the trade union committee. Where dictated by production needs, rate adjustments are approved by order of Director.
3) Variable part of remuneration – paid according in accordance with the provisions of the incentive fund approved in the collective agreement and adopted alongside with the collective agreement. Variable remuneration is calculated based on long-term perspective, thus ensuring that the assessment is based on long-term sustainable profit so that profit-related remuneration is paid with due consideration of the main economic cycles. The variable remuneration of employees is determined by individual employee performance, the employer and the overall profits of the Company. When carrying out the assessment of an employee’s performance, financial and non-financial criteria are taken into consideration alongside with different variables of conduct

related to the values of the Company, including the assessment of the employee's compliance with internal and external regulations. The financial and non-financial criteria which serve as the framework for calculating the variable remuneration are defined in the regulations on the allocation of variable remuneration. For incentive purposes, employees also receive one-off incentive payments under the collective agreement.

*Non-financial compensation* is a form of indirect compensation which the Company uses to promote the employee involvement effort and loyalty as well as the enrichment of employee well-being and activity in the Company. It includes different corporate events, the expression of acknowledgement and appreciation by awarding exceptional performers, health promotion and employee development.

*Emotional compensation* is difficult to gauge but it is a strong factor of employee involvement in the activities of the Company which covers the reputation, organisational culture and values of the Company, career opportunities offered by the Company, different internal communication programs carried out by the Company: employees have the opportunity to share their ideas and voice their concerns.

## Remuneration System

The Company has an efficient and fair remuneration system in place; the aim of the system is to attract, maintain and motivate employees. All employment contracts with employees of the Company, including those with the management, have been drawn up in accordance with the requirements of the Labour Code of the Republic of Lithuania. Employees are hired and dismissed in accordance with the requirements of the Labour Code.

**Average monthly salary at Rokiškio sūris, AB Group, by employee group**

| **Employee group** | **Average monthly salary (gross), EUR** | | **Change (per cent)** |
|---|---|---|---|
| | **31 Dec., 2018** | **31 Dec., 2017** | |
| Managers | 2,091 | 1,878 | 4.97 |
| Professionals | 976 | 948 | 8.34 |
| Workers | 965 | 911 | 8.58 |
| **Group average** | **973** | **935** | **6.61** |

The average monthly salary is calculated in accordance with Resolution No. 496 of the Government of the RL of 21 June, 2017.

The remuneration paid to the employees of Rokiškio sūris, AB Group consists of:

1) fixed remuneration for the work performed, i.e. the monthly salary stipulated in the employment contract;
2) piecework pay – remuneration paid to the workers of production shops and employees of sale department warehouses based on the quantity of actual work and pre-approved rates;
3) Variable part of remuneration – based on the provisions of the incentive fund approved in the collective agreement.

The remuneration procedure which the Company has introduced in 2004 and applies to this day establishes the variable components of pay which depend on the performance of the Company, market situation and other factors. The variable components of pay are allocated for every department in accordance with the approved functional management system. The remuneration procedure is approved by the CEO of the Company.

Every manufacturing shop or department of the Company has an approved procedure for the distribution of incentive fund which provides for the assessment criteria and employee incentives. The assessment of employee performance is one of the key tasks of the Company in order to ensure efficient work organisation with the view of achieving the set objectives, building positive relationship between managers and their subordinates and facilitating employee motivation.

## Trade Union

Employees of the companies of the Group have the right to be involved in trade union activity. A trade union committee has been formed in the companies; the committee defends the labour, economic, social rights and interests of its members, protects members' right to employment, social guarantees, takes care of professional skills development, forms professional ethics and seeks to ensure better pay and other income for employees in the food sector.

## Labour Council

The 11-member Labour Council has been elected at the Company since 2018. The Council has been formed for a term of three years, commencing from the start of the mandate of the Council.

## Collective Agreement

A collective agreement is in place at the Company. The agreement has been made between Director of Rokiškio sūris, AB and Chairman of the trade union committee of Rokiškio sūris, AB Professional Union of Employees in the Food Sector. The purpose of the collective agreement is to create conditions for coherent staff activity, ensure that the standards of work, remuneration, safety and health at work as well as other working conditions for different categories of employees are above those set forth in the laws, Government decrees and legislation of the Republic of Lithuania and create better work and social guarantees to employees of the Company.

The collective agreement provides for the following additional social guarantees:

- Employees raising children with disability receive an annual allowance in the amount of 1 minimum monthly salary;
- In the event of a death of a family member (spouse, parent, child), employees receive a funeral allowance;
- In the event of a death of an employee, his/her family receives a lump sum funeral allowance
- Employees receive additional allowance on the occasion of important anniversaries (20, 25, 30, 35, 40, 45, 50 years of age);
- Allowance is paid to employees of the Company suffering from serious or long-term illness as well as those who have been injured at work;
- Employees of the Company, employee family members and retired former employees of the Company receive discounted treatment at the health resort of the Company;
- Employees who have reached the age of retirement and retire from service receive a severance compensation the amount whereof is higher than that provided for in the Labour Code of the LR;

The rights and duties of the employees of the Company are established in their job descriptions. Employment contracts do not provide for special rights and duties.

## Development of Competences

The development as well as the improvement of special and general skills of human resources is one of the key priorities at Rokiškio sūris, AB because only the well-educated employees possessing appropriate knowledge and experience are capable of creating a high-quality product. Development plans are drawn up on a yearly basis based on the objectives of the Company and the relevance of employee competences for their achievement. Employees of the Company are offered opportunities to improve their knowledge and skills by attending various training courses, seminars and conferences; the Company also supports employees who seek to receive vocational training at the country's universities, colleges or other education establishments offering a qualification degree. There is a strong focus on the learning of foreign languages.

Rokiškio sūris, AB also offers special training courses to the country's farmers so that they can successfully manage the health of their herd, ensure proper maintenance of their milking, cooling and storage equipment and modernise their milk farms. State-of-the-art milk farms, milk quality and herd health are crucial for the success of the dairy business.

## Corporate Culture and Relations with Employees

In order to facilitate bonds with its employees, every three years the Company organises a festival of families of production employees which has since turned into a traditional event where families demonstrate their skills in sports, singing, quiz contests and other competitions.

The Company also arranges a number of other traditional festivals, e.g. off-site Christmas concerts and New Year celebrations.

# EMPLOYEE SAFETY AND HEALTH

In the company there is a set of preventive measures that the Company applies in order to protect employability, health and life at work of employees.

Persons admitted to the company must be subject to health checks, contagious diseases, and occupational risk factors at the workplace. Health must be checked under employment at hazardous work conditions and when working with potentially hazardous equipment. Employees working in the company check their health periodically, in accordance with the legislation.

The Company has approved the Procedure for Employee Briefings and Trainings on Safety and Health. At the time of their hiring, employees of the Company receive introductory briefing on employee safety and health. Employees are briefed about the activities of the Company, the organisation of employee safety and health, occupational risk factors at the Company, personal hygiene requirements and accident reporting procedure, traffic regulations in the territory of the Company and inside production units. The briefing is carried out by employee safety and health specialists. Unit managers provide on-site briefing at the workplace. Employees receive information about the workplace, work equipment, occupational risk factors at the specific workplace and safe methods of performing specific works, technological and production operations. Scheduled employee safety and health briefing at the workplace is carried out on a yearly basis. Employees receive additional safety and health briefing at the workplace in accordance with the procedure established in the briefing procedure. Employees receive additional briefing in accordance with the briefing procedure approved by the Company. Employees of the Company are exposed to dangerous work and operation of potentially dangerous machinery. Therefore the employees who perform dangerous works or operate potentially dangerous machinery are trained at the Company, or undergo training by vocational training providers in accordance with a training and knowledge testing procedure approved by the Company. The assessment of occupational risk at the workplace is carried out, taking into account the compliance of work equipment and working conditions with employee safety and health requirements. Employees are provided with personal protective equipment designed to protect against the impact of risk factors. The provision, storage, drying and laundering of personal protective equipment is organised in accordance with the procedure established by the Company.

Employees of the Company receive briefing on fire safety matters. Introductory fire safety briefing at the time of hiring as well as periodic yearly briefing is a responsibility of unit managers. The briefing is carried out by unit managers.

Where employees of other undertakings work at the Company (perform works or provide services under contract), they are briefed in accordance with a description of the procedure for co-operation and coordinated action.

In an effort to mitigate ergonomic risk factors, the Company carries out the modernisation of its work equipment. All workplaces are being robotised, technically obsolete machinery is being replaced with new one and work equipment is being automatized. The maintenance of potentially dangerous machinery is carried out in accordance with the Law on the Maintenance of Potentially Dangerous Machinery.

In 2018, there were three casualties at work, one of which was a car accident. All of the casualties are rated as light.

# COMMUNITY

## Internship Opportunities

The Company co-operates with universities and education establishments and offers their students internship opportunities every year. 9 students from different education establishments completed their internship at the Company in 2017.

## Environment Clean-up Action

In 2017 employees of the Company and their family members took part in the voluntary public action “Let’s Do It”.

## Blood Donation

In 2017 employees of the Company participated in blood donation action and thus contributed to the effort aimed at saving the health and life of ill people.

## Sponsorship

The Company seeks to preserve the status of a reliable social partner by making a contribution to addressing social challenges of our society and supporting various establishments, organisations or their projects; the Company also contributed to the promotion of different initiatives by sponsoring various cultural events and supporting the local community, sports development projects and by improving the living environment of socially sensitive groups of the society.

# ENVIRONMENT

Environment protection is one of the spheres of activity in the framework of the social – economic responsibility policy of Rokiškio sūris, AB. Environmental measures are funded in co-operation with the European Agricultural Fund for Rural Development and the Lithuanian Environmental Investment Fund.

Our environmental objective is continuous reduction of adverse impact on the environment by implementing pollution prevention measures; conservation of natural resources, sustainability.

## Informing the Public

When planning for new business activities as well as the development and re-organisation of existing business activities, the Company acts in accordance with the Law on the Assessment of the Impact of Proposed Business Activities.

In 2018, an impact assessment of public health (hereinafter referred to as PVSV) and the determination of the sanitary zone for the planned activities for the construction of a cheese ripening chamber was performed. Inventory of emissions into the atmosphere, analysis of pollutants, analysis of noise level and dispersion. The conclusion of the PVSV and the comprehensive analysis of known environmental factors that may affect public health may lead to the conclusion that the level of ambient air pollutants and odors in the environment will not exceed the legal limits. Having evaluated the activities carried out and planned by AB „Rokiškio sūris“, it was established that the object has no significant influence on the ambient air quality, increase of noise and other pollution in the nearest residential environment, therefore no negative impact on public health is anticipated.

Relevant information on the evaluation of the planned activity is published in the district newspaper Gimtasis Rokiškis, in the republican press Lietuvos Aidas.

By informing the public about planned changes and our achievements, we ensure the right of the public to be informed about major developments.

## Protection of Ambient Air

An inventory of the existing stationary pollution sources has been drawn up, the sources are operated under the integrated pollution prevention and control permit issued by the Environmental Protection Agency.

In 2017 the emissions to the ambient air did not exceed the established annual permissible emission standard. The following environmental measures are used to ensure good ambient air quality:

- In an effort to reduce the possibility of undesired odour, waste is treated with a biodegrading agent during waste management process;
- Bio-filters are used to treat undesired odours created during wastewater treatment process;
- Solid particles (lactose particles) are returned to the product in the production line, and the exhaust air is filtered;
- Vehicles are replaced with new ones that have better emission characteristics.
- Energy efficiency measures are being implemented (building renovation, recuperation systems, efficient energy accounting and management system deployment, and others).

In order to control emissions of nitrogen oxides from the cheese smoking facility, the Company carries out the monitoring of emissions from stationary pollution sources. In 2018 the annual emissions were within permissible limits.

## Protection of Waters

The industrial wastewater generated during milk processing is treated using our own bio-treatment plant with nitrogen and phosphorus disposal. Bio-degraders are installed in the buffer tank to prevent undesired wastewater odour.

A pollution measuring device has been acquired to monitor industrial wastewater pollution. Wastewater purification indicators are very high:

- $BDS_7$ – 99.8 per cent
- Materials in suspension -98.9 per cent
- Total nitrogen – 95.4 per cent
- Total phosphorus – 98.7 per cent
- Fats – 99.6 per cent

The water remaining during whey processing is purified by filtering, using reverse osmosis method. Part of the water is used for sanitary needs to conserve ground water resources. Reverse osmosis is also highly efficient: $BDS_7$ – 97.5 per cent.

We monitor the releases containing treated wastewater; we also monitor the wastewater receiver (Alsetos lake) for water status control purposes. In 2017 the annual pollution indicators of our releases were within the established limits. No adverse impact on Alsetos lake has been found.

A state-of-the-art 18 $m^3$ Volvo asenization car has been acquired to purify the wastewaters generated at milk procurement units. Once the wastewater is transported to our site, it is purified in our own bio-treatment plant.

The surface wastewater collected in the territory is purified in sand and oil precipitators. In 2018 the concentration indicators of the releases were within the permissible limits. Surface wastewater is released into the rainwater networks of the town under contract.

## Protection of Groundwater, Soil and Ground

Rokiškio sūris, AB operates two petrol stations. One is located in the town of Rokiškis in the vicinity of the Company, and the other one is in Obeliai village (15 km from Rokiškis). Groundwater monitoring programmes are in place. No contamination with oil products has been found.

Under an approved pollution management program, the sludge from wastewater purification in our biological wastewater treatment plant is used as farming field fertiliser in Rokiškis district. The analysis of wastewater sludge has shown that it is a high-value fertiliser product meeting the requirements of class A category I. 8,306 tonnes of wastewater treatment sludge have been used as fertiliser; 695 hectares of land were needed for this purpose.

We have no data about soil or ground contamination.

## Waste Management

The activity of Rokiškio sūris, AB generated 3,082.9 tonnes of waste in 2018. This included 24.3 tonnes of hazardous waste. 101.9 tonnes of packaging waste have been delivered to secondary raw material managers. Wastewater treatment sludge accounts for most of the waste (794.7 tonnes. NOTE: calculation units for waste has changed: as from 2018, it is calculated in terms of dry matter, yet in the quality registering log book it is calculated in terms of natural weigh).

Wastewater sludge is used as farming field fertiliser. The rest of the waste is handed-over to authorised waste management undertakings under contract.

It could be singled out the waste which is used for production of biogas and it amounts up to 1773.5 tonnes in 2018. We keep waste record books and compile relevant reports.

## The Use of Chemical Substances

For sanitary and food safety purposes, the processes of milk processing involve the use of washing and disinfection substances. Using technical innovation, automatic washing stations (CIP) have been installed in most of the processes. Efforts are made to use less hazardous or even non-hazardous chemical substances or mixtures. Only authorised chemical substances are used in technological processes, strict accounting and control procedure is in place. Updated safety data sheets are available for all chemical substances and preparations that we use.

## The Consumption of Natural Resources and Raw Materials

Rokiškio sūris, AB extracts groundwater and uses it for production purposes. The water extraction plant has been registered, the water resources have been approved, accounting and control of the resource consumption is in place, reports are forwarded in accordance with the established procedure. 768.2 thousand cubic meters of groundwater have been extracted in 2018. Groundwater monitoring system is in place. The groundwater consumption volume does not pose a risk to the aquifer of the water extraction plant, no adverse environmental impact or contamination has been found. We buy a part of the necessary water supply from Rokiškio vandenys, UAB. In an effort to reduce the consumption of natural resources, we conserved 64.80 thousand cubic meters of water by using purified water. Water condensate collection system was expanded, and the collection of condensate increased by 39.0 per cent.

In an effort to reduce fuel consumption and the discharge of atmospheric pollutants, the vehicle fleet is being gradually upgraded, outdated vehicles are being replaced. 12 vehicles have been acquired and 26 have been written-off or sold in 2018. Vehicle fuel consumption limits have been introduced, consumption records are being kept and routes are being optimised in order to conserve fuel.

In an effort to conserve natural resources, product packaging is organised to minimise the use of packaging. In co-operation with our customers, we continuously explore the possibilities of using less packaging.

# ANTI-CORRUPTION

Since February, 2018 the Company has a documented Business Ethics Policy that reflects the Company's position on corruption. The Company does not tolerate any kind of corruption or the

manifestations thereof, the business activity of the Company is based on the principles of responsible, transparent, fair and reliable business practice.

*Responsibility*. The Company conducts its business in a responsible way.

*Transparency*. The Company complies with the requirements of the effective laws of the Republic of Lithuania, willingly co-operates with the authorities and, where necessary, provides the information required by law.

*Fairness*. The employees of the Company must carry out their functions and perform their work in a fair and transparent manner; they must respect the principles of impartiality, precedence of the Company's interests, lawfulness and confidentiality.

*Reliability*. In order to earn the trust of its partners, shareholders, suppliers, customers and employees, the Company does not tolerate any form of corruption.

The Business Ethics Policy approved by the CEO (hereinafter – the Policy) is in place at the Company; it contains a clear and public declaration of the negative attitude of the Company on bribery and corruption. The provisions of the Policy apply to all employees, agents, intermediaries, suppliers and sub-contractors of the Company.

The Management Team of the Company publicly voices its firm support for anti-corruption measures. Bribes or the offering or accepting of any payments is prohibited.

There were no corruption-related incidents in the Company.