



**VILNIAUS
BALDAI**

ANNO 1883

*... Better
Faster
Stronger ...*

VILNIAUS BALDAI AB

Social Responsibility Report 2018



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GENERAL MANAGER'S WORD



I am very excited to present the first social responsibility report of Vilniaus baldai AB for year 2018. Although this report is the first, social responsibility in our company is part of our daily operations for quite some time already. This is determined by our long-time history, professional employees' and owners' attitude and of course our strategic customer who is applying the highest ethics, sustainability and social responsibility requirements upon both itself and its suppliers.

Due to the fact, that our products are sold all over the world, we are bound to comply with requirements of all our markets as well as to take into account customer behavior trends of those markets. Currently we see the trend that compliance, sustainability and transparency requirements are becoming increasingly strict as well as changing more often. At the same time

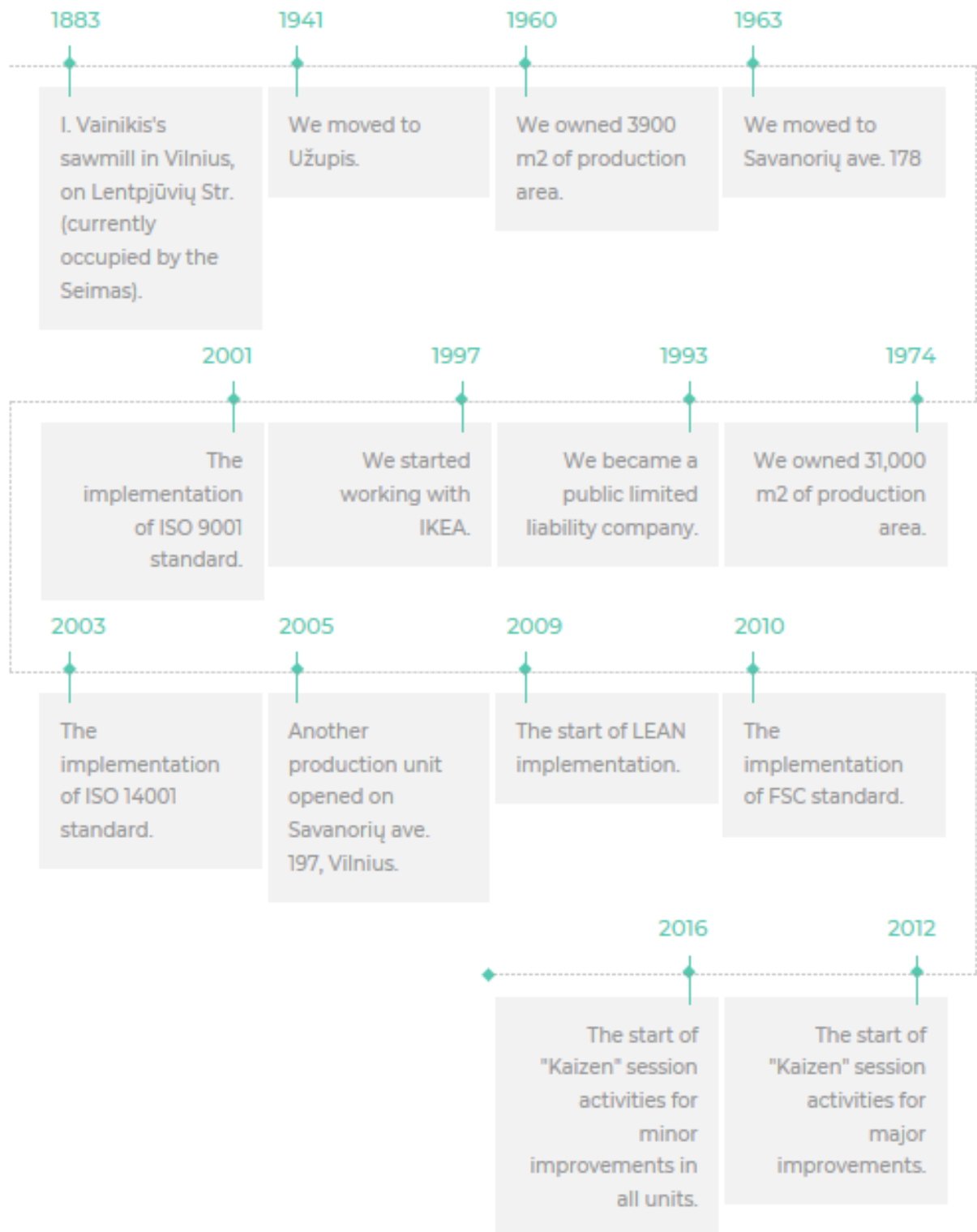
our customers are becoming more and more interested in buying furniture that is produced in sustainable and ethical way.

One of the largest projects of our social responsibility program in our company was energy infrastructure renovation. This project will allow us to implement circular economy concept – all remains of our technological process – saw dust will be used to produce heat energy. All excess heat will be sold to the city heating system. This will allow to utilize resources more efficiently, improve environment protection and to comply with new - stricter EU Parliament and Council directive requirements which will come in power from year 2020.

We believe that our current as well as planned investments will allow to further improve Vilniaus baldai AB technological efficiency, decrease costs and waste levels, as well as significantly improve employee's social welfare.

Jonas Krutinis
General Manager

HISTORY



ABOUT THE COMPANY

Vilniaus baldai AB - is one of the leading manufacturers of flat-pack furniture which main customer is Swedish IKEA. Company that cherishes time-honored traditions, applies modern technologies and enjoys a stable and continuous business growth.

Vilniaus baldai AB actively participating in the development of furniture industry and is the member of voluntary Association of the Lithuanian producers and traders of wood products.

Vilniaus baldai AB - specialize in the production of light storage flat-pack furniture (from honeycomb panels). When employing this technology less raw materials can be used, and stable quality of the production is attained. Each year new products are developed, and production technologies of existing ones are improved taking into consideration the needs of consumers and prevailing tendencies. The planning system implemented in the Company is constantly developed to achieve higher production flexibility and efficiency. Most of our products consist of children's furniture, which are subject to the strictest safety and quality requirements.

Modern equipment, purchased from such world-renowned manufacturers as Homag, Holzma, Burkle, Weeke, Wikoma, Biesse, Wemhoner etc., enables to manufacture different types of the furniture, coated with plywood, pigment or foil.

In FY2018 Vilniaus baldai AB and IKEA AG have signed a long-term contract, according to which the company plans to increase its turnover and production capacity. To fulfill the contractual obligations and prepare for sustainable further growth, company plans to invest into land plot outside Vilnius, new production and warehousing facilities, equipment, technologies and development of the production base. Planned investments should comprise 50 mEUR and would be done in the next 3 years. These investments will allow the company to significantly reduce direct and indirect costs, while ensuring sustainable cost of the products.



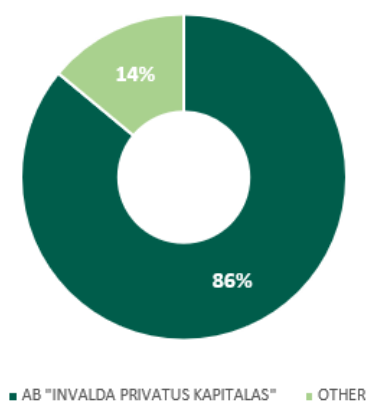
COMPANY LOCATED

Vilniaus baldai AB furniture production unit No. 1 is in the western part of Vilnius Savanorių ave. 178 B. Vilniaus baldai AB furniture production unit No. 2 is on Šaltupio st. 9B, Vilnius.

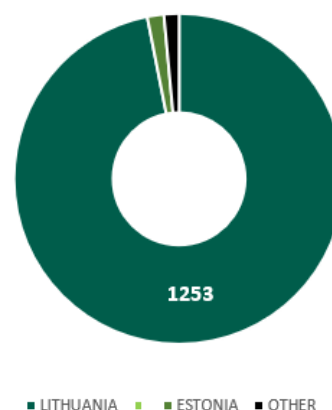
SHARES AND SHAREHOLDERS

The Company's ordinary registered shares are included in the supplementary trading list of the NASDAQ Vilnius Stock Exchange (BALTIC SECONDARY LIST). They are abbreviated VBL1L. The shares were first listed on 5 June 2000.

Authorised capital structure



Distribution of the shareholders of "Vilniaus Baldai" AB by countries, 31/08/2018

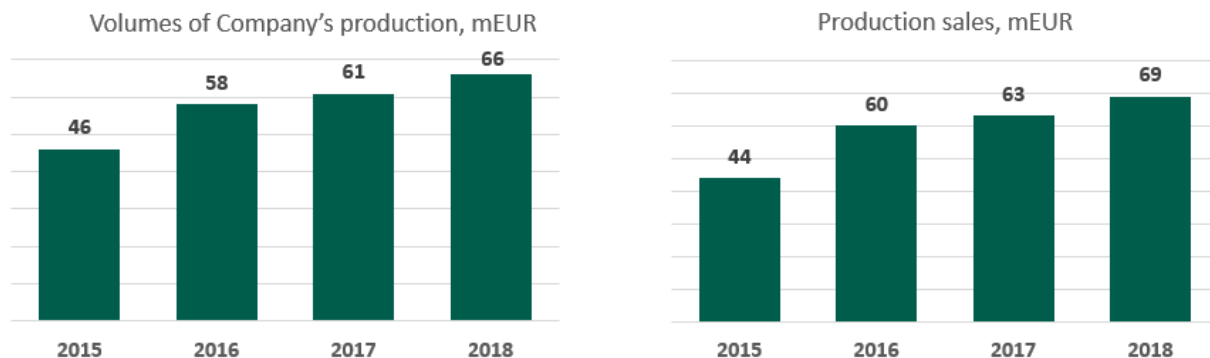


SUPPLY

Vilniaus Baldai AB has introduced an effective system of the purchase of raw materials and services. The Company maintains strategic relations with suppliers and constantly searches for new opportunities in the markets of raw materials and services. The purchase process is distinguished into strategic and operational purchases. The Company aims to manage the supply risk, therefore, main raw materials may be supplied by principal or alternative suppliers. Vilniaus Baldai AB has implemented and continuously improves the assessment system of suppliers; audits of suppliers are carried out. The Company establishes long-term contracts with its suppliers. The Company acquires the main raw materials from the local, Polish, Slovak and German suppliers.

PRODUCTION AND SALES

Vilniaus Baldai AB sales revenue reached EUR 69 million in 2018. In 2018 the Company increased its production capacity further, successfully increased production of its priority products.



We are participants in the global market, as we compete with manufacturers from Poland, Germany, Portugal and the US. Our products are sold in Europe, Asia, the US, Australia.



EMPLOYEES

The Company pays great attention and allocates funds for the improvement of working conditions and trainings, qualification improvement of the personnel, implementation of LEAN principles and methods. Vilniaus Baldai AB makes regular investments in production facilities, automation of technological processes in order to improve working conditions, reduce physical workload of employees. Investments in occupational safety and wellbeing of employees serve as a basis for establishing a different working environment, which encourages to aim for better performance and achieve higher competitiveness in the international markets.

There were 776 employees working in the Group as of the end of FY2018 (636 at the Group as of the end FY2017). The average age of the employees is 40 years.

The average wages of the employees in the period of 2014–2018, EUR

	2018 Y	2017 Y	2016 Y	2015 Y	2014 Y
Executive personnel	6.355	5.599	4.189	5.339	4.953
Specialists	1.569	1.482	1.369	1.700	1.445
Workers	1.091	1.077	922	962	829
Total	1.172	1.151	999	1.030	904

Remuneration comprises a basic and variable component. A variable component of remuneration depends on the Company's results of operations.



Indicators characterising the operation of the Group 2016–2018

	2018 m.	2017 m.	2016 m.
Net profitability = net profit / sales * 100	3,25%	7,02%	5,50%
Average return on assets ROA = net profit / (assets at the beginning of the period + assets at the end of the period) / 2 *100	7,10%	17,10%	12,43%
Return on equity ROE = net profit / equity*100	14,21%	30,38%	28,79%
Net earnings per share EPS = net profit / number of shares	0,58	1,15	0,83
Debt ratio = liabilities / assets	0,57	0,45	0,55
Debt to equity coefficient = liabilities / share capital	1,32	0,84	1,22
Current ratio = current assets / current liabilities	1,48	1,16	1,07
Asset's turnover = sales / assets	1,89	2,35	2,35
Book value of share = equity / number of shares	4,08	3,77	2,9
Turnover (thousand EUR)	69.322	63.423	58.953
Gross profit (thousand EUR)	6.447	8.838	7.657
Net profit (thousand EUR)	2.252	4.450	3.243
EBITDA (million EUR)	4.23	6,39	5,22
EBIT (million EUR)	2.65	5,02	3,92
Dividends per share (for the prior accounting period)	0.26 EUR	0,27 EUR	1,00 EUR
Earnings per share P/E	18,81	11,6	16,8
The lowest share price	10.70 EUR	12,80 EUR	13,50 EUR
The highest share price	13.60 EUR	14,50 EUR	15,60 EUR
Closing price	10.90 EUR	13,30 EUR	14,00 EUR
Capitalisation (thousand EUR)	42.360	51.687	54.408

ETHICAL PRINCIPLES

Vilniaus baldai AB Code of Ethics is a guide to help us work with highest ethical standards. Code of Ethics based on our values – trust, honor, honesty and determines how the Company's employees should work, establish and develop relationships with colleagues, clients, business partners and other members of society. The Code's rules apply to all employees of the Company.

COMPANY'S VALUES SYSTEM

During the long history of the company were saved traditions of furniture production, created organization culture and business philosophy. Our business is based on values that are important to each of us.



THE ABILITY TO GROW is the constant pursuit of doing something better than yesterday have been the driving forces behind our organization's development. It is necessary to grow for each person as an individual, as an employee, to be flexible and efficient as an organization and to remain a reliable partner for our single client and others.

HARMONIOUS TEAM Everyone working at the company is a furniture manufacturer — this understanding allows us to look for and make decisions that best benefit the company and not each one individual. A sustainable and friendly environment inspires to work.



HONESTY

We are honest with our employees and we work transparently and openly, expecting the same from each other. In our production, we adhere to the principles of fair production and we appreciate the quality of our products and constantly improve it. We are open to colleagues and partners, we are seeking for better cooperation and sharing our experiences. We are a socially responsible company that honestly pays taxes to the state and we set an example and encourage the formation of an open, reliable society.



PROFESSIONALISM

We value professionalism in all areas of life. A welcoming approach and experienced staff are the key to our success. Continuous learning and development strive for us to apply modern technologies and to produce world-class products.



THE PREVAILING FREE AND CREATIVE ENVIRONMENT

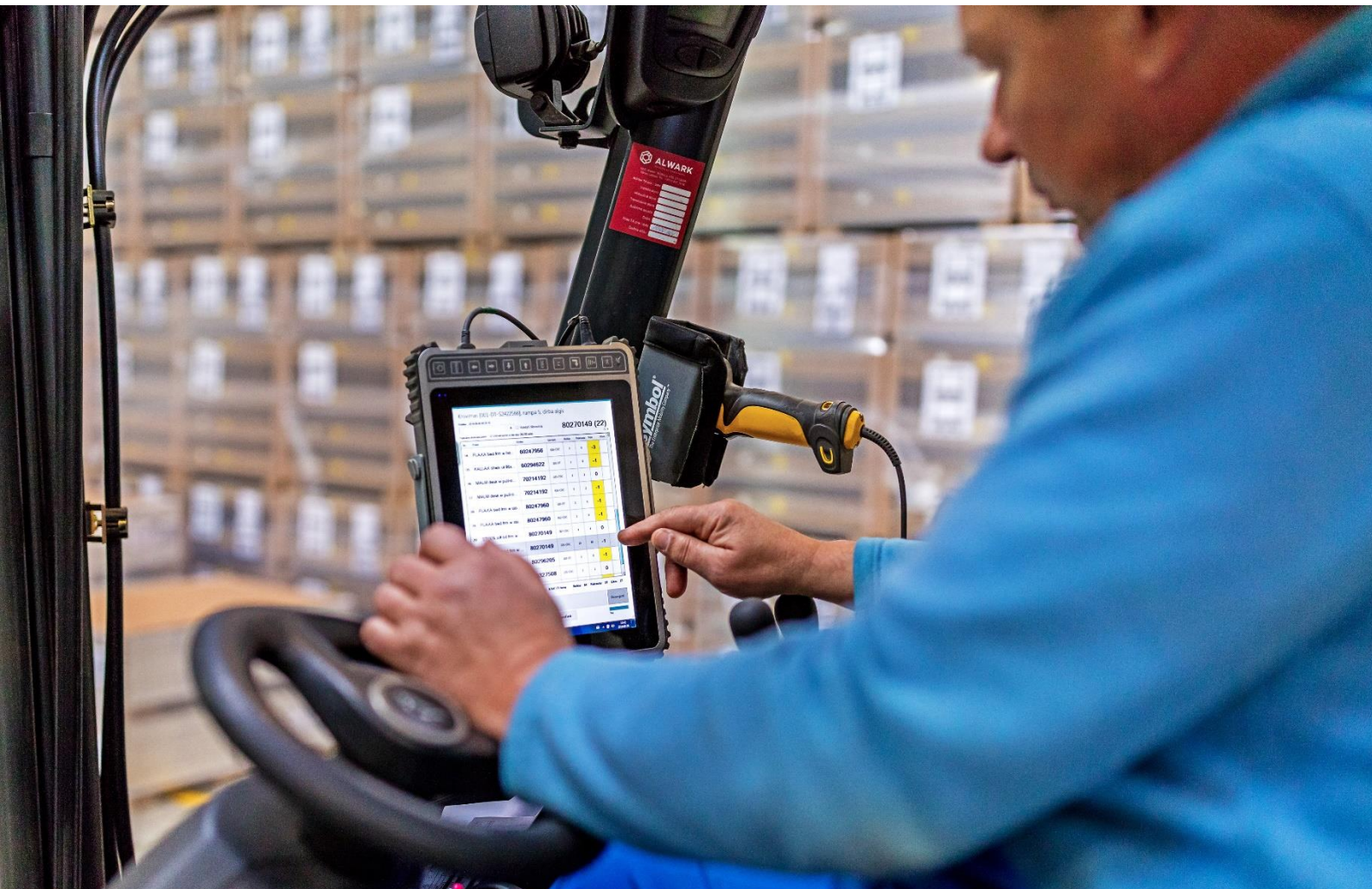
The prevailing free and creative environment encourages employees to generate and implement their own ideas. Variety of knowledge and experience helps to create and implement the most courageous projects and to find the best solutions. As individuals, we respect each other's differences and are able to work productively together and assume responsibility for the overall results.

EMPLOYEES AND OTHER COMPLAINTS

All employees, as well suppliers of the Company, sub-suppliers or employees of companies working in the Company's territory, can complain about provisions of laws, contracts, Code of Ethics, threats, risks, discrimination, harassment, abuse or other.

All complaints, claims are noted in a confidential register, they are investigated, the responsible person is assigned, the preventive actions are envisaged, and the deadlines of their fulfillment and control.

The question, note, complaint can be presented anonymously by using the confidential boxes in the company or reported to the Head of Human-Resources or Head of Independent Trade Union.



GOVERNANCE

The Company has a general meeting of shareholders, a sole management body, i.e. the General Manager and a collegial management body, i.e. the Board of Directors. A Supervisory Board is not formed at the Company.

The Board of Directors of the Company consists of 3 members. It is elected for a period of four years by the general meeting of shareholders. The Board of Directors elects and dismisses the General Manager, sets his/her salary, encourages and penalizes him/her.

Board of Directors

Vytautas Bučas	Chairman of the Board, elected to the Board on 12.04.2007, re-elected on 29.04.2008, 27.04.2012, and 05.07.2016 end of the term – 2020.
Dalius Kaziūnas	Board member, elected to the Board on 29.04.2010, re-elected on 27.04.2012 and 05.07.2016 end of the term – 2020.
Vaidas Savukynas	Board member, elected to the Board on 08.10.2014, re-elected on 05.07.2016 end of the term - 2020.

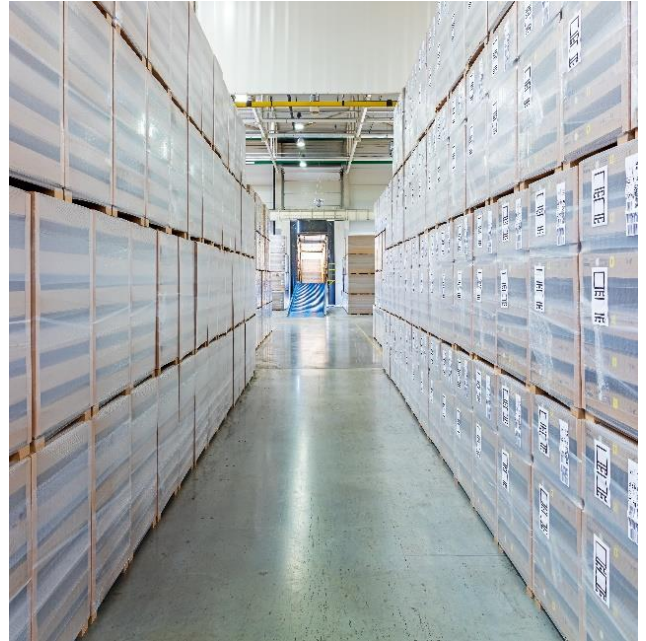
Management team

Jonas Krutinis	General Manager
Edgaras Kabečius	Chief Financial Officer
Rytis Ignatavičius	Head of Production
Giedrė Tiškevičienė	Head of Quality and Technology
Stanislovas Keževičius	Head of Technical Services
Sigita Katinaityė	Head of Human-Resources

TRANSPARENT BUSINESS PRACTICE

Bribery and corruption

No person employed by the company, directly or indirectly, ask, give or receive any personal payments, gifts or benefits in exchange for favorable conditions intended to affect a business transaction or gain business or personal advantage.



Company suppliers, sub-suppliers and their business environment

We ensure that the Company's business partners, service providers, suppliers of goods or raw materials, as well as suppliers of these suppliers adhere to the same principles on equal opportunities at work, respect for human rights, prevention of harassment and child or forced labor, occupational health and safety, and prevention of the use of drugs, alcohol or other psychotropic substances.

WORKPLACE

Equal opportunities at work

We promote diversity at the company. We have zero tolerance towards discrimination on any grounds: ethnic, gender, sexual orientation, marital or social status, paternity or maternity, religion, political opinion, nationality, disability or age. We guarantee non-discrimination and equal opportunities in all employee management processes, including job vacancies, selection, recruitment, education, and others.

Respect for human rights

Regardless of whether the employees are temporary or permanent, we treat everyone with respect, without violating their dignity and by guaranteeing basic human rights. We respect the personality and individuality of each employee and encourage the submission of proposals, opinions and comments; in discussions, we use arguments, but not personal preferences or emotions. We not tolerating the interference for employees' private live.



Working environment without harassment

We have zero tolerance towards harassment in any form.

Prevention of child and forced labor

We do not use child labor - we do not employ anyone who is younger than the statutory minimum age of employment. The company strictly prohibits all forms of forced labor.

Occupational health and safety

We commit to ensure our employees a safe working environment. We provide our employees with free personal protective equipment, workwear, shoes, medicines, vaccines. We are monitoring and testing health, providing the necessary information about the safety and health issues, including (but not limited to, the following areas) fire safety, proper handling of chemicals, equipment, and first aid. We carry out the internal, delegate the specialists to external trainings - we constantly develop the awareness of the employees, that everyone will personally protect themselves and colleagues.

Drugs, alcohol and other psychotropic substances at the workplace

Working at the company requires clear thinking and often the ability to react quickly—this not only determines the quality of work, but also on the safety of the colleagues and the worker itself. The effect of alcohol, drugs or misuse of drugs reduces the ability of an employee to perform his duties well, which is why the Company strictly prohibits any abuse of drugs, alcohol or other psychotropic substances.

EMPLOYEE BENEFITS

We are honest and encourage our employees; we adhere to agreements and always pay salaries on time; all our employees have the opportunity to earn a variable salary, depending on the outcome.

We provide the opportunity for continuous improvement, as production workers can refresh their qualifications, gaining a higher category, which provides a higher salary (certifications are held quarterly). Specialists are periodically sent to various trainings and seminars as well as to exhibitions and other companies of similar profile to share best practices.

Newcomers are encouraged, they are consulted and trained by practicing teachers. We also periodically organize the “Newcomer Day”, which introduces newcomers to various topics from a detailed presentation of the company, its values to nuances of quality management and peculiarities of the production process and technology.



We are a team that can not only work productively, but also have fun. Every year we organize: A summer celebration; A Christmas celebration; An Employee Day (an Employee Hour each quarter); An Employees' Children Day; An Easter candy campaign; A March 8th flower campaign; A Pie Day campaign.



To thank our employees, the company runs "AČIŪ" project, employees receive "AČIŪ" gifts, quarterly "SUPER AČIŪ" and "AČIŪ" awards for demonstrated behavior that reflects the company's values, for outstanding results, efforts and initiative.



On the basis of a collective agreement, we support our employees by grants for their first marriage, child birth, letting their child to the first grade.



Employees have the right to join organizations protecting their rights and the Company has an independent trade union.



SOCIAL ENTERPRISE



Our subsidiary Ari-Lux, UAB employs people who have lost their professional and general work capacity, are economically inactive, unable to compete in the labor market on equal terms, and encourages their return to the labor market and their social integration in order to reduce social exclusion and develop labor and social skills of people with limited work capacity. We have unofficially made our subsidiary a non-profit enterprise and we strive to meet the needs of its employees as much as possible by properly adapting the workplaces and enabling them to work according to their potential. August 2018Y in the company worked 60 employees.



ENVIRONMENTAL PROTECTION AND QUALITY

We are constantly evaluating and ensuring the balance between preserving the environment, meeting the needs of the society and developing the company's business. We are committed to:

- comply with the relevant laws and to follow other normative documents on air pollution, environmental protection, noise, wastewater, soil pollution, storage and use of chemicals and etc.;
- choose solutions with the least negative impact on the environment and if the case of adverse effects, to have the plans with concrete corrective actions and deadlines;
- use rationally materials and energy resources, recycle waste at the work.



VISION OF THE ENVIRONMENTAL PROTECTION AND QUALITY MANAGEMENT SYSTEM



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REDUCE



Reduce the consumption of energy resources and materials

To reduce the amount of waste

Reduce the amount of non-conforming product in production to 3% and utilization up to 1%

PROTECT



Protect the environment and human health

Protect forests. Only use FSC-certified raw materials for production

IMPROVE



ISO management system

IKEA IWAY standard

FSC-STD standard

Production systems LEAN, KAIZEN, 5S, SMED



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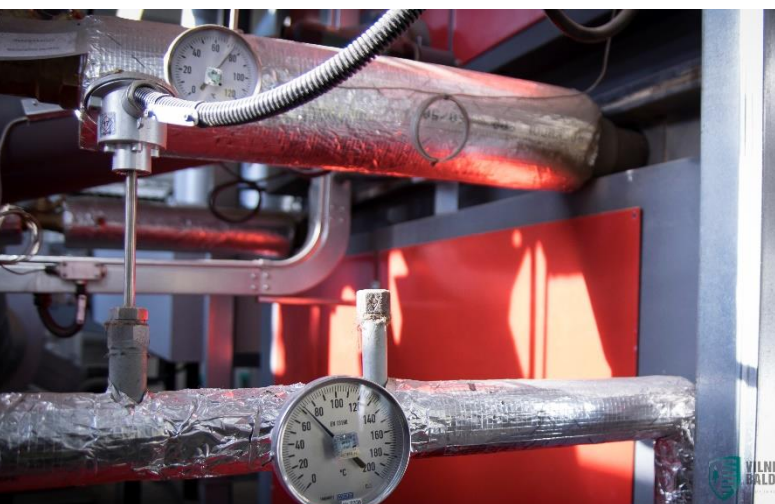
Vilniaus Baldai AB has implemented and periodically certifies the Quality, Environmental Protection and FSC Production Management System in accordance with **ISO 9001**, **ISO 14001** and **FSC-STD-40-004** standards. We also listen to the customer's environmental, social and working condition requirements when purchasing products, raw materials and services.

By seeking to produce furniture that meet the requirements, we ensure that consumers purchase not only high-quality but also ecologically clean furniture. The team seeks to assess the potential environmental impact as early as possible, which is why we pay a lot of attention to it in the furniture design and production planning stage.

Every year we set environmental goals that help us protect the environment better and more efficiently, for example, economical use of energy resources and raw materials, waste sorting and recycling, and constant improvement of the working environment. In all production and administrative premises, we have containers for sorting waste-everyone is involved and we use different means to constantly strengthen the responsible attitude within the company.

Energy infrastructure renovation

From the beginning of 2018Y Vilniaus baldai AB became independent supplier of heating energy. Energy infrastructure renovation project allowed to reach the closed production cycle: - the sawdust - is used to generate heat. Vilniaus baldai AB now is contributing to the principle of the circularity, improving efficient use of resources and the preservation of the environment. We can supply of 4.5 MW of thermal power to the centralized heat network and improve competition in centralized heating market. Total investment exceeded 1.5 MEUR (including the heat exchanger).



ABOUT REPORT

Vilniaus baldai AB Social Responsibility Report is produced once a year and published together with annual audited report. FY2018 report is produced the first time. Social Responsibility Report of Vilniaus baldai AB is available in Lithuanian and English on the website www.vilniausbaldai.lt and the website of stock exchange Nasdaq Vilnius along with the annual financial report.

Preparation of this report has been based by the Guidelines of the Global Reporting Initiative (GRI) of the United Nations. Vilniaus baldai AB Social Responsibility Report presents relations with employees, clients, business partners and environmental protection progress.

If you have any questions and comments related the Social Responsibility Report, please contact us at info@vilniausbaldai.lt





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