Consolidated and the parent company's separate financial statements for the year ended 31 December 2018

Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. 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.

Contents

Company details

VILKYŠKIŲ PIENINĖ AB

Telephone:	+370 441 55330
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Company code:	277160980
Registered office address:	P. Lukošaičio g. 14, Vilkyškiai, LT-99254 Pagėgiai municipality, Lithuania

Board

Gintaras Bertašius (Chairman)
Sigitas Trijonis
Rimantas Jancevičius
Vilija Milaševičiutė
Andrej Cyba
Linas Strėlis

Management

Gintaras Bertašius, General Manager
Vaidotas Juškys, Executive Director
Sigitas Trijonis, Technical Director
Rimantas Jancevičius, Director for Purchasing Raw Materials
Arvydas Zaranka, Production Director
Vilija Milaševičiutė, Director for Economic and Financial Affairs
Rita Juodikienė, Director for Corporate Governance and Quality

Auditor

PricewaterhouseCoopers, UAB

Banks

SEB Bankas AB
Swedbank AB
Luminor Bank AB
Šiaulių Bankas AB

Management's statement on the consolidated annual and the parent company's separate annual financial statements

Management has discussed today and authorised for issue the set of annual separate and consolidated financial statements.

The annual separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the accounting policies applied are appropriate and the annual separate and consolidated financial statements give a true and fair view, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union

We recommend that the General Meeting of Shareholders approve the annual separate and annual consolidated financial statements.

Vilkyškiai, 5 April 2019

Management:

Gintaras Bertašius
General Manager

Vilija Milaševičiutė
Economics and Finance Director

Independent auditor's report

To the shareholders of Vilkyškių Pieninė AB

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Vilkyškių Pieninė 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 ("IFRS") 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 statements of financial position as at 31 December 2018;
- the separate and consolidated statements of income and 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 statements 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.

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The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2018 to 31 December 2018 are disclosed in note 7 to the financial statements.

Our audit approach

Overview

- Overall Company materiality: EUR 800 thousand
- Overall Group materiality: EUR 800 thousand

We conducted a full-scope audit at 3 group entities, all operating in Lithuania, covering 100% of the Group's revenues and 99.8% of the Group's total assets.

- Impairment testing of goodwill
- Inventory write-down to net realisable value
- Revenue recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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 separate 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	Overall Company materiality: EUR 800 thousand (in 2017 – EUR 900 thousand)
Overall Group materiality	Overall Group materiality: EUR 800 thousand (in 2017 – EUR 900 thousand)
How we determined it	0.78% of the Group's and 0.63% of the Company's total revenue

Rationale for the materiality benchmark applied	Significant fluctuations in the Group's and the Company's profit depend on the prevailing trends in global dairy markets. We have, therefore, chosen revenue as a benchmark for determining the materiality because, in our view, it provides the stakeholders consistent information year-on-year basis, reflecting the Company's and Group's growth. Revenue and market share are also considered to be important business performance indicators.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 40 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*
Impairment testing of goodwill *Refer to accounting policy on impairment testing on page 23, accounting estimates and assessments on pages 38-39 and note 12 'Intangible assets' in the financial statements* The Group has goodwill balance of EUR 6,916 thousand as at 31 December 2018. Goodwill has to be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs of disposal, requires judgment from management when identifying and valuing the relevant cash-generating units. Recoverable amounts are based on management's view of internal and market conditions such as future prices and volume growth rate, the timing of future operating expenditure and the most appropriate discount and long-term growth rates. No impairment was recognized neither in the current, nor in the prior years as the recoverable amount is higher than the carrying amount. We focused on this area because of the significance of the goodwill balance and because the impairment assessment involved significant management's judgements about	We focused on goodwill attributable to the cash generating unit of Kelmės Pieninė AB, which represents 96% of the entire goodwill balance of the Group. Our audit procedures included challenging management on the appropriateness of the impairment models and the reasonableness of the assumptions used by performing the following: - Assessing the reliability of the cash flow forecast by checking the actual past performance and comparing to previous forecasts and by inspecting internal documents, such as budget forecasts for 2019–2023; - Benchmarking market related assumptions like discount rate and long-term growth rate against external data. Where it was considered necessary we involved our valuation experts; - Testing the mathematical accuracy of the model and assessing the sensitivity of the impairment test to key inputs. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges. We also read the disclosures in the financial statements regarding impairment tests and did

the future results and the discount rates applied to future cash flows forecasts.	not identify any material deficiencies or missing information.
Inventory write-down to net realisable value *Refer to accounting policy on inventory on page 24, accounting estimates and assessments on page 39 and note 15 'Inventories' in the financial statements* We focused on this area due to the size of the inventory balance (EUR 15,228 thousand and EUR 10,888 thousand as at 31 December 2018 at the Group and the Company, respectively), and because the management's assessment of the net realisable value of inventory involved estimates about the future discounts and sales of goods below their cost. The Group's and the Company's inventory write-down to net realisable value amounted to EUR 932 thousand and EUR 702 thousand as at 31 December 2018, respectively.	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, and found them to be consistent. We tested on sample basis the finished goods items sold below their cost after the balance sheet date and compared results with the figures used in the management's calculation of inventory write-down allowance. We analysed the aging of inventories other than finished goods, by periods, to identify slow-moving or obsolete items. We also verified the reliability of the inventory ageing report and compared our estimated inventory write-down allowance to the management's calculations. We found the assumptions used by management in the calculation of inventory write-down to net realisable value to be within acceptable range of our expectations.
Revenue recognition *Refer to accounting policy on revenue recognition on page 31 and note 1 'Segment information' in the financial statements* The Group's and the Company's revenue in 2018 amounted to EUR 103,162 thousand and EUR 126,242 thousand respectively, and mostly consisted of sales of goods. 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 continues to be an audit area which requires significant time and resources and is therefore considered to be a key audit matter.	We audited revenue recognition through a combination of controls testing and detailed testing. We evaluated the design and tested the operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the matching of invoices to the related shipping documents and to the agreed prices as indicated in the sale orders or agreements. 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 standard, IFRS 15 which became applicable from 1 January 2018. We also performed the following 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 significant risks and rewards as defined in Incoterms and shipping documents.

- We selected a sample of credit invoices, discounts and returns during the financial year and after the year-end and checked whether they were calculated and recorded at appropriate amount and in the appropriate period.
- 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.

- Our work also included testing a sample of revenue records to assess appropriateness of correspondence with the General Ledger accounts.

As a result of our work, we noted no material exceptions.

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 the 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.

The Group comprises of parent and 3 subsidiaries that all operate in Lithuania. Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope, by taking into account the relative significance of each entity to the Group as a whole and in relation to each material line item in the consolidated financial statements. We performed a full-scope audit of parent entity Vilkyškių Pieninė AB and subsidiaries Kelmės Pieninė UAB and Modest UAB. Our full-scope audit addressed 100% of the Group's revenues and 99.8% of the Group's total assets. The remaining component of the Group was immaterial.

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, 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 pwc

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 Company and the Group on 28 April 2018 by the shareholders' resolution. Our appointment represents a total period of uninterrupted engagement appointment of 2 year.

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

Consolidated and separate statements of financial position

(All amounts are in EUR thousand, unless otherwise stated)

GROUP At 31 December 2018	GROUP At 31 December 2017		Note	COMPANY At 31 December 2018	COMPANY At 31 December 2017
		Assets			
51,310	54,447	Property, plant and equipment	11	20,633	22,230
6,933	6,961	Intangible assets	12	18	41
-	-	Investments in subsidiaries	13	10,713	10,713
314	254	Non-current amounts receivable	14	324	269
58,557	**61,662**	**Non-current assets**		**31,688**	**33,253**
15,228	9,656	Inventories	15	10,888	5,861
7,347	8,491	Trade and other amounts receivable	16	10,908	14,453
746	1,005	Prepayments	17	700	959
407	317	Cash and cash equivalents	18	337	231
23,728	**19,469**	**Current assets**		**22,833**	**21,504**
82,285	**81,131**	**Total assets**		**54,521**	**54,757**
		Equity			
3,463	3,463	Share capital		3,463	3,463
3,301	3,301	Share premium		3,301	3,301
2,579	5,105	Reserves		2,491	5,010
22,153	22,367	Retained earnings		20,664	21,727
31,496	**34,236**	**Equity attributable to owners of the Company**	19	-	-
51	51	**Non-controlling interest**		-	-
31,547	**34,287**	**Equity**	19	**29,919**	**33,501**
		Liabilities			
14,900	20,123	Borrowings and financial lease liabilities	20	572	3,989
5,824	5,686	Government grants	21	1,275	1,667
844	1,528	Deferred income tax liability	22	844	1,528
21,568	**27,337**	**Non-current liabilities**		**2,691**	**7,184**
12,924	7,974	Borrowings and financial lease liabilities	20	8,858	4,659
-	121	Income tax payable		-	101
-	118	Derivative financial instruments	24	-	118
16,246	11,294	Trade and other payables	23	13,053	9,194
29,170	**19,507**	**Current liabilities**		**21,911**	**14,072**
50,738	**46,844**	**Liabilities**		**24,602**	**21,256**
82,285	**81,131**	**Total equity and liabilities**		**54,521**	**54,757**

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Gintaras Bertašius

General Manager

Vilija Milaševičiutė

Director for Economic and Financial Affairs

5 April 2019

Consolidated and separate statements of profit or loss

For the year ended 31 December

GROUP				COMPANY	
2018	2017	EUR '000	Note	2018	2017
103,162	113,939	Revenue	1	126,242	130,325
-97,389	-97,451	Cost of sales	2	-122,960	-117,237
5,773	**16,488**	**Gross profit**		**3,282**	**13,088**
326	390	Other operating income	3	1,878	1,002
-4,317	-4,087	Distribution costs	5	-4,561	-4,433
-2,517	-4,434	Administrative expenses	6	-1,998	-3,632
-149	-244	Other operating expenses	4	-1,575	-753
-884	**8,113**	**Results of operating activities**		**-2,974**	**5,272**
13	27	Finance income		803	2,307
-999	-580	Finance costs		-541	-535
-986	**-553**	**Finance costs, net**	8	**262**	**1,772**
-1,870	**7,560**	**Profit (loss) before income tax**		**-2,712**	**7,044**
684	-874	Income tax expenses	9	684	-842
-1,186	**6,686**	**Profit (loss) for the reporting year**		**-2,028**	**6,202**
		Attributable to:			
-1,186	6,680	Shareholders of the Company			
-	6	Non-controlling interest			
-1,186	**6,686**	**Profit (loss) for the reporting year**		**-2,028**	**6,202**
-0.10	0.56	Basic and diluted earnings per share (in EUR)	10	-0.17	0.52

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Gintaras Bertašius
General Manager

Vilija Milaševičiutė
Director for Economic and Financial Affairs

Consolidated and separate statements of comprehensive income

For the year ended 31 December

GROUP			COMPANY	
2018	**2017**	EUR ’000	**2018**	**2017**
-1,186	**6,686**	**Profit (loss) for the reporting year**	**-2,028**	**6,202**
		Other comprehensive income		
		Items that will not be reclassified to profit or loss		
		Items that are or may be subsequently reclassified to profit or loss		
118	119	Change in fair value of hedging instruments	118	119
118	**119**	**Other comprehensive income for the year, net of income tax**	**118**	**119**
-1,068	**6,805**	**Total comprehensive income for the year**	**-1,910**	**6,321**
		Attributable to:		
-1,068	6,799	Shareholders of the Company		
-	6	Non-controlling interest		
-1,068	**6,805**	**Total comprehensive income for the year**	**-1,910**	**6,321**

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Separate statement of changes in equity

EUR '000	Note	Share capital	Share premium	Hedging reserve	Reserve for acquisition of own shares	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2017		3,463	3,301	-237	2,508	2,410	346	16,822	28,613
Profit for the year		-	-	-	-	-	-	6,202	6,202
Other comprehensive income									
Depreciation, write-off of revalued assets		-	-	-	-	-136	-	136	-
Change in fair value of hedging instruments		-	-	119	-	-	-	-	119
Total other comprehensive income		-	-	119	-	-136	-	136	119
Total comprehensive income for the year				119		-136		6,338	6,321
Transactions with owners recognised directly in equity		-	-	-	-	-	-	-1,433	-1,433
Total transactions with owners		-	-	-	-	-	-	-1,433	-1,433
Balance at 31 December 2017		3,463	3,301	-118	2,508	2,274	346	21,727	33,501
Balance at 1 January 2018		3,463	3,301	-118	2,508	2,274	346	21,727	33,501
Profit (loss) for the period		-	-	-	-	-	-	-2,028	-2,028
Other comprehensive income									
Depreciation, write-off of revalued assets		-	-	-	-	-129	-	129	-
Change in fair value of hedging instruments		-	-	118	-	-	-	-	118
Total other comprehensive income		-	-	118	-	-129	-	129	118
Total comprehensive income for the year		-		118	-	-129	-	-1,899	-1,910
Transactions with owners recognised directly in equity									
Transfers to reserve for acquisition of own shares		-	-	-	-2,508	-	-	2,508	-
Dividends		-	-	-	-	-	-	-1,672	-1,672
Total transactions with owners		-	-	-	-2,508	-	-	836	-1,672
Balance at 31 December 2018	19	3,463	3,301	-	-	2,145	346	20,664	29,919

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Consolidated statement of changes in equity

EUR '000	Note	Equity attributable to owners of the Company								Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve	Hedging reserve	Reserve for acquisition of own shares	Legal reserve	Retained earnings (deficit)	Total		
At 1 January 2018		3,463	3,301	2,369	-118	2,508	346	22,367	34,236	51	34,287
Comprehensive income for the year											
Net profit (loss)		-	-	-	-	-	-	-1,186	-1,186	-	-1,186
Other comprehensive income											
Depreciation, write-off of revalued assets		-	-	-136	-	-	-	136	-	-	-
Change in fair value of hedging instruments		-	-	-	118	-	-	-	118	-	118
Total other comprehensive income		-	-	-136	118	-	-	136	118	-	118
Total comprehensive income for the year		-	-	-136	118	-	-	-1,050	-1,068	-	-1,068
Contributions by and distributions to owners:											
Transfers to reserve for acquisition of own shares		-	-	-	-	-2,508	-	2,508	-	-	-
Dividends		-	-	-	-	-	-	-1,672	-1,672	-	-1,672
Total contributions by and distributions to owners		-	-	-	-	-2,508	-	836	-1,672	-	-1,672
Changes in the Group not resulting in a loss of control											
Change (decrease) in minority interest		-	-	-	-	-	-	-	-	-	-
Total transactions with shareholders		-	-	-	-	-	-	-	-	-	-
At 31 December 2018	19	3,463	3,301	2,233	-	-	346	22,153	31,496	51	31,547

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Consolidated statement of changes in equity (continued)

EUR '000	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	Reserve for acquisition of own shares	Legal reserve	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
	Equity attributable to owners of the Company										
At 1 January 2017		3,463	3,301	2,512	-237	2,508	346	16,977	28,870	45	28,915
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	6,680	6,680	6	6,686
Other comprehensive income											
Depreciation, write-off of revalued assets		-	-	-143	-	-	-	143	-	-	-
Change in fair value of hedging instruments		-	-	-	119	-	-	-	119	-	119
Total other comprehensive income		-	-	-143	119	-	-	143	119	-	119
Total comprehensive income for the year		-	-	-143	119	-	-	6,823	6,799	6	6,805
Contributions by and distributions to owners:											
Dividends		-	-	-	-	-	-	-1,433	-1,433	-	-1,433
Total contributions by and distributions to owners		-	-	-	-	-	-	-1,433	-1,433	-	-1,433
Changes in the Group not resulting in a loss of control											
Change (decrease) in minority interest		-	-	-	-	-	-	-	-	-	-
Total transactions with shareholders		-	-	-	-	-	-	-	-	-	-
At 31 December 2017	19	3,463	3,301	2,369	-118	2,508	346	22,367	34,236	51	34,287

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Consolidated and separate statements of cash flows

For the year ended 31 December

GROUP 2018	GROUP 2017	EUR '000	COMPANY 2018	COMPANY 2017
		Cash flows from operating activities		
-1,186	6,686	Profit for the year	-2,028	6,202
		Adjustments for:		
4,632	3,118	Depreciation of property, plant and equipment	2,139	2,016
32	81	Amortisation of intangible assets	27	74
-640	-430	Amortisation and write-off of grants	-247	-238
-413	-331	Change in impairment of inventories	-115	624
-62	-34	Loss (gain) from disposal and write-off of property, plant and equipment	-35	-33
-21	-	Other operating income	-21	-
-684	874	Income tax expenses	-684	842
986	553	Finance costs, net	-262	-1,772
2,644	**10,517**		**-1,226**	**7,715**
-5,164	1,049	Change in inventories	-4,916	1,768
317	88	Change in non-current amounts receivable	-55	92
1,462	-2,163	Change in trade and other receivables and prepayments	3,860	-4,728
4,893	-177	Change in trade and other payables	3,788	-287
4,152	**9,314**		**1,451**	**4,560**
-790	-786	Interest paid	-347	-390
-40	-13	Income tax paid	-	-
-	-54	Other finance expenses	-	-
3,322	**8,461**	**Net cash flows generated from operating activities**	**1,104**	**4,170**
		Cash flows from investing activities		
-1,441	-7,004	Payments for acquisition of property, plant and equipment	-529	-2,553
-4	-22	Payments for acquisition of intangible assets	-4	-21
69	100	Proceeds from sale of property, plant and equipment	40	97
-103	-	Loans granted	-103	-
791	3,174	Government grants received	245	44
-	-	Dividends received	786	2,285
-	-	Repayment of loans	5	5
-688	**-3,752**	**Net cash flows generated from (used in) investing activities**	**440**	**-143**

Consolidated and separate statements of cash flows (continued)

For the year ended 31 December

GROUP 2018	GROUP 2017	EUR '000	Note	COMPANY 2018	COMPANY 2017
		Cash flows from financing activities			
4,257	5,345	Proceeds from borrowings	20	2,956	2,339
-5,129	-8,533	Repayments of borrowings and finance lease	20	-2,722	-4,729
-1,672	-1,433	Dividends paid		-1,672	-1,433
-2,544	**-4,621**	**Net cash flows generated from (used in) financing activities**		**-1,438**	**-3,823**
90	88	**Net increase (decrease) in cash and cash equivalents**		106	204
317	229	Cash and cash equivalents as at 1 January		231	27
407	317	**Cash and cash equivalents as at 31 December**	18	337	231

In 2017, the Group's and the Company's capitalised interest of EUR 349 thousand was included in the category of machinery and equipment. Interest rate used for the capitalisation was 2.27%.

The notes on pages 19 to 78 are an integral part of these separate and consolidated financial statements.

Notes to the consolidated and separate financial statements

General information

The Group consists of the following companies (hereinafter "the Group"):

- VILKYŠKIŲ PIENINĖ AB, a parent company (hereinafter "the Parent Company" or "the Company");
- Modest AB, a subsidiary (hereinafter "the subsidiary Modest AB");
- Kelmės Pieninė AB, a subsidiary (hereinafter "the subsidiary Kelmės Pieninė AB").
- Pieno Logistika AB, a subsidiary (hereinafter "the subsidiary Pieno Logistika AB").

VILKYŠKIŲ PIENINĖ AB was established in 1993. The Parent Company has no branches or representative offices.

ILKYŠKIŲ PIENINĖ AB is a Lithuanian company listed on Nasdaq OMX Vilnius AB stock exchange

As at 31 December 2017, the Company's shareholder structure was as follows:

Shareholder	Shares	Nominal value, in EUR	Total value, in EUR
Gintaras Bertašius	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	1,765,459	0.29	511,983
Other minority shareholders	4,110,335	0.29	1,191,997
Total capital	**11,943,000**	**0.29**	**3,463,470**

As at 31 December 2018, the Company's shareholder structure was as follows:

Shareholder	Shares	Nominal value, in EUR	Total value, in EUR
Swisspartners Versicherung AG Zweigniederlassung Österreich	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	2,035,729	0.29	590,361
Other minority shareholders	3,840,065	0.29	1,113,619
Total capital	**11,943,000**	**0.29**	**3,463,470**

As of April 2018, Gintaras Bertašius, the main shareholder of Vilkyškių Pieninė AB, together with related parties, concluded a joint life insurance policy at Swisspartners Versicherung AG Zweigniederlassung Österreich, contributing 6,067,206 (50.8%) of held ordinary registered shares of Vilkyškių Pieninė AB. The insurance company had irrevocably granted all non-property rights, including the right to vote at the meeting of shareholders of the issuer, to Gintaras Bertašius and the related parties for the entire validity period of the insurance policy.

The Company's ultimate controlling party is Mr Gintaras Bertašius and persons related to him.

The Parent Company's core line of business is production and sale of different types of cheese. The Company also produces and sells whey products, raw milk and cream.

Business activities are carried out in the main production buildings located in Vilkyškiai, Pagėgiai region municipality. The Parent Company also has a milk distribution centre located in Eržvilkas, Jurbarkas region municipality.

Notes to the consolidated and separate financial statements

General information (continued)

The Parent Company controls subsidiary Modest AB, which is engaged in milk processing and production of milk products. The Company owns 99.7% of voting rights of subsidiary Modest AB. Modest AB produces fermented ‘Mozzarella’ cheese, blue-veined cheese, and other cheese products and processes whey.

The Parent Company also controls subsidiary Kelmės Pieninė AB, which is engaged in milk processing and production of milk products. The Company owns 100% of voting rights of subsidiary Kelmės Pieninė AB. Kelmės Pieninė AB produces fresh and dry milk products.

The subsidiary Pieno Logistika AB became part of the Group in 2013. The authorised share capital of the mentioned company amounts to EUR 107.7 thousand and its main activity is lease of buildings. The Company owns 58.9% of voting rights of subsidiary Pieno Logistika AB.

As at 31 December 2018, the Group had 934 (31 December 2017: 930) employees.

As at 31 December 2018, the Company had 525 (31 December 2017: 530) employees.

Notes to the consolidated and separate financial statements

Basis of preparation

Statement of compliance

The Group's consolidated and the Company's separate financial statements (hereinafter "the financial statements or "the consolidated and separate financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter "the EU").

Pursuant to the Law on Companies of the Republic of Lithuania, the annual financial statements prepared by management have to be approved by the General Meeting of Shareholders. The shareholders of the Company have a statutory right to approve these financial statements or not to approve and to require preparation of a new set of the annual financial statements.

These financial statements include the consolidated financial statements of the Group and the separate financial statements of the Company.

Measurement basis

The financial statements have been prepared on the historical cost basis except for:

- derivative financial instruments which are measured at fair value;
- buildings, that are part of property, plant and equipment, are measured at fair value, less any subsequent accumulated depreciation and impairment losses.

Functional and presentation currency

All amounts in these financial statements are presented in the euros (EUR) and they have been rounded to the nearest thousand.

Foreign currency transactions

Foreign currency transactions are translated into the euros using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated in the euros using the exchange rate prevailing at the date of the preparation of the statement of financial position. All foreign currency transactions have been translated in accordance with the provisions of the Law on Accounting using the exchange rate of the euro against the foreign currency prevailing at the date of the transaction.

Foreign exchange differences arising from the settlement of such transactions are recognised in the statement of profit or loss. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the euros using the official exchange rate prevailing at the date of the transaction.

Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the Group's consolidated financial statements from the date on which the Group obtains control, and continue to be included until the date that such control ceases

All intra-group transactions, balances are eliminated in the consolidated financial statements.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies

The accounting policies, set out below, have been consistently applied by the Group and the Company to all the periods presented in these financial statements, except for those which have changed due to the IFRS amendments and the new IFRS, as presented in the section below 'Effect on financial statements of application of new standards and amendments and new interpretations to standards'.

Property, plant and equipment

Property, plant and equipment, including assets acquired under finance leases, but excluding buildings, is stated at acquisition cost, less subsequent accumulated depreciation and impairment losses. Costs related to the acquisition of the assets are included in the acquisition cost. The cost of assets produced internally by the Parent Company and the subsidiaries comprises the cost of materials, direct labour costs and indirect labour costs allocated on a proportionate basis.

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

The net book value of the item of property, plant and equipment of the Group and the Company includes the cost of the replaced parts of such asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. Other expenses related to property, plant and equipment are recognised in the statement of profit or loss during the reporting period in which they are incurred.

Buildings are recorded at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. Revaluations are carried out at regular intervals, i.e. at least every five years, to ensure that the carrying amount of buildings does not materially differ from their fair value at the date of the preparation of the statement of financial position. The fair value of buildings is determined by certified independent property valuers. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets. The revaluation reserve for buildings is transferred to retained earnings in proportion to the depreciation of revalued buildings.

In case of revaluation, when the estimated fair value of an asset is lower than its net book value, the net book value of this asset is immediately reduced to the fair value and such impairment is recognised as expenses. However, such impairment is deducted from the previous revaluation increase of this asset accounted for in the revaluation reserve, to the extent it does not exceed the amount of such increase.

In case of revaluation, when the estimated fair value of an asset is higher than its net book value, the net book value of this asset is increased to the fair value and such increase is recorded in the revaluation reserve of property, plant and equipment under the shareholder's equity in the statement of other comprehensive income. Depreciation is calculated on the amount which is equal to the acquisition cost, net of the asset's residual value.

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful lives are as follows (in years):

Buildings	10-40
Machinery and equipment	5-15
Other assets	3-7

The useful lives, residual values and depreciation methods are reviewed regularly to ensure that the deprecation period and other estimates are consistent with the expected pattern of economic benefits from property, plant and equipment.

Intangible assets

Intangible assets with a finite useful life that are acquired by the Parent Company and its subsidiaries are stated at cost less accumulated amortisation and impairment losses. Amortisation is recorded in the statement of profit or loss on a straight-line basis over the useful life of 3 years.

The Group and the Company do not have any intangible assets (excluding goodwill) with indefinite useful life.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets that are not individually identified and separately recognized.

Goodwill arising on the acquisition of subsidiaries is recognised as intangible assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses (tested on an annual basis). For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units:

EUR ’000	**At 31 December 2018**	**At 31 December 2017**
Kelmės Pieninė AB	6,616	6,616
Modest AB	299	299
	6,915	6,915

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Non-controlling interest

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the Parent Company. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. Adjustments to non-controlling interest not resulting in a loss of control are based on a proportionate amount of the controlled net assets of the subsidiary.

Investments in subsidiaries

Investments in the subsidiaries in the separate financial statements are stated at acquisition cost, less impairment losses.

Inventories

Inventories comprise finished products, work in progress, and goods and materials.

Inventories are initially measured at acquisition or production cost. The production cost includes direct labour costs, costs of materials and conversion costs incurred during the production period. Production costs also include a systematic allocation of fixed and variable production overheads.

At the end of the reporting period inventories are measured at the lower of cost or net realisable value, less any write-downs. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses. Write-downs of inventories to net realisable value are included in the cost of sales.

The utilisation of inventories is determined using the first-in, first-out (FIFO) method.

Financial assets and liabilities – accounting policies applied from 1 January 2018

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

-those to be measured subsequently at fair value (either through OCI or through profit or loss), and (group and Company does not have such assets)
-those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 – 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group and Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, Group and Company has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. Under factoring with recourse agreements, Group and Company has retained late payment and credit risk. The Group and Company therefore continues to recognise the transferred assets in their entirety in its statement of financial position. The amount repayable under the factoring agreement is presented as secured borrowing. The Group and Company considers the held to collect business model to remain appropriate for these receivables and hence continues measuring them at amortised cost. Under factoring without recourse agreements Group and Company does not retain any risks, therefore these assets are derecongised from statement of financial position and at year-end there is no balances oustanding.

Impairment

From 1 January 2018, the Group and Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade and other 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 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Non-derivative financial assets and liabilities – accounting policies applied until 31 December 2017

Non-derivative financial assets are classified as financial assets at fair value through profit or loss (no such assets are held), held-to-maturity investments (no such assets are held), loans and receivables, and available-for-sale financial assets (no such assets are held). All purchases and sales of financial assets are recognised on the trade date.

Financial liabilities are classified as measured at fair value through profit or loss, other liabilities and derivative financial instruments designated as hedging instruments when entering into hedges.

The Group and the Company determine the classification of financial assets and liabilities at initial recognition. Non-derivative financial instruments are initially recognised at fair value plus all directly attributable transaction costs for all financial instruments not carried at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value in the statement of financial position. Gains or losses on reassessment are recognised directly in profit or loss. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when loans and receivables are derecognised or impaired.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, plus expenses related to the transaction. Subsequently, interest-bearing borrowings are recognised at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition of property, plant and equipment form a part of the acquisition cost of that asset and are added to the acquisition cost until such time as the asset is ready for use.

Trade and other payables

Trade and other payables are initially recognised at fair value, plus any directly attributable transaction costs and subsequently are measured at amortised cost using the effective interest method.

Impairment – financial assets

Financial assets not carried at fair value through profit or loss are reviewed for impairment at each reporting date. A financial asset is impaired if there is objective that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of the financial asset that can be reliably estimated.

When it is probable that the Group and the Company will not be able to collect all loans granted and amounts receivable according to the agreed terms of settlement, impairment loss of financial assets carried at amortised cost or loss from the amount irrecoverable is recognised in the statement of profit or loss.

An impairment loss on trade and other amounts receivable is recognised when there is objective evidence (such as a probable insolvency or significant financial difficulties experienced by the debtor) that the Group and the Company will not be able to collect all amounts due according to the original terms of invoices. Impaired debts are derecognised when they are assessed as uncollectible.

Estimation of the recoverable amount

The recoverable amount of the Parent Company’s or subsidiaries’ receivables carried at amortised cost is calculated as the present value of future cash flows discounted using the original interest rate, i.e. the effective interest rate estimated at the initial recognition of these receivables. Current receivables are not discounted.

Reversal of impairment

An impairment loss on amounts receivable carried at amortised cost is reversed, if, in a subsequent period, the increase in the recoverable amount can be related to an event occurring after the impairment loss was recognised.

The impairment loss is reversed to the extent that the carrying value of the asset does not exceed its value that would have been determined had no impairment loss been recognised.

Fair value measurement

The fair value of investments traded in an active market is based on quoted market prices at the reporting date. If the market for a financial asset is not active (and for unlisted securities), the Group and the Parent Company establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis or other valuation models.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Fair value measurement (continued)

In determining the fair value of assets or liabilities the Group and the Company use as much as possible inputs that are observable in the market. A fair value hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Company recognise the amounts transferred within the fair value hierarchy levels at the end of the reporting period in which the change occurred.

Fair values measured for the purposes of assessment and (or) disclosure are calculated using the below presented methods. When applicable, further information on assumptions used in determining fair values is disclosed in the note related to specific assets or liabilities.

Derivative financial instruments

Derivatives are initially recognised at fair value, costs attributable to the transaction are recognised in profit or loss when incurred. Subsequent to initial recognition derivatives are measured at fair value, and related changes are accounted for as described below.

Cash flow hedge

Changes in fair value of this derivative financial instrument which is designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge is not effective, changes in fair value are recognised in profit or loss.

The amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. The hedge accounting is discontinued prospectively, if the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Other derivatives not held for trading

If a derivative financial instrument is not a hedging instrument, all changes in its fair value are recognised in profit or loss.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Company have retained the right to receive cash inflows from the asset, but have 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 have transferred their rights to receive cash flows from the asset and/or (a) have transferred all the risks and rewards of the asset, or (b) have neither transferred nor retained all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Company have transferred their rights to receive cash flows from the asset and have neither transferred nor retained all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Parent Company's/subsidiary's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits in bank accounts and other short-term liquid investments. Bank overdrafts are recognised in the statement of financial position as current borrowings and are not attributed to cash equivalents in the statement of cash flows as usually their balance is negative. Interest and dividends received are attributed to cash flows of investing activities, interest paid are attributed to cash flows from operating activities, whereas dividends paid – to cash flows from financing activities.

Impairment

Non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed for impairment whenever events or changes in circumstance indicate that the asset may be impaired. If such an indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, less costs to sell. The asset's value in use is calculated by discounting future cash flows to their present value using a pre-tax discount rate reflecting current market assumptions regarding time value of money and risk specific to the asset concerned.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Impairment (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows through the asset's continuous use and is independent from cash flows generated by other assets or the groups of assets ("the cash generating unit" or "CGU").

Whenever the net book value of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. Reversal is accounted for in the statement of profit or loss under the same caption as impairment loss. An impairment loss allocated to goodwill is not reversed.

Provisions

Provisions for liabilities are recognised in the statement of financial position when there are commitments as a result of past events and it is probable that additional funds will be required to settle these obligations. If the impact is material, provisions are estimated by discounting future cash flows to the their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Leases

The Group and the Company classify leases as either operating leases or finance leases at the inception of the lease.

Finance lease -– where the Group and the Company are the lessees

The Group and the Company recognise finance leases as assets and liabilities in the balance sheet at the lower of the fair value of property leased and the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's/Company's incremental borrowing rate is used. Any initial direct costs are added to the value of asset. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the finance lease liability.

Depreciation is charged on property acquired under finance leases, and the related finance costs are incurred in each reporting period that are reported in the Group's and the Company's statements of profit or loss. The procedure of calculation of depreciation for property acquired under finance leases is the same as that applied to freehold property, however, such property cannot be depreciated over the period longer than the lease period, unless the ownership is transferred to the Company and the Group upon expiry of the finance lease contract term.

Operating lease -– where the Group and the Company are the lessees

Operating lease payments are recognised as expenses in profit or loss using the straight-line method over the lease term.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Acquisition of own shares

When own shares are acquired, the amount paid, including directly attributable costs, is recognised as a change in equity. Own shares acquired are shown under a separate line item in equity as a negative amount.

Dividends

Dividends are recorded as liabilities or the amount receivable in the period in which they are declared.

Government grants

Grants received as a compensation for the costs incurred are recognised in profit or loss over the period in which the costs are incurred.

Government and the European Union grants and third party compensations received in the form of non-current assets or intended for the purchase of non-current assets are considered as asset-related grants. Grants are initially recorded at the fair value of the asset received and subsequently amortised. Amortisation costs of grants are included in the cost of production or administrative expenses as well as in the depreciation charge of property, plant and equipment for which the grant was received.

Revenue – accounting policies applied from 1 January 2018

The Group and Company manufactures and sells a range of chees 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 and the Company has objective evidence that all criteria for acceptance have been satisfied.

The goods are sometimes sold with retrospective volume discounts based on aggregate sales over a month or 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 is not recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period as all invoices for these discounts usually are issued till period end.

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.

The Group and Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Revenue – accounting policies applied until 31 December 2017

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and related expenses, trade and volume discounts. Sales revenue is recognised in the statement of profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that the economic benefits will flow to the entity, the associated costs and possible return of goods can be measured reliably, and management does not retain control over the goods. The transfer of risks and rewards vary depending on the individual terms of the contract of sale.

Cost of sales

Cost of sales comprises direct and indirect costs, including depreciation and remuneration expenses incurred in order to achieve the turnover set for a respective year.

Expenses are recognised on an accrual basis and matching principle.

Distribution and administrative expenses

Distribution and administrative expenses comprise expenses related to transportation, administrative staff, coordination activities, office supplies, etc. and also comprise depreciation and amortisation expenses.

Operating expenses are recognised on an accrual basis.

Other operating income and expenses

Other operating income and expenses comprise gain or loss from the disposal of non-current assets as well as other income and expenses not directly related to the principal activities of the Group and the Company.

Finance income and costs

Income and expenses of financing activities include interest receivable and payable, realised and unrealised foreign exchange gain and loss related to borrowings and financial liabilities denominated in foreign currencies.

Interest income is recognised in profit or loss using the effective interest method. The interest element of the finance lease payment is recognised in profit or loss using the effective interest method.

Employee benefits

Short-term employee benefits are recognised as current expenses of the period in which the services have been rendered. Such employee benefits include wages and salaries, social security contributions, bonuses, paid vacation and other benefits. There are no long-term employee benefits.

The Group and the Company pay 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 is a plan under which the Group and the Company pay 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 included in payroll expenses.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss, except to the extent that it relates to line items recognised directly in equity or through other comprehensive income, in which case the tax is recognised in equity through other comprehensive income.

Current income tax is calculated on the annual taxable result using the tax rates enacted and applied as at the reporting date, plus any adjustments to the tax payable in respect of previous years.

A standard income tax rate of 15% is applied to companies registered in the Republic of Lithuania. Tax losses, except for those arising on disposal of securities and/or derivative financial instruments, can be carried forward for unlimited period, provided the entity continues the operations, which generated these tax losses. The amended provisions of Article 30(4) of the Law on Corporate Income Tax stipulate that when calculating income tax for 2014 and subsequent periods, deductible tax losses available for carry forward can be used to reduce taxable income of the current tax year by maximum 70% calculated by deducting non-taxable income, allowable deductions and limited allowable deductions from income, except for losses of the previous tax periods.

The procedure of carrying forward losses arising on disposal of securities and/or derivative financial instruments has not changed, therefore, these losses can be carried forward for the period of 5 years and can only be used to reduce taxable income earned from transactions of the similar nature.

Deferred income tax is calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax is not calculated on temporary differences arising on initial recognition of an asset or liability, which at the time of the transaction affect neither accounting nor taxable profit. Deferred income tax is determined using the tax rates that are expected to apply when the related temporary differences are expected to reverse and that are known at the date of the preparation of the statement of financial position.

Deferred income tax assets are recognised only when the Company and the Group expect that future taxable profit will be available against which tax assets can be utilised. Deferred income tax is reviewed at each date of the statement of financial position and reduced by the amount of tax assets that will not be utilised.

Earnings per share

The Group and the Company disclose information on basic and diluted earnings per share. Basic earnings per share are calculated by dividing profit or loss attributable to the shareholders of the the Parent Company by the weighted average number of ordinary shares during the period. Diluted earnings per share are calculated by adjusting profit or loss attributable to the shareholders, and the weighted average number of ordinary shares during the year, for the effects of all potential ordinary shares. During the reporting periods the Group and the Company did not issue potential ordinary shares.

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 that makes strategic decisions and the General Manager.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Segment reporting (continued)

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions conducted with other segments. The Group has three reportable segments established on the basis of different groups of products (cheese and cheese products, other products, fresh milk products).

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Except for the changes indicated below, accounting policies applied are consistent with the accounting policies applied in the previous financial year. The accounting policies set out below have been consistently applied by the Group and the Company to all the periods presented in these consolidated financial statements.

The Group and the Company have adopted the following new and amended standards, including respective amendments to other standards with effect from 1 January 2018:

IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018).

The main features of the new standard are as follows:

- 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).

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Effect on financial statements of application of new standards and amendments and new interpretations to standards (continued)

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.

Based on the Group's and the Company's estimations, IFRS 9 did not have significant impact on the financial statements. Due to the nature of the Group's and the Company's activities and the categories of financial instruments held the classification and measurement of the Group's and the Company's financial instruments did not change under IFRS 9:

- Loans and amounts receivable (under IAS 39) are classified as financial assets measured at amortised cost under IFRS 9;
- Financial liabilities are continued to be classified as measured at amortised cost (both under IAS 39 and IFRS 9 – for more information, see Note 27).
- The credit quality of the Group's and the Company's amounts receivable is high, the amounts of impairment losses are small in the recent years, therefore impairment losses of amounts receivable calculated under the expected credit losses (ECL) model for the recognition of impairment losses did not significantly differ from currently calculated impairment losses. There is no impact on retained earnings of transition to IFRS 9.

IFRS 15, Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018; earlier application is permitted).

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 Group and the Company reviewed the terms of the major agreements and based on the nature of their business activities and the category of revenue received they did not determine that IFRS 15 will affect the timing of the Group's and the Company's revenue recognition and its measurement. The Group and the Company do not incur expenses related to the conclusion of contracts.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Effect on financial statements of application of new standards and amendments and new interpretations to standards (continued)

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018).

This standard is not relevant to the Group and the Company.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual reporting periods beginning on or after 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 amendment had no impact on the Group and the Company.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28)).

The amendment had no impact on the Group and the Company.

Standards, interpretations and amendments to published standards that are not yet effective

Several amendments to new standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been adopted in the preparation of these consolidated financial statements. Standards, interpretations and amendments that may be relevant to the Group and the Company are presented below. The Group and the Company do not intend to early adopt these standards.

IFRS 16, Leases (effective for annual reporting periods beginning on or after 1 January 2019; earlier application is permitted, if an entity applies IFRS 15 as well).

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.

Based on the Group's and the Company's estimations, lease assets in the amount of EUR 0 and, respectively, lease liabilities in the amount of EUR 69 thousand will be recognised.

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).

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Effect on financial statements of application of new standards and amendments and new interpretations to standards (continued)

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 Group and the Company are currently assessing 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 the 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 Group and the Company are currently assessing 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 2019; 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 Group and the Company are currently assessing the impact of these amendments on their financial statements.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's and the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

Inter-company offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of accounting estimates and assumption by management that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The accounting estimates and the related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the net book amounts of assets and liabilities that are not readily apparent from other sources. The actual results may ultimately differ from those estimates.

The accounting estimates and underlying assumptions are regularly reviewed and are based on historical experience, other factors reflecting a current situation and reasonably possible future events.

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the amounts of assets and liabilities and can cause a significant adjustment to these amounts within the next financial year are addressed below.

Impairment losses on goodwill and property, plant and equipment

At each statement of financial position date, the Group and the Company review the net book values of property, plant and equipment to determine whether there are any indications that those assets have suffered an impairment loss. If such an indication exists, the asset's recoverable amount is estimated. Goodwill is tested for impairment annually by calculating the recoverable amount of the asset concerned. For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows through the asset's continuous use that are largely independent of cash inflows from other assets or groups of assets (the cash generating units).The recoverable amount is the higher of an asset's net realisable value and the value in use. The asset's value in use is calculated by discounting future cash flows to their present value using a pre-tax discount rate reflecting actual market assumptions regarding the time value of money and the risks specific to the asset concerned.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Accounting estimates and assumptions (continued)

The recoverable amount of the asset that does not generate cash flows independently is determined with reference to the recoverable amount of the cash-generating unit to which that asset belongs.

The Company and the Group did not identify impairment indicators in respect of property, plant and equipment as at 31 December 2018 and 2017, therefore impairment testing was not performed.

Assumptions and results of an impairment test performed by the Group in respect of goodwill as at 31 December 2018 and 2017 are disclosed in Note 12 ‘Intangible assets’.

Impairment losses of amounts receivable

The Group and the Company review amounts receivable to assess impairment at least on a quarterly basis. In determining whether expected credit losses should be recorded in profit or loss, the Group and the Company assess any observable data indicating that there is a measurable decrease in the estimated future net cash flows from a portfolio of receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions or other future information that influence the Group’s and the Company’s receivables.

As credit history is relatively good, Group and Company assessed that expected credit losses as at 1 December 2018 and 31 December 2018 for not impaired receivables is close to zero.

Management evaluates expected cash flows from the debtors based on historical loss experience related to credit risk of amounts receivable or similar risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For more information refer to Note 16 ‘Trade and other receivables’ and Note 27 ‘Financial instruments and risk management’.

Measurement of inventories

The Group and the Company review the movement in the inventory account, assess carrying amount on a quarterly basis. The carrying amount of inventories should not exceed future economic benefits expected to be received from the disposal or use of inventories.

Loss of inventory write-down to net realisable value is recognised in the statement of profit or loss during the period in which the inventory measurement, write-down were performed. Inventory write-down is assessed taking into account historical data and actual sales of inventories below cost. If the recognised write-down allowance for inventories was 10% higher/lower, the Group’s and the Company profit before income tax for 2018 would be EUR 93 thousand and EUR 70 thousand, respectively, lower/higher (2017: EUR 135 thousand for the Group and EUR 82 thousand for the Company, respectively).

For more information refer to Note 15 ‘Inventories’.

Useful life of property, plant and equipment

Useful lives of the assets are reviewed annually and revised when there are grounds for believing that the remaining useful lives do not reflect technical conditions, economic utilisation or physical conditions of the assets.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Financial risk management

The use of the financial instruments exposes the Group and the Company to the following risks:

- credit risk;
- liquidity risk;
- market risk.

Information on each type of the above-mentioned risks to which the Group and the Company are exposed, objectives, policies and processes for managing the risk and the methods used to measure the risk is set out in this section.

Note 27 'Financial instruments and risk management' discloses quantitative information on each type of the above-mentioned risks and on the Group's and the Company's capital management.

Risk management framework

The Board is responsible for the development and monitoring of the Group's and the Company's overall risk management programme. The Group's and the Company's risk management policy defines and analyses risks to which the companies are exposed, establishes appropriate risk limits, controls risks and adherence to risk limits. The risk management policy and systems are reviewed on a regular basis to reflect market conditions and the Group's and the Company's operational changes. The Group and the Company, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

In conducting trading activities the Group and the Company apply deferred payment in respect of sale of products and services, therefore a risk may arise that clients will not pay for products and services provided by the Group and the Company. The Group and the Company aim to minimise credit risk by applying the principles of a credit limit, based on which the amounts of credits granted to clients and the types of collaterals are established as follows:

- limit;
- insurance;
- guarantees;
- credit insurance.

At the end of 2017, the Group and the Company insured sales to the foreign clients under the credit insurance agreement concluded with the company Eurler Hermes.

For each client, the credit risk is assessed on an individual basis. Trade receivables are monitored by the Financial Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started.

Liquidity risk

Liquidity risk is a risk that the Group and the Company will not be able to meet their financial liabilities in due time. The Group and the Company manage liquidity risk with the aim to achieve the best possible liquidity of the Group and the Company which enables to settle obligations both in the ordinary course of business and under complicated operating conditions and prevents from incurring unacceptable losses and damaging the Group's and the Company's reputation.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Liquidity risk (continued)

The Group's and the Company's policy is aimed at maintaining sufficient cash and cash equivalents or ensuring funding through an adequate amount of committed credit facilities in order to meet their commitments at a given date in accordance with the strategic plans.

The Group's and the Company's objective is to maintain balance between the continuity and flexibility of funding. The Group and the Company generate a sufficient amount of cash form their activities, therefore management is responsible for ensuring a sufficient level of the Group's and the Company's liquidity.

Market risk

Market risk is a risk that changes in market prices, e.g. foreign exchange rates and interest rates, will affect the Group's and the Company's results of operations or the value of financial instruments held. The aim of market risk management is to manage open risk positions in order to optimise rate of return.

The Group and the Company manage foreign exchange risk by minimising the open position in a foreign currency. Further information on hedging against foreign exchange risk is disclosed in Note 27 'Financial instruments and risk management'.

The Group's and the Company's income and operating cash flows are substantially independent of market interest rates. The Group and the Company have no significant interest-bearing assets.

Notes to the financial statements

1 Segment information

The Group consists of four legal entities: VILKYŠKIŲ PIENINĖ AB (the Parent Company), Kelmės Pieninė AB (the subsidiary), Modest AB (the subsidiary) and Pieno Logistika AB (the subsidiary). The principal activity of each company (segment) is the production of milk products, except for Pieno Logistika AB, which is engaged in the lease of buildings. The companies produce different milk products, therefore, they use different technologies and apply different marketing strategies.

The Group has several operating segments which are as described below.

The segments represent different product groups, which are managed separately because they require different technology and marketing strategies. The Board and the General Manager review internal management reports prepared for each product group on a monthly basis.

The following summary describes the products in each operating segment of the Group:

- *Cheese, cheese products and other.* The segment comprises cheese, cheese products, cream, and liquid whey that stays during the process of cheese production;
- *Dry milk products.* The segment comprises WPC, skimmed-milk, permeate and whey powder produced by the subsidiaries. The segment is observed starting from 2018. The data of 2017 is respectively presented.
- *Fresh milk products.* The segment comprises fresh milk products produced by the subsidiaries (milk, kephir, yoghurt, sour milk, butter, curd products);

Information on the results of each operating segment is presented below. Performance is assessed based on the gross profit of the segments, which is presented in the internal management reports reviewed by the Board and the General Manager. The segment's gross profit is used to assess performance as management believes that this indicator is the most appropriate for the assessment of the results of operations.

Notes to the consolidated and separate financial statements

Performance indicators of the segments as at 31 December 2018:

GROUP

EUR ’000	Cheese, cheese products and other	Dry milk products	Fresh milk products	Total
Sales	76,870	7,571	18,721	103,162
Cost of sales	-72,898	-7,819	-16,672	-97,389
Gross profit	**3,972**	**-248**	**2,049**	**5,773**
Other operating income				326
Distribution, administrative and other operating expenses				-6,983
Results of operating activities				**-884**
Finance income				13
Finance costs				-999
Finance costs, net				**-986**
Profit (loss) before income tax				**-1,870**

1 Segment information (continued)

Performance indicators of the segments for the year ended 31 December 2017 are as follows:

EUR ’000	Cheese, cheese products and other	Dry milk products	Fresh milk products	Total
Sales	94,111	1.097	18,731	113,939
Cost of sales	-79,855	-471	-17,125	-97,451
Gross profit	**14,256**	**626**	**1,606**	**16,488**
Other operating income				390
Distribution, administrative and other operating expenses				-8,765
Results of operating activities				**8,113**
Finance income				27
Finance costs				-580
Finance costs, net				**-553**
Profit before income tax				**7,560**

Information on the segments’ assets, liabilities, interest income and interest expenses, depreciation, results of operations before tax, income tax and other non-cash line items is not provided to the Board and the General Manager. In management’s opinion the allocation of these line items to the operating segments is not reasonable. Sales revenue, cost of sales and gross profit are the same as reported in the financial statements. All revenue in 2018 are recognised at point in time.

Notes to the consolidated and separate financial statements

When presenting information according to a geographical segment, segment income is recognised according to the place of registration of a client. Segment assets are distributed according to the assets' geographical location.

Segment information for 2018 by a geographical segment:

EUR '000	**Revenue**	**Assets**
Lithuania	24,585	78,688
European Union, except for Lithuania	55,865	2,728
Other countries	22,712	869
	103,162	82,285

Segment information for 2017 by a geographical segment:

EUR '000	**Revenue**	**Assets**
Lithuania	24,891	76,969
European Union, except for Lithuania	63,531	3,315
Other countries	25,517	847
	113,939	81,131

Information on major clients. The Group had no clients with sales accounting for more than 10% of total sales.

2 **Cost of sales** (EUR '000)

GROUP			**COMPANY**	
2018	**2017**		**2018**	**2017**
-74,048	-77,282	Raw materials	-67,438	-74,666
-	-	Resale cost of goods produced by the subsidiaries	-41,689	-30,461
-6,464	-7,098	Employee expenses, including social security contributions	-2,791	-2,546
-3,059	-2,205	Depreciation and grants' amortisation	-1,270	-1,499
-4,910	-4,475	Milk collection and transportation costs	-5,374	-4,971
-4,598	-2,470	Gas, electricity, water	-1,580	-1,442
-4,310	-3,921	Other	-2,818	-1,652
-97,389	**-97,451**		**-122,960**	**-117,237**

3 **Other operating income** (EUR '000)

GROUP			**COMPANY**	
2018	**2017**		**2018**	**2017**
52	197	Income from provision of services, including lease income	1,399	601
15	15	Revenue from accounting services	112	112
133	90	Income from sales of materials, non-current assets	309	243
67	50	Revenue from transportation services rendered to other companies	4	14
2	-	Amounts due not yet claimed	2	-
57	38	Other income	52	32
326	**390**		**1,878**	**1,002**

Notes to the consolidated and separate financial statements

4 Other operating expenses (EUR ’000)

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
-109	-167	Cost of services rendered	-1322	-563
-36	-49	Cost of materials sold	-249	-185
-	-1	Loss on disposal of property, plant and equipment	-	-
-4	-27	Other expenses	-4	-5
-149	**-244**		**-1,575**	**-753**

5 Distribution expenses (EUR ’000)

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
-1,785	-1,530	Logistics and transport services	-2,112	-1,957
-706	-1,215	Marketing and advertising services	-710	-1,204
-826	-723	Employee expenses, including social security contributions	-826	-723
-82	-85	Depreciation expenses	-59	-60
-918	-534	Other selling expenses	-854	-489
-4,317	**-4,087**		**-4,561**	**-4,433**

6 Administrative expenses (EUR ’000)

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
-1,457	-1,650	Employee expenses, including social security contributions and change in vacation reserve	-1,246	-1,445
-218	-221	Depreciation and amortisation, including amortisation of subsidies	-168	-186
-191	-225	Services received	-124	-231
324	-927	Taxes, other than income tax	352	-907
-114	-108	Veterinary services	-80	-81
-163	-67	Consultation services	-142	-52
188	-268	Inventory write-down, reversal	98	-100
-94	-98	Security	-38	-32
-85	-67	Fines and interest paid on late payments	-85	-67
-1	-1	Write-off of bad debt expenses	-	-1
-106	-65	Computer expenses	-103	-61
-54	-41	Fuel	-41	-33
-31	-27	Repair expenses	-48	-15
-27	-25	Fee for membership in association	-27	-24
-31	-32	Stock exchange expenses	-29	-30
-48	-32	Insurance	-29	-20
-16	-20	Bank charges	-13	-18
-393	-560	Other	-275	-329
-2,517	**-4,434**		**-1,998**	**-3,632**

Notes to the consolidated and separate financial statements

In 2018, the Group's and the Company's social security contributions payable by the employer amounted to EUR 2,506 thousand and EUR 1,513 thousand, respectively (2017: EUR 2,429 thousand and EUR 1,573 thousand, respectively).

7 Services provided by the audit firm to the Company and the Group in 2018 (EUR '000)

	GROUP	COMPANY
Audit of the financial statements under the agreements	33	20
Assurance and other related services	-	-
Tax consultation services	-	-
Expenses of other services	1	1
Total	**34**	**21**

8 Finance costs, net (EUR '000)

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
		Finance income		
		Dividends	786	2,285
5	5	Interest paid	6	6
8	22	Other	11	16
13	**27**	Total finance income	**803**	**2,307**
		Finance costs		
-789	-435	Interest paid	-347	-402
-114	-68	Factoring charges	-114	-68
-58	-27	Foreign exchange loss	-58	-27
-38	-50	Other	-22	-38
-999	**-580**	Total finance costs	**-541**	**-535**
-986	**-553**		**262**	**1,772**

9 Income tax expenses (EUR '000)

Recognised in profit or loss

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
		Current year income tax expenses		
-	-167	Reporting period	-	-135
-	1	Adjustment to previous year income tax	-	1
		Deferred income tax expenses		
684	-708	Change in deferred income tax	684	-708
684	**-874**		**684**	**-842**

Notes to the consolidated and separate financial statements

9 Income tax expenses (continued) (EUR ’000)

Reconciliation of effective income tax rate (EUR ’000)

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
(1,870)	7,560	Profit for the year	(2,712)	7,044
(281)	1,134	Income tax calculated at a rate of 15%	(407)	1,057
-	(135)	Profit of Kelmės Pieninė AB not subject to tax due to the status of a social enterprise assigned to the company	-	-
95	294	Expenses not deductible for tax purposes	30	284
(237)	(175)	Income not subject to tax	(307)	(346)
(1)	(9)	Charity expenses deductible twice for tax purposes	-	(9)
(260)	(167)	Applied income tax relief for the investment project	-	(135)
-	(68)	Other expenses deductible for tax purposes	-	(9)
(684)	**874**	Income tax expenses/(benefit)	**(684)**	**842**

10 Earnings per share

GROUP 2018	GROUP 2017		COMPANY 2018	COMPANY 2017
11,943	11,943	Number of issued shares calculated based on the weighted average unit cost method, in thousands	11,943	11,943
-1,186	6,680	Net profit attributable to holders of ordinary shares of the Parent Company, in EUR ‘000	-2,028	6,202
-0.10	0.56	Basic earnings per share (in EUR)	-0.17	0.52

The diluted earnings per share are the same as basic earnings per share.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment

GROUP

EUR ’000	Land and buildings	Plant and machinery	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance at 1 January 2017	10,481	31,738	2,639	23,647	68,505
Additions	167	1,052	374	8,691	10,284
Disposal	-	-564	-95	-1,676	-2,335
Reclassifications	4,099	18,649	1,125	-23,914	-41*
Balance at 31 December 2017	14,747	50,875	4,043	6,748	76,413
Balance at 1 January 2018	14,747	50,875	4,043	6,748	76,413
Additions	94	878	214	708	1,894
Disposal	-6	-790	-744	-	-1,540
Reclassifications	70	5,138	69	-5,277	-
Balance at 31 December 2018	14,905	56,101	3,582	2,179	76,767
Depreciation and impairment losses					
Balance at 1 January 2017	1,336	16,412	1,692	-	19,440
Depreciation charge for the year	442	2,475	201	-	3,118
Disposals	-	-513	-79	-	-592
Reclassifications	-	-	-	-	-
Balance at 31 December 2017	1,778	18,374	1,814	-	21,966
Balance at 1 January 2018	1,778	18,374	1,814	-	21,966
Depreciation charge for the year	513	3,715	404	-	4,632
Disposals	-4	-770	-367	-	-1,141
Reclassifications	-	-	-	-	-
Balance at 31 December 2018	2,287	21,319	1,851	-	25,457
Net book amounts					
At 1 January 2017	9,145	15,326	947	23,647	49,065
At 31 December 2017	12,969	32,501	2,229	6,748	54,447
At 31 December 2018	12,618	34,782	1,731	2,179	51,310

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

COMPANY

EUR ’000	Land and buildings	Plant and machinery	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance at 1 January 2017	8,188	22,864	1,554	2,503	35,109
Additions	167	926	47	2,554	3,694
Disposal	-	-559	-52	-	-611
Reclassifications	4,005	381	405	-4,832	-41*
Balance at 31 December 2017	12,360	23,612	1,954	225	38,151
Balance at 1 January 2018	12,360	23,612	1,954	225	38,151
Additions	94	572	58	215	939
Disposal	-4	-639	-537	-	-1,180
Reclassifications	70	55	52	-177	-
Balance at 31 December 2018	12,520	23,600	1,527	263	37,910
Depreciation and impairment losses					
Balance at 1 January 2017	953	12,264	1,236	-	14,453
Depreciation charge for the year	355	1,545	116	-	2,016
Disposals	-	-512	-36	-	-548
Reclassifications	-	-	-	-	-
Balance at 31 December 2017	1,308	13,297	1,316	-	15,921
Balance at 1 January 2018	1.308	13,297	1,316	-	15,921
Depreciation charge for the year	422	1,586	131	-	2,139
Disposals	-3	-619	-161	-	-783
Reclassifications	-	-	-	-	-
Balance at 31 December 2018	1,727	14,264	1,286	-	17,277
Net book amounts					
At 1 January 2017	7,235	10,600	318	2,503	20,656
At 31 December 2017	11,052	10,315	638	225	22,230
At 31 December 2018	10,793	9,336	241	263	20,633

*The amount of EUR 13 thousand (2016: EUR 14 thousand) is related to an intangible asset project completed in 2017, which was directly transferred from construction in progress to intangible assets.

*The amount of EUR 28 thousand was in 2017 transferred to current repair expenses.

Prepayments for non-current assets are classified as acquisitions of non-current assets.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

Pledges of assets

To secure the repayment of the bank loans, the Group has pledged its property, plant and equipment:

- buildings with the carrying amount of EUR 7,921 thousand as at 31 December 2018 (31 December 2017: buildings amounting to EUR 8,260 thousand);
- plant and machinery, fixtures and equipment with a net book value of EUR 31,671 thousand as at 31 December 2018 (31 December 2017: movable property, fixtures and equipment amounting to EUR 11,834 thousand) (Note 20).

To secure the repayment of the bank loans, the Company has pledged its property, plant and equipment:

- buildings with the carrying amount of EUR 6,485 thousand as at 31 December 2018 (31 December 2017: buildings amounting to EUR 6,768 thousand);
- plant and machinery, fixtures and equipment with a net book value of EUR 6,111 thousand as at 31 December 2018 (31 December 2017: movable property, fixtures and equipment amounting to EUR 6,899 thousand) (Note 20).

The acquisition cost of the Group's property, plant and equipment fully depreciated but still in use amounted to EUR 10,088 thousand as at 31 December 2018 (31 December 2017: EUR 9,064 thousand).

The acquisition cost of the Company's property, plant and equipment fully depreciated but still in use amounted to EUR 8,002 thousand as at 31 December 2018 (31 December 2017: EUR 7,382 thousand).

Motor vehicles acquired under finance lease contracts

The Group and the Company have acquired motor vehicles under finance lease contracts. The net book value of such assets of the Group was EUR 1,008 thousand as at 31 December 2018 (31 December 2017: EUR 979 thousand). The net book value of such assets of the Company was EUR 942 thousand as at 31 December 2018 (31 December 2017: EUR 940 thousand).

Depreciation

Depreciation was included in the following line items:

GROUP			COMPANY	
2018	**2017**	EUR '000	**2018**	**2017**
4,364	2,893	Cost of goods produced	1,726	1,726
268	225	Distribution and administrative expenses	200	173
		Other operating expenses	213	117
4,632	**3,118**		**2,139**	**2,016**

Valuation of buildings

The Group and the Company record buildings at revalued amount, less subsequent accumulated depreciation and impairment.

On 31 December 2014, the Group and the Company revalued their buildings and accounted for the revaluation results in the financial statements.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

Valuation of buildings

The Company's increase in value of EUR 1,152 thousand (net of deferred income tax liability) was recognised in equity. The Group's total revaluation surplus amounted to EUR 1,175 thousand and was recognised within additions in property, plant and equipment for 2014.

The fair value of the buildings is attributed to Level 3 of the fair value hierarchy. The valuation method used by an independent property valuer – the comparable and cost methods and their combination.

As at 31 December 2018, the net value of the Group's revaluation reserve amounted to EUR 2,233 thousand (31 December 2017: EUR 2,369 thousand).

As at 31 December 2018, the net value of the Company's revaluation reserve amounted to EUR 2,145 thousand (31 December 2017: EUR 2,274 thousand).

Had the Group's buildings been stated at cost, their net book value and revalued amount would be equal to EUR 6,711 thousand and EUR 9,070 thousand, respectively, as at 31 December 2018 (31 December 2017: EUR 5,548 thousand, EUR 8,057 thousand, respectively).

Had the Company's buildings been stated at cost, their net book value and revalued amount would be equal to EUR 5,319 thousand and EUR 7,634 thousand, respectively, as at 31 December 2018 (31 December 2017: EUR 4,104 thousand, EUR 6,564 thousand, respectively).

Based on the estimates of the Group and the Company, the value of the buildings carried at revalued amount as at 31 December 2018 and 2017 did not significantly differ from their carrying amounts, therefore no revaluation was performed.

Notes to the consolidated and separate financial statements

12 Intangible assets

GROUP

EUR '000	Goodwill	Computer equipment	Other intangible assets	Total
Cost				
Balance at 1 January 2017	6,915	715	-	7,630
Additions	-	2	7	9
Disposals	-	-	-	
Reclassifications*	-	8	5	13*
Balance at 31 December 2017	6,915	725	12	7,652
Balance at 1 January 2018	6,915	725	12	7,652
Additions	-	4	-	4
Disposals	-	-171	-	-171
Reclassifications*	-	-	-	-
Balance at 31 December 2018	6,915	558	12	7,485
Amortisation and impairment				
Balance at 1 January 2017	-	610	-	610
Amortisation charge for the year	-	80	1	81
Disposals	-	-	-	-
Balance at 31 December 2017	-	690	1	691
Balance at 1 January 2018	-	690	1	691
Amortisation charge for the year	-	29	3	32
Disposals	-	-171	-	-171
Balance at 31 December 2018	-	548	4	552
Net book amounts				
At 1 January 2017	6,915	105	-	7,020
At 31 December 2017	6,915	35	11	6,961
At 31 December 2018	6,915	10	8	6,933

Amortisation expenses for the year are included in administrative expenses.

Notes to the consolidated and separate financial statements

12 Intangible assets (continued)

COMPANY

EUR '000	Goodwill	Computer equipment	Other intangible assets	Total
Cost				
Balance at 1 January 2017	-	642	-	642
Additions	-	2	7	9
Disposals	-	-	-	-
Reclassifications*		8	5	13*
Balance at 31 December 2017	-	652	12	664
Balance at 1 January 2018		652	12	664
Additions	-	4	-	4
Disposals	-	-1	-	-1
Reclassifications	-	-	-	-
Balance at 31 December 2018	-	655	12	667
Amortisation and impairment				
Balance at 1 January 2017	-	549	-	549
Amortisation charge for the year	-	73	1	74
Disposals	-	-	-	-
Balance at 31 December 2017	-	622	1	623
Balance at 1 January 2018	-	622	1	623
Amortisation charge for the year	-	24	3	27
Disposals	-	-1	-	-1
Balance at 31 December 2018	-	645	4	649
Net book amounts				
At 1 January 2017	-	93	-	93
At 31 December 2017	-	30	11	41
At 31 December 2018	-	10	8	18

*The amount of EUR 13 thousand is related to an intangible asset project completed in 2017, which was directly transferred from construction (production) works of PP&E in progress.

Notes to the consolidated and separate financial statements

12 Intangible assets (continued)

Recoverable amount of cash generating units to which goodwill is attributed

Goodwill is attributable to the following cash generating units of the Group:

EUR ’000	**At 31 December 2018**	**At 31 December 2017**
Kelmės Pieninė AB	6,616	6,616
Modest AB	299	299
	6,915	6,915

Goodwill arising on business combination is attributable mainly to synergy, which has resulted from the integration of the companies into the existing activity of the Group, i.e. the production of milk products.

These cash generating units were tested for impairment by calculating the value in use. For the assessment of the value in use, the estimated future cash flows were discounted to their present value using the industry’s weighted average cost of capital (WACC) of 6.7% (2017: 7%) The main assumptions used for the calculation of the value in use are as follows:

- future cash flows were calculated based on historical experience and the approved five-year business plan; cash flows in the long term were calculated by extrapolating the cash flow of the fifth year at a projected growth rate of 1% (2017 m. growth rate of 1%);
- in 2019, the main objectives of Vilkyškių Pieninė AB group of companies include the revision of the product basket, optimisation of the production range, further expansion of the markets for dry milk products, and improvement of the market position in China, Malaysia, Indonesia, and Arab countries;
- all group companies will seek to maximise the efficiency of production through process automation; the group of companies will continue to provide strong focus to the development of the production of innovative products, issues pertaining to the personnel management and payroll policy, ensurance of safe and healthy work conditions, and implementation of the General Data Protection Regulation;
- the Group’s management expects that in 2019 the prices of raw milk will not differ significantly from the prices that prevailed in the second half of 2018;
- in view of the budget of Kelmės Pieninė AB prepared by the management, revenue and EBITDA estimated for 2019 amount to around EUR 37,000 thousand and around EUR 6,300 thousand, respectively.

The recoverable amount of goodwill estimated based on these assumptions was higher than the carrying amount, therefore, no impairment was recognised in the financial statements. The analysis of sensitivity to significant assumptions is not presented as a probable change in these assumptions will have no material impact on the calculated value of goodwill.

Notes to the consolidated and separate financial statements

13 Investments in subsidiaries

EUR '000	At 31 December 2018	At 31 December 2017
Cost of shares of Modest AB	1,991	1,991
Cost of shares of Kelmės Pieninė AB	8,656	8,656
Cost of shares of Pieno Logistika AB	66	66
	10,713	10,713

The Company acquired control over Modest AB in 2006. The ownership interest held by the Company was 99.7% as at 31 December 2018 (31 December 2017: 99.7%).

On 30 April 2008, the Company acquired shares of Kelmės Pieninė AB under the share purchase and sale agreement. The ownership interest held was 100% as at 31 December 2018 (31 December 2017: 100%).

As at 31 December 2018, the Company owned 58.9% (31 December 2017: 58.9%) of the shares of the subsidiary Pieno Logistika AB granting voting rights.

No impairment indicators were established in respect of the investment in Modest AB as at 31 December 2018. The estimated recoverable amount of the investment in Modest AB showed that the investment was not impaired as at 31 December 2018, therefore no impairment was recognised.

- The main objective of Modest AB is to launch the new grating line and reform the processes of the production of mozzarella and blue-veined cheese.

In view of the above-mentioned measures, revenue and EBITDA set in the 2019 budget of Modest AB prepared by management are estimated at about EUR 20,000 thousand and about EUR 1,000 thousand, respectively.

The recoverable amount of the investment in Kelmės Pieninė AB as at 31 December 2018 and 2017 was estimated by assessing impairment of goodwill (Note 12). The estimated recoverable amount of the investment in Kelmės Pieninė AB showed that the investment was not impaired as at 31 December 2018 and 2017, therefore no impairment was recognised.

- The main objective of Kelmės Pieninė AB is to increase the quantity of milk processed, perform an evaluation of the available range, produce only products with a higher profit margin, and expand the markets of dry products.

In view of the above-mentioned measures, revenue and EBITDA set in the 2019 budget of Kelmės Pieninė AB prepared by management are estimated at about EUR 37,000 thousand and about EUR 6,300 thousand, respectively.

Key financial data of Pieno Logistika AB as at 31 December 2018 are given below.

	At 31 December 2018	At 31 December 2017
Total assets	186	189
Shareholders' equity	107	106
Net profit (loss)	1	1

Notes to the consolidated and separate financial statements

14 Long-term amounts receivable (EUR ’000)

GROUP At 31 December 2018	GROUP At 31 December 2017	Note		COMPANY At 31 December 2018	COMPANY At 31 December 2017
			Financial instruments		
63	63	26	Loans granted to related parties (b)	73	78
37	62		Non-current amounts receivable from farmers (c)	37	62
100	**125**			**110**	**140**
			Non-financial assets		
214	127	26	Prepayments to related parties (a)	214	127
-	2		Other non-current amounts receivable	-	2
314	**254**			**324**	**269**

(a) A prepayment amounting to EUR 214 thousand was made to a related company Šilgaliai ŪKB. The prepayment must be fully settled until 31 December 2023. The outstanding balance of the prepayment is subject to an administration fee.
(b) A loan amounting to EUR 63 thousand was granted to a related company Šilgaliai ŪKB to be repaid by 31 December 2021. The outstanding balance of the loan bears a fixed interest rate.
(c) Non-current amounts receivable from farmers comprise advance amounts paid to milk suppliers for milk. These advance amounts are subject to an administration fee.

The Group’s and the Company’s exposure to credit and foreign exchange risks, impairment losses related to trade and other amounts receivable are disclosed in Note 27.

15 Inventories (EUR ’000)

GROUP At 31 December 2018	GROUP At 31 December 2017		COMPANY At 31 December 2018	COMPANY At 31 December 2017
12,823	7,671	Finished products	9,865	5,207
12,823	7,671		9,865	5,207
100	62	Raw materials	48	18
2,050	1,672	Consumables	975	636
255	251	Work in progress	-	-
15,228	**9,656**		**10,888**	**5,861**

Raw materials include milk and other materials used in the production.

As at 31 December 2018, the write-down of the Group’s inventories (finished products) to net realisable value amounted to EUR 897 thousand (2017: EUR 1,123 thousand).

As at 31 December 2018, the write-down of the Company’s inventories (finished products) to net realisable value amounted to EUR 700 thousand (2016: EUR 718 thousand).

As at 31 December 2018, the write-down of the Group’s materials (packaging, auxiliary materials, etc.) to net realisable value amounted to EUR 35 thousand (31 December 2017: EUR 223 thousand).

Notes to the consolidated and separate financial statements

15 Inventories (continued) (EUR ’000)

As at 31 December 2018, the write-down of the Company’s inventories (tare, packaging, auxiliary materials, etc.) to net realisable value amounted to EUR 2 thousand (31 December 2017: EUR 100 thousand).

The write-down of inventories (finished products) to net realisable value and the reversal of the write-down are accounted for in the cost of sales.

The write-down of inventories (tare, packaging) and reversal of the write-down are included in administrative expenses.

As at 31 December 2018, the Group’s inventories with the net book value of up to EUR 5,548 thousand (2017: up to EUR 4,048 thousand) have been pledged to financial institutions (Note 20).

As at 31 December 2018, the Company’s inventories with the net book value of up to EUR 5,548 thousand (2017: up to EUR 4,048 thousand) have been pledged to financial institutions (Note 20).

16 Trade and other amounts receivable (EUR ’000)

GROUP	Note	At 31 December 2018	At 31 December 2017
Trade receivables		4,206	4,984
Impairment losses		-97	-97
Loans granted to related parties, including interest charged and administration fee	26	215	101
Financial assets		**4,324**	**4,988**
Other amounts receivable		430	65
Taxes receivable (other than income tax)		2,593	3,438
Total trade and other receivables		**7,347**	**8,491**

COMPANY	Note	At 31 December 2018	At 31 December 2017
Trade receivables		4,190	4,897
Impairment losses		-97	-97
Trade receivables from related parties	26	3,994	6,417
Loans granted to related parties, including interest charged and administration fee	26	215	101
Financial assets		**8,302**	**11,318**
Taxes receivable (other than income tax)		2,593	3,115
Other amounts receivable		13	20
Total trade and other receivables		**10,908**	**14,453**

The Group’s and the Company’s exposure to credit and foreign exchange risks, impairment losses related to trade and other amounts receivable are disclosed in Note 27.

Taxes receivable mainly comprise VAT receivable.

Trade and other receivables are non-interest bearing and are settled with the term of 30 days.

The amount receivable of EUR 110 thousand is due from a related company Šilgaliai ŪKB. The amount includes interest receivable on the loan and an administration fee charged for the advance amounts made.

Trade receivables with the carrying amount of not less than EUR 81 thousand have been pledged to Luminor Bank AB. As at 31 December 2018, the amount receivable pledged was equal to EUR 143 thousand (31 December 2017: EUR 155 thousand).

Notes to the consolidated and separate financial statements

17 Prepayments (EUR ’000)

GROUP					COMPANY	
At 31 Decembe 2018	**At 31 December 2017**	Note		Note	**At 31 December 2018**	**At 31 December 2017**
552	782	a)	Prepayments		506	736
194	223	26	Prepayments to related parties	26	194	223
746	**1,005**				**700**	**959**

a) Prepayments comprise prepayments made to the companies for goods and services and to farmers for milk.

18 Cash and cash equivalents (EUR ’000)

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
275	148	Cash balances in bank accounts	208	65
132	169	Cash on hand	129	166
407	**317**		**337**	**231**

As at 31 December 2018, all cash balances held in bank accounts have been pledged to secure the repayment of the bank loans (Note 20). In addition, cash inflows into bank accounts have been pledged to secure the repayment of the bank loans (Note 20).

The Group’s and the Company’s exposure to the interest rate risk arising from cash and cash equivalents is disclosed in Note 27.

19 Capital and reserves

As at 31 December 2018 and 2017, the Parent Company’s authorised share capital was divided into 11,943,000 ordinary shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Ordinary shares are stated at their nominal value. Consideration received for the shares sold in excess over their nominal value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

Pursuant to the Law on Companies, the holders of ordinary shares have one vote per share at the Company's shareholders' meeting, the right to receive dividends, and the right to receive payments in the event of liquidation of the company.

Legal reserve

Pursuant to the Law on Companies of the Republic of Lithuania, annual transfers of 5% of profit for appropriation are required until the legal reserve reaches 10% of the authorised share capital. Pursuant to the mentioned law the legal reserve may be used to cover accumulated losses only. As at 31 December 2018, the Company’s and the Group’s legal reserve amounted to EUR 346 thousand (31 December 2017: EUR 346 thousand).

Share premium

Share premium is the difference between the nominal value of shares and their issue price.

Notes to the consolidated and separate financial statements

19 Capital and reserves (continued)

Revaluation reserve

Revaluation reserve is related to the revaluation of the buildings and is stated net of deferred income tax liability. The reserve is reduced in proportion to the depreciation and disposal of the revalued assets.

Transfers from the revaluation reserve to retained earnings are performed when the revalued buildings are being depreciated. The amount transferred is determined as a difference between depreciation calculated from the revalued amount and depreciation calculated from the initial cost of the buildings.

Revaluation reserve can be used to increase the authorised share capital.

Hedging reserve

As at 31 December 2018, the value of the transactions of the hedging reserve was EUR 0 thousand (31 December 2017: EUR 118 thousand).

Reserve for acquisition of own shares

As at 31 December 2017, the reserve for acquisition of own shares amounted to EUR 2,508 thousand.

The Ordinary Meeting of Shareholders held on 28 April 2018 decided to annul the unutilised reserve for acquisition of own shares.

Dividends

Dividends of EUR 0.14 per share were paid to the shareholders in 2018 (dividends of EUR 0.12 per share were paid to the shareholders in 2017).

20 Borrowings and financial lease liabilities

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
14,300	19,620	Non-current borrowings	0	3,510
600	503	Finance lease liabilities	572	479
14,900	**20,123**	**Non-current**	**572**	**3,989**
12,650	7,767	Current bank and other borrowings	8,610	4,464
274	207	Finance lease liabilities	248	195
12,924	**7,974**	**Current**	**8,858**	**4,659**
27,824	**28,097**	**Total borrowings**	**9,430**	**8,648**

Notes to the consolidated and separate financial statements

20 Borrowings and financial lease liabilities (continued)

As at 31 December 2018, according to the agreements signed with banks, the Company's and the Group's balance of short-term credit limits not withdrawn amounted to EUR 4,626 thousand (2017: EUR 1,339 thousand) and of long-term credit limits not withdrawn amounted to EUR 591 thousand (2017: EUR 819 thousand). According to the agreements signed with banks, the Company's and the Group's borrowings and credit lines are subject to interest rates: 3 month EURIBOR + a margin and 6 month EURIBOR + a margin; interest rates set for the overdraft: 3 month EURIBOR + a margin, 2 month EURIBOR + a margin and 1 week EONIA + a margin.

According to the agreements signed with banks, the Company and the Group have committed to comply with certain covenants, such as debt to EBITDA ratio, debt service coverage ratio, equity ratio and other financial ratios. The mentioned ratios were calculated according to the data reported in the consolidated financial statements.

As at 31 December 2018, under the loan and financial indicators agreement with SEB Bankas AB, the Company did not comply with the debt to EBITDA ratio in the fourth quarter, therefore non-current financial liabilities in the amount of EUR 2,498 were classified to the current portion.

Under the agreements with other banks, the Company did not comply with the debt to EBITDA ratio as at 31 December 2018 either. Amendments to the agreements with banks were made or letters were received indicating that no sanctions would be applied for non-compliance with the ratios.

As at 31 December 2017, all the ratios were complied with.

Schedules of repayment of borrowings, except for finance lease liabilities (EUR '000)

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
12,650	7,767	Within 1 year	8,610	4,464
14,300	19,620	Later than 1 year and no later than 5 years	-	3,510
-	-	Later than 5 years	-	-
26,950	**27,387**		**8,610**	**7,974**

In 2018, the Group's borrowings and finance lease liabilities were subject to an annual estimated effective interest rate of 2.81% (2017: 2.97%).

In 2018, the Company's borrowings and finance lease liabilities were subject to an annual estimated effective interest rate of 3.60% (2017: 4.58%).

Financial lease liabilities

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
274	207	No later than 1 year	248	195
600	503	Within 1 and 5 years	572	479
874	**710**		**820**	**674**

The Company's and the Group's financial lease agreements do not contain any contingent lease payments.

The Company's and the Group's interest rate applicable to finance leases consists of a 6 or 12-month EURIBOR + a margin.

Notes to the consolidated and separate financial statements

20 Borrowings and financial lease liabilities (continued)

Cash flows from financing activities

Liabilities arising from financing activities

COMPANY	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrow-ings	Total
At 1 January 2018	195	479	2,875	1,589	3,510	8,648
Cash flows - proceeds from borrowings	-	-	2,956	-	-	2,956
Cash flows - repayments of borrowings	-	-	(1,278)	(30)	(1,012)	(2,320)
Acquisitions - finance lease	76	472	-	-	-	548
Returns - finance lease	(23)	(379)	-	-	-	(402)
Other non-cash changes (reclassification of the loan)	-	-	2,498	-	(2,498)	-
At 31 December 2018	**248**	**572**	**7,051**	**1,559**	**-**	**9,430**

Liabilities arising from financing activities

GROUP	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrowings	Total
At 1 January 2018	207	503	5,236	2,531	19,620	28,097
Cash flows - proceeds from borrowings	-	-	3,080	1,072	105	4,257
Cash flows - repayments of borrowings	-	-	(1,737)	(30)	(2,927)	(4,694)
Acquisitions - finance lease	95	504	-	-	-	599
Returns - finance lease	(28)	(407)	-	-	-	(435)
Other non-cash changes (reclassification of the loan)	-	-	2,498	-	(2,498)	-
At 31 December 2018	**274**	**600**	**9,077**	**3,573**	**14,300**	**27,824**

Notes to the consolidated and separate financial statements

Liabilities arising from financing activities

COMPANY	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrow-ings	Total
At 1 January 2017	87	32	3,276	3,696	6,804	13,895
Cash flows - proceeds from borrowings	-	-	160	-	2,179	2,339
Cash flows - repayments of borrowings	-	-	(561)	(2,107)	(1,685)	(4,353)
Acquisitions - finance lease	484	447	-	-	-	931
Returns - finance lease	(376)	-	-	-	-	(376)
Other non-cash changes (off-set of the repayment of a borrowing against amounts receivable)	-	-	-	-	(3,788)	(3,788)
At 31 December 2017	**195**	**479**	**2,875**	**1,589**	**3,510**	**8,648**

Liabilities arising from financing activities

GROUP	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrowings	Total
At 1 January 2017	87	32	3,917	4,693	21,579	30,308
Cash flows - proceeds from borrowings	-	-	2,419	-	2,926	5,345
Cash flows - repayments of borrowings	-	-	(1,100)	(2,162)	(4,885)	(8,147)
Acquisitions - finance lease	506	471	-	-	-	977
Returns - finance lease	(386)	-	-	-	-	(386)
At 31 December 2017	**207**	**503**	**5,236**	**2,531**	**19,620**	**28,097**

GROUP Minimum lease payments	**GROUP** Present value of minimum lease payments	Financial lease liabilities At 31 December 2017	**COMPANY** Minimum lease payments	**COMPANY** Present value of minimum lease payments
218	207	Lease payments within the first year	206	195
516	503	Lease payments within the second – fifth years	491	479
734	**710**	**Minimum lease payments**	**697**	**674**
(24)	–	Future finance charges	(23)	–
710	**710**	**Present value of minimum finance lease payments**	**674**	**674**

Notes to the consolidated and separate financial statements

GROUP			COMPANY	
Minimum lease payments	Present value of minimum lease payments	Financial lease liabilities At 31 December 2018	Minimum lease payments	Present value of minimum lease payments
287	274	Lease payments within the first year	261	248
614	600	Lease payments within the second – fifth years	585	572
901	**874**	**Minimum lease payments**	**846**	**820**
(27)	–	Future finance charges	(26)	–
874	**874**	**Present value of minimum finance lease payments**	**820**	**820**

21 Government grants (EUR ’000)

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
5,686	2,942	Opening net book amount	1,667	1,861
791	3,174	Grants received	244	44
376	-	Grant receivable	-	-
-661	-430	Amortisation recognised in profit or loss and write-off of grants	-268	-238
-368		Write-off of grants upon disposal of assets	-368	-
5,824	**5,686**	Closing net book amount	**1,275**	**1,667**

In the period from 2007 to 2014, the Group and the Company received the support of the EU funds under the Lithuanian Rural Development Programmes from the National Paying Agency under the Ministry of Agriculture. The support was received for the acquisition of non-current assets. The mentioned support is amortised in proportion to the depreciation of the assets concerned.

Under the 2014-2020 programme financed from the EU funds, the Group received support of EUR 3,079 thousand in 2017 for the acquisition of the technological lines intended for the production of dried whey milk products. The second part of the support for investments (EUR 547 thousand) was received in 2018.

The last part of the support (EUR 376 thousand) was received in January 2019.

In 2018, the Company received a grant of EUR 244 thousand for the payment of the gas system connection fee.

Notes to the consolidated and separate financial statements

22 Deferred income tax liabilities

Deferred income tax assets and liabilities that were calculated using a 15% tax rate in 2018 (2017: 15%) are allocated to the following line items:

EUR '000	Assets At 31 December 2018	Assets At 31 December 2017	Liabilities At 31 December 2018	Liabilities At 31 December 2017	Net amount At 31 December 2018	Net amount At 31 December 2017
Property, plant and equipment			1,905	1,937	1,905	1,937
Vacation reserve	-104	-92	-	-	-104	-92
Inventories	-105	-	-	-	-105	-
Government grants	-186	-211	-	-	-186	-211
Tax loss carry forward	-666	-106	-	-	-666	-106
Deferred income tax (assets)/liabilities	**-1,061**	**-409**	**1,905**	**1,937**	**844**	**1,528**

Tax losses can be carried forward for an indefinite period except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. Article 30(4) of the Law on Corporate Income Tax stipulates that when calculating income tax for 2014 and subsequent tax periods, the Company could offset income of a tax period against the amount of accumulated losses by maximum 70%.

The decrease in the deferred income tax liability of EUR 684 thousand was recognised in the statement of profit or loss.

22 Deferred income tax liabilities (continued)

The movements in temporary differences during the year are as follows:

EUR '000	At 1 January 2018	Recognised in profit or loss	Recognised in equity	At 31 December 2018
Property, plant and equipment	1,937	-32	-	1,905
Vacation reserve	-92	-12	-	-104
Inventories	0	-105	-	-105
Government grants	-211	25	-	-186
Tax losses carried forward	-106	-560	-	-666
Deferred income tax (assets)/liabilities	**1,528**	**-684**	**-**	**844**

EUR '000	At 1 January 2017	Recognised in profit or loss	Recognised in equity	At 31 December 2017
Property, plant and equipment	1,856	81	-	1,937
Vacation reserve	-69	-23	-	-92
Inventories	-29	29	-	0
Government grants	-207	-4	-	-211
Tax losses carried forward	-731	625	-	-106
Deferred income tax (assets)/liabilities	**820**	**708**	**-**	**1,528**

Notes to the consolidated and separate financial statements

The difference between the tax base and the carrying amount of property, plant and equipment in the financial statements has occurred mainly due to the revaluation of the buildings and different depreciation periods established.

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**	EUR ’000	**At 31 December 2018**	**At 31 December 2017**
		Deferred income tax assets/(liability)		
901/ (32)	201/ (81)	Deferred income tax assets/(liability) to be realised within 12 months	901 /(32)	201/ (81)
160 /(1,873)	208 / (1,856)	Deferred income tax assets/(liability) to be realised after 12 months	160 /(1,873)	208 /(1,856)
(844)	**(1,528)**	**Net deferred income tax liability**	**(844)**	**(1,528)**

The Group and the Company do not recognise deferred income tax assets on income tax relief for investment projects. As at 31 December 2018, the amount of such unused reliefs was equal to EUR 18,346 thousand and EUR 678 thousand, respectively.

23 Trade and other amounts payable

GROUP				COMPANY	
At 31 December 2018	**At 31 December 2017**	EUR ’000		**At 31 December 2018**	**At 31 December 2017**
		Financial instruments			
12,918	8,100	Trade payables		10,794	6,749
2	7	Trade payables to related parties	26	2	7
12,920	**8,107**			**10,796**	**6,756**
		Non-financial instruments			
1,937	1,788	Employment-related liabilities		1,289	1,180
472	361	Prepayments received		471	361
74	74	Dividends payable		-	-
465	882	Accrued expenses and provisions		448	871
378	82	Other amounts payable		49	26
3,326	**3,187**			**2,257**	**2,438**
16,246	**11,294**			**13,053**	**9,194**

The Group’s and the Company’s exposure to foreign currency and liquidity risks associated with trade and other amounts payable is discussed in Note 27.

Prepayments received are based on the agreements signed with customers for the agreements not yet executed.

As at 31 December 2018, the Group’s and the Company’s provisions recognised amounted to EUR 871 thousand. The amount reversed in 2018 totalled EUR 430 thousand.

As at 31 December 2018, the balance of the Company’s accrued expenses and provisions was EUR 448 thousand.

Notes to the consolidated and separate financial statements

24 Derivative financial instruments (EUR ’000)

GROUP			COMPANY	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
-	-	Interest rate swap contract – cash flow hedge (non-current portion)	-	-
-	118	Interest rate swap contract – cash flow hedge (current portion)	-	118
-	**118**		**-**	**118**

In November 2018, the Group’s and the Company’s interest rate swap contract with the bank expired and will not be extended.

25 Contingent liabilities

Material contractual liabilities as at 31 December 2018 were as follows:

GROUP			COMPANY	
2018	**2017**	EUR ’000	**2018**	**2017**
1,433	772	Acquisition of property, plant and equipment	301	350
4,997	3,709	Purchase of raw materials	4,997	3,709
6,430	**4,481**		**5,298**	**4,059**

As at 31 December 2018, the Group’s and the Company’s assets pledged to secure the repayment bank borrowings were as follows (Note 20):

- Current and future cash inflows of the Group and the Company in the accounts at different banks;
- Immovable property of the Group with the carrying amount of EUR 7,921 thousand; immovable property of the Company with the carrying amount of 6,485 thousand;
- Movable property of the Group with the carrying amount of EUR 31,671 thousand; movable property of the Company with the carrying amount of 6,111 thousand;
- Inventories of the Group with the carrying amount up to EUR 5,548 thousand; inventories of the Company with the carrying amount of up to EUR 5,548 thousand;
- Trade receivables of the Group and the Company from one retail chain;
- State land lease rights of the Group and the Company;
- Trade marks owned by the Group and the Company with the net book value of EUR 2.9 thousand;
- 50.00% shareholding in Kelmės Pieninė AB;
- Surety for Vilkyškių Pieninė AB issued by Kelmės Pieninė AB and Modest AB in respect of loans and overdraft granted by SEB Bankas;
- Surety for Kelmės Pieninė AB issued by Modest AB and Vilkyškių Pieninė AB in respect of loans and overdraft granted by OP Corporate Bank;
- Surety for Modest AB issued by Kelmės Pieninė AB and Vilkyškių Pieninė AB in respect of loans granted by Luminor Bank;

Notes to the consolidated and separate financial statements

- Surety for Vilkyškių Pieninė AB issued by Modest AB in respect of a loan granted by Luminor Bank;
- Surety of EUR 1 million issued by Kelmės Pieninė AB for the overdraft received by the agricultural cooperative entity.

The Group's and the Company's management is aware that pursuant to the effective laws, the State Tax Inspectorate may at any time inspect the books and accounting records of the Group and the Group companies for 5 years preceding the reporting tax period and may assess additional taxes or fines. The Group's and the Company's management is not aware of any circumstances that might result in a potential material tax liability in this respect.

26 Transactions with related parties and the Company's management personnel

The parties are related when one party has a power to exercise control over the other party or make significant influence on its financial and operation decisions. The related parties of the Group and the Company and the transactions conducted with related parties during 2018 and 2017 were as follows (expressed in EUR thousands):

Kelmės Pieninė AB (the subsidiary);
Modest AB (the subsidiary);
Pieno Logistika AB (the subsidiary);
Šilgaliai ŪKB (the Company's General Manager, holding the voting right granted by the 50.8% shareholding, is a shareholder of Šilgaliai ŪKB).

GROUP

EUR '000	Note	**2018**	**2017**
Amounts payable			
Trade payables			
Šilgaliai ŪKB		2	7
		2	**7**
Prepayments			
Šilgaliai ŪKB (non-current assets)	14	214	127
Šilgaliai ŪKB (current assets)	17	194	223
		408	**350**
Loans granted, including interest charged and administration fee			
Šilgaliai ŪKB (non-current and current portions)		173	164
Short-term loan to management		105	-
		278	**164**
		686	**514**
Interest income			
Šilgaliai ŪKB		3	5
Short-term loan to management		2	-
		5	**5**
Sales of raw materials, products and services			
Šilgaliai ŪKB		**18**	**9**
		18	**9**

Notes to the consolidated and separate financial statements

Purchase of raw materials, products and services		
Šilgaliai ŪKB	**775**	**861**
	775	**861**

26 Transactions with related parties and the Company's management personnel

Employee expenses amounting to EUR 698 thousand (including social security contributions) include payments to the Group management (2017: EUR 667 thousand).

<u>COMPANY</u>

Employee expenses amounting to EUR 521 thousand (including social security contributions) include payments to the Company management (2017: EUR 471 thousand).

EUR '000		**2018**	**2017**
Amounts payable			
Trade payables			
Kelmės Pieninė AB		-	-
Modest AB		-	-
Šilgaliai ŪKB		2	7
		2	7
		2	**7**
Amounts receivable			
Prepayments			
Šilgaliai ŪKB (non-current amounts receivable)	14	214	127
Šilgaliai ŪKB (current amounts receivable)	17	194	223
		408	**350**
Trade receivables			
Kelmės Pieninė AB		1,892	4,504
Modest AB		2,102	1,913
Pieno Logistika AB		-	-
		3,994	**6,417**
Loans granted, including interest charged and administration fee			
Šilgaliai ŪKB (non-current and current portions)		173	164
Pieno Logistika AB		10	15
Short-term loan to management		105	-
		288	179
		4,690	**6,946**

Notes to the consolidated and separate financial statements

Interest income

Šilgaliai ŪKB	3	5
Pieno Logistika AB	1	1
Short-term loan to management	2	-
	6	**6**

Interest expenses

Kelmės Pieninė AB	-	57
	-	**57**

Sales of raw materials, products and services		
Kelmės Pieninė AB	12,062	9,672
Modest AB	14,752	9,507
Pieno Logistika AB	1	1
Šilgaliai ŪKB	18	9
	26,833	**19,189**

Purchase of raw materials, products and services from:		
Kelmės Pieninė AB	24,676	18,033
Modest AB	18,096	13,485
Pieno Logistika AB	-	-
Šilgaliai ŪKB	775	861
	43,547	**32,379**

Šilgaliai ŪKB is a supplier of milk.

27 Financial instruments and risk management

Credit risk

The maximum exposure to credit risk is the carrying amount of the financial assets that were classified within the category of loans and receivables as at 31 December 2017 and financial assets that were classified within the category of financial assets carried at amortised amount as at 31 December 2018. The maximum exposure to credit risk as at the reporting date was as follows:

GROUP

EUR'000	Note	**Net book amount** At 31 December 2018	**Net book amount** At 31 December 2017
Non-current amounts receivable	14	100	125
Trade and other amounts receivable, net of tax	16	4,324	4,988
Cash and cash equivalents	18	407	317
		4,831	**5,430**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

The table below analyses the maximum exposure to credit risk at the reporting date attributable to trade receivables according to geographical regions.

	Net book amount	
	At 31 December 2018	**At 31 December 2017**
Lithuania	727	826
Poland	638	668
Great Britain	828	1
Saudi Arabia	315	-
Latvia	268	691
Kazakhstan	253	213
Czech Republic	229	154
Portugal	189	502
Italy	139	84
Albania	133	279
Estonia	120	953
The Netherlands	92	38
Ireland	74	-
Finland	58	33
Israel	47	204
Malta	47	-
Norway	43	-
Germany	39	-
Azerbaijan	34	-
Denmark	5	127
Taiwan	-	130
Other	46	85
	4,324	**4,988**

As at 31 December 2018, a significant credit risk concentration is related to three customers, the receivables from which accounted for 42% of all trade receivables (31 December 2017 38%).

COMPANY

EUR ’000		Net book amount	
	Note	**At 31 December 2018**	**At 31 December 2017**
Non-current amounts receivable	14	110	140
Trade and other amounts receivable	16	8,302	11,318
Cash and cash equivalents	18	337	231
		8,749	**11,689**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

The table below analyses the maximum exposure to credit risk at the date of the statement of financial position attributable to trade receivables and loans according to geographical regions.

	Net book amount	
EUR '000	**At 31 December 2018**	**At 31 December 2017**
Lithuania	4,705	7,156
Great Britain	828	1
Poland	638	668
Saudi Arabia	315	0
Latvia	268	691
Kazakhstan	253	213
Czech Republic	229	154
Portugal	189	502
Italy	139	84
Albania	133	279
Estonia	120	953
The Netherlands	92	38
Ireland	74	0
Finland	58	33
Israel	47	204
Malta	47	0
Norway	43	0
Germany	39	0
Azerbaijan	34	0
Denmark	5	127
Taiwan	0	130
Other	46	85
	8,302	**11,318**

As at 31 December 2018, a significant credit risk concentration is related to three customers, the receivables from which accounted for 58% of all trade receivables (31 December 2017 64%).

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Impairment losses

The Group and the Company establish the provision for impairment losses which represents estimate of incurred losses in respect of trade and other receivables. Such a provision includes only specific losses associated with individual significant trade and other receivables. The ageing analysis of trade and other receivables and non-current amounts receivable as at the reporting date is as follows:

GROUP EUR '000	Total At 31 December 2018	Impairment 2018 At 31 December	Total 2017 At 31 December	Impairment 2017 At 31 December
Related parties:				
Not past due	171	-	417	-
Past due 0-30 days	-	-	-	-
Past due 31-60 days	-	-	-	-
More than 60 days	107	-	97	-
	278	**-**	**514**	**-**
Not past due	3,373	-	3,451	-
Past due 0-30 days	696	-	1,018	-
Past due 31-60 days	13	-	59	-
More than 60 days	161	-97	168	-97
	4,243	**-97**	**4,696**	**-97**
	4,521	**-97**	**5,210**	**-97**

Impairment losses related to trade and other amounts receivable amounted to EUR 97 thousand as at 31 December 2018 (2017: EUR 97 thousand).

COMPANY

EUR '000	Total At 31 December 2018	Impairment At 31 December 2018	Total At 31 December 2017	Impairment At 31 December 2017
Related parties:				
Not past due	4,175	-	6,499	-
Past due 0-30 days	-	-	-	-
Past due 31-60 days	-	-	-	-
More than 60 days	107	-	97	-
	4,282	**-**	**6,596**	**-**
Other parties:				
Not past due	3,357	-	3,712	-
Past due 0-30 days	696	-	1,018	-
Past due 31-60 days	13	-	61	-
More than 60 days	161	-97	168	-97
	4,227	**-97**	**4,959**	**-97**
	8,509	**-97**	**11,555**	**-97**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Credit risk arising from the Company's and the Group's amounts receivable not past due is high.

Movements in the provision for impairment of trade and other receivables during the year are set out below:

GROUP

EUR '000	Net book amount 2018	2017
Balance at 1 January	-97	-97
Impairment losses recognised	-	-
Write-off of bad debts	-	-
Impairment losses reversed	-	-
Balance at 31 December	**-97**	**-97**

COMPANY

EUR '000	Net book amount **2018**	**2017**
Balance at 1 January	-97	-97
Impairment losses recognised	-	-
Write-off of bad debts	-	-
Impairment losses reversed	-	-
Balance at 31 December	**-97**	**-97**

Based on historical payment statistics and detailed analysis of customer solvency, the Company's management consider that the amounts which are past due more than 30 days and not impaired are still recoverable. During the four recent years, the Company recognised amounts receivable of EUR 97 thousand as bad debts.

Liquidity risk

The table below analyses financial liabilities into relevant maturity groupings, including estimated interest, based on their contractual maturities.

GROUP

At 31 December 2018

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Borrowings from banks	25,679	(26,518)	(10,626)	(1,101)	(2,212)	(12,579)
Finance lease liabilities	874	(907)	(147)	(143)	(284)	(333)
Factoring	1,271	(1,274)	(1,274)	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade payables	12,920	(12,920)	(12,920)	-	-	-
	40,744	(41,619)	(24,967)	(1,244)	(2,496)	(12,912)

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

At 31 December 2017

EUR ’000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Borrowings from banks	27,072	(28,333)	(5,184)	(2,726)	(5,854)	(14,569)
Finance lease liabilities	710	(734)	(115)	(103)	(507)	(9)
Factoring	315	(317)	(317)	-	-	-
Derivative financial instruments	118	(118)	(29)	(29)	(60)	-
Trade payables	8,107	(8,107)	(8,107)	-	-	-
	36,322	(37,609)	(13,752)	(2,858)	(6,421)	(14,578)

COMPANY

At 31 December 2018

EUR ’000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Borrowings from banks	7,339	(7,382)	(7,382)	-	-	-
Finance lease liabilities	820	(851)	(133)	(130)	(257)	(331)
Factoring	1,271	(1,274)	(1,274)	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade payables	10,796	(10,796)	(10,796)	-	-	-
	20,226	(20,303)	(19,585)	(130)	(257)	(331)

At 31 December 2017

EUR ’000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Borrowings from banks	7,659	(7,797)	(2,857)	(1,381)	(3,559)	-
Loan of Kelmės Pieninė AB	-	-	-	-	-	-
Finance lease liabilities	674	(697)	(109)	(97)	(491)	-
Factoring	315	(317)	(317)	-	-	-
Derivative financial instruments	118	(118)	(29)	(29)	(60)	-
Trade payables	6,756	(6,756)	(6,756)	-	-	-
	15,522	(15,685)	(10,068)	(1,507)	(4,110)	-

Estimated cash flows were discounted using the following interest rates:

	2018	**2017**
Borrowings and financial lease liabilities	Between 1.7% and 2.3%	Between 1.7% and 2.3%

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Foreign exchange risk

Exposure to foreign currency risk (expressed in EUR thousands), using currency exchange rates effective as at 31 December 2018, was as follows:

GROUP (COMPANY) (EUR '000)	USD	PLN
Trade and other amounts receivable, net of tax	315	315
Cash and cash equivalents	-	2
Trade payables	-	-
Net exposure	**315**	**317**

Exposure to foreign currency risk (expressed in EUR thousands), using currency exchange rates effective as at 31 December 2017, was as follows:

	USD	PLN
Trade and other amounts receivable, net of tax	-	296
Cash and cash equivalents	-	13
Trade payables	(15)	(9)
Net exposure	**(15)**	**300**

During the year the exchange rates against the euro were as follows:

	Average	
	2018	**2017**
USD	1.1811	1.1293
PLN	4.2608	4.2569

The exchange rates applied against the euro as at 31 December were as follows:

	2018	**2017**
USD	1.1454	1.1993
PLN	4.3028	4.177

Analysis of sensitivity to changes in the exchange rates

The Company's functional currency is the euro (EUR). The Company's foreign currency risk arises from purchases and sales denominated in currencies other than the euro. In 2018, the major portion of the Company's transactions were conducted in the euros, therefore the Company was not exposed a significant foreign currency risk.

Interest rate risk

The Group's and the Company's borrowings bear variable interest rates linked with EURIBOR + a margin.

Foreign exchange risk

Interest rates applied to the Group's and the Company's financial instruments as at 31 December 2018 were as follows:

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

GROUP			**COMPANY**	
Net book amount		EUR '000	**Net book amount**	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
		Financial instruments bearing fixed interest rate		
-	-	Pieno Logistika AB	10	15
63	63	Non-current portion of loans granted	63	63
103	-	Short-term loan to management	103	-
166	**63**		**176**	**78**

GROUP			**COMPANY**	
Net book amount		EUR '000	**Net book amount**	
At 31 December 2018	**At 31 December 2017**		**At 31 December 2018**	**At 31 December 2017**
		Financial instruments bearing variable interest rates		
(25,679)	(27,072)	Borrowings from banks	(7,339)	(7,659)
(1,271)	(315)	Factoring	(1,271)	(315)
(874)	(710)	Financial lease liabilities	(820)	(674)
(27,824)	**(28,097)**		**(9,430)**	**(8,648)**
(27,658)	**(28,034)**		**(9,254)**	**(8,570)**

Analysis of sensitivity of cash flows to instruments bearing variable interest rates

Increasing/decreasing interest rates by +/- 100 basis points (bps) would increase/decrease equity and profit/(loss) by the amounts set out in the table below. This analysis assumes that all other variables, in particular exchange rates, are held constant. The analysis for 2017 was performed using the same basis.

GROUP			**COMPANY**	
Profit (loss)		Effect in EUR thousands	Profit (loss)	
100 bp increase	100 bp decrease		100 bp increase	100 bp decrease
		At 31 December 2018		
(277)	(277)	Financial instruments bearing variable interest rates	(93)	(93)
		At 31 December 2017		
(280)	(280)	Financial instruments bearing variable interest rates	(94)	(86)

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Fair value of financial instruments / Fair value hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the main (or most advantageous) market between market participants at the measurement date, regardless of whether the price is directly observed or determined using a valuation methodology.

The table below analyses financial instruments carried at fair value, by valuation method. Directly observable market data reflect market information collected from independent sources; unobservable inputs reflect the Group's and the Company's management assessments regarding the situation in the market. These two types of inputs determine the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in an observable active market for assets and liabilities identical to than of the Group and the Company. This level of valuation is used for listed equity securities and debt securities quoted on stock exchanges (e.g. the stock exchanges of Vilnius, London, Frankfurt).
- Level 2 – inputs other than quoted prices included in Level 1 that are observable either directly or indirectly (derived from prices).
- Level 3 – inputs that are not based on observable market data. The Group and the Company measure their assets and liabilities using fair value estimation techniques of Level 3 to determine expected discounted net cash flows. A discount rate applied is determined on the basis of financing costs incurred in relation to investments in these companies.

The following methods and assumptions are used by the Group and the Company to estimate the fair value of these financial instruments:

27 Financial instruments and risk management (continued)

Financial instruments that are not measured at fair value

The main financial instruments of the Group and the Company that are not measured at fair value are trade and other amounts receivable, term deposits, trade and other amounts payable, non-current and current borrowings. The Group's and the Company's management is of the opinion that the carrying amounts of these financial instruments approximate their fair values because borrowing costs are linked to an interbank lending rate EURIBOR, and other financial assets and liabilities are of short-term nature; therefore, their fair value variation is not significant.

Financial instruments measured at fair value

Financial instruments measured at fair value as at 31 December 2018 comprise derivative financial instruments, which were equal to 0 as at 31 December 2018.

GROUP

At 31 December 2018

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	100	100
Trade and other amounts receivable	-	-	4,324	4,324
Cash and cash equivalents	407	-	-	407
Borrowings and financial lease liabilities	-	-	(27,824)	(27,824)
Derivative financial instruments	-	-	-	-
Trade and other payables	-	-	(12,920)	(12,920)
	407	**-**	**(36,320)**	**(35,913)**

Notes to the consolidated and separate financial statements

At 31 December 2017
EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	125	125
Trade and other amounts receivable	-	-	4,988	4,988
Cash and cash equivalents	317	-	-	317
Borrowings and financial lease liabilities	-	-	(28,097)	(28,097)
Derivative financial instruments		(118)	-	(118)
Trade and other payables	-	-	(8,107)	(8,107)
	317	**(118)**	**(31,091)**	**(30,892)**

<u>COMPANY</u>

At 31 December 2018
EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	110	110
Trade and other amounts receivable	-	-	8,302	8,302
Cash and cash equivalents	337	-	-	337
Borrowings and financial lease liabilities	-	-	(9,430)	(9,430)
Derivative financial instruments	-	-	-	-
Trade and other payables	-	-	(10,796)	(10,796)
	337	**-**	**(11,814)**	**(11,477)**

At 31 December 2017
EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	140	140
Trade and other amounts receivable	-	-	11,318	11,318
Cash and cash equivalents	231	-	-	231
Borrowings and financial lease liabilities	-	-	(8,648)	(8,648)
Derivative financial instruments	-	(118)	-	(118)
Trade and other payables	-	-	(6,756)	(6,756)
	231	**(118)**	**(3,946)**	**(3,833)**

Price risk

Prices of milk and milk products vary depending on the situation in the market. The Group and the Company seek to minimise the impact of such price fluctuations by diversifying production and aiming to realise economies of scale.

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Capital management

The Board's policy is aimed at maintaining a significant portion of equity compared to borrowed funds in order to avoid damaging trust of investors, creditors and the market and ensuring the development of operations in the future and compliance with externally imposed capital requirements. Capital is defined as equity attributable to equity holders

The Board also aims to maintain balance between a higher rate of return, which could be achieved by obtaining more borrowed funds, and security, which is ensured by a larger amount of equity.

The Board's policy is aimed at maintaining a significant portion of equity compared to borrowed funds in order to avoid damaging trust of investors, creditors and the market and ensuring the development of operations in the future and compliance with externally imposed capital requirements. Capital is defined as equity attributable to equity holders

The Group and the Company manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of their activities. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. There were no changes in the objectives, policies or processes during the financial years ended 31 December 2018 and 31 December 2017.

The Law on Companies of the Republic of Lithuania require that the Group and the Company keep equity at no less than 50% of the share capital.

The Group is obligated to meet external capital requirements set by the banks. Based on the requirements of the banks (equity - revaluation reserve) / (total assets) ratio should not be less than 30%. Management monitors the compliance with the requirements set for the Group. Further details are given in Note 20.

28 Events after the end of the reporting period

Under the 2014–2020 programme financed from the EU funds, the Group received the last past of the support in January 2019 (EUR 376 thousand).

There were no significant events subsequent to the reporting date that could have a material impact on the financial statements for the year ended 31 December 2018.

Report of VILKYŠKIŲ PIENINĖ AB GROUP for 2018

I. ISSUER OVERVIEW

1. Reporting Period for this Report

This consolidated Report is for 2018.

2. Issuer Information and Contact Details

Name of Issuer	Vilkyškių pieninė AB (hereinafter – Company or Issuer)
Legal Form	Public limited company (Lith. Akcinė bendrovė)
Date and place of registration	18 May 1993, Tauragė Division of VĮ Registrų centras
Date and place of re-registration	30 December 2005, Tauragė Division of VĮ Registrų centras
Head office address	P.Lukošaičio str. 14, Vilkyškiai, LT-99254, Pagėgių savivaldybė
Registration No.	060018
Company Register Code	277160980
Telephone	+370 441 55330
Fax	+370 441 55242
E-mail	info@vilvi.eu
Website	http://www.vilkyskiu.lt

3. Information on Subsidiaries and Contact Details:

Modest AB

Name of subsidiary	Modest AB (hereinafter – Modest AB)
Legal form	Public limited company
Date of registration	25 March 1992
Date of re-registration	31 December 2009, Tauragė Division of VĮ Registrų centras
Registration No.	017745
Company register code	121313693
Head office	Gaurės str. 23, LT-72340 Tauragė
Telephone	+370 446 72693
Fax	+370 446 72734
E-mail	modest@vilvi.eu
Website	http://www.vilkyskiu.lt

Kelmės pieninė AB

Name of subsidiary	Kelmės pieninė AB (hereinafter – Kelmės pieninė AB)
Legal form	Public limited company
Date of registration	3 August 1993, Šiauliai Division of VĮ Registrų centras
Date of re-registration	4 July 2007
Head office	Raseinių str. 2, LT-86160 Kelmė
Registration No.	110109
Company register code	162403450
Telephone	+370 427 61246
Fax	+370 427 61235
E-mail	kelmespienine@vilvi.eu
Website	http://www.vilkyskiu.lt

Pieno logistika AB

Name of subsidiary	Pieno logistika AB (hereinafter – Pieno logistika AB)
Legal form	Public limited company
Data and place of registration	10 December 2013, Šiauliai Division of VĮ Registrų centras
Head office	Pagojo str. 1, Pagojo km., Kelmės raj.
Company register code	303203457
Telephone	+370 427 61246
Fax	+370 427 61235
E-mail	stasys.stanevicius@vilkyskiu.lt
Website	http://www.vilkyskiu.lt

4. Main Types of Activity

The main business activity of Vilkyškių pieninė AB Group is production and sale of dairy products (EVRK 10.51).

The main business activity of Vilkyškių pieninė AB is production and sale of fermented cheese, cream and whey products.

Subsidiary company Modest AB makes mozzarella cheese, mould cheese, smoked, melt cheese and other cheese products.

Subsidiary company Kelmės pieninė AB produces fresh dairy products: milk, kefir, sour cream, yogurts, cottage cheese, butter and dry milk products – WPC, SMP, permeate and whey powder.

Subsidiary company Pieno logistika AB mainly engages in the lease of buildings.

5. Agreements with Brokerages for Public Issue

Vilkyškių pieninė AB has an underwriting agreement with UAB FMĮ Orion Securities brokerage (address A. Tumėno str. 4, B korp., LT-01109, Vilnius) on the accounting of Vilkyškių pieninė AB, Kelmės pieninė AB and Modest AB shareholders and services associated with the accounting of the Company's securities. AB FMĮ Finasta brokerage manages shareholder accounts for Pieno logistika AB.

6. Trading in the Issuer's Securities on Regulated Exchanges

The name of securities: Vilkyškių pieninė AB common registered shares. The number of securities issued: 11,943,000 units. Share face value: EUR 0.29 per share.

The Company's issue is included in the Official List of AB NASDAQ OMX Vilnius. The ISIN code of the securities: LT0000127508, Ticker symbol: VLP1L.

The Company's shares have been listed since 17 May 2006.

The securities of the subsidiary companies are not publicly traded.

II. Overview of Operations

Vilkyškių pieninė AB Group produces a wide range of delicious dairy products based on original recipes, many of them acknowledged for their taste and quality at international trade fairs. We are proudly continuing the long-standing traditions of cheese production that originated in the picturesque region of Lithuania surrounded by wonderful nature. The lush flood-meadows of the Nemunas River inspires us to create and share what nature has so generously bestowed on us.

Our mission is to give people the gourmet satisfaction with our dairy products.

Our Values:

Quality – we produce high-quality dairy products and abide by the highest standards.

Innovations – we continually delight our consumers by introducing new products and providing opportunities to experience new taste sensations. We constantly invest in new technologies and expand our product range. We are interested in creating and sharing the results of our work. After all, it is how new traditions are being born, is not it?

Competence – in the hands of our dairy masters dairy foods turn into exclusive and original high-quality products.

Honesty – we are open and reliable. Our customers' trust and respect are extremely important to us. The basis of our activity includes the time-proved relations with our business partners and professionalism of our employees.

7. Issuer's Jurisdiction

In its operations, Vilkyškių pieninė AB follows the Lithuanian law, government resolutions and legal acts on companies, in particular the Lithuanian law on the securities market, as well as the Company's own Statutes.

8. Brief History of Issuer

Vilkyškių pieninė AB was revived in 1993, when a limited liability company called Vilkyškių pieninė was founded in the premises of an old dairy bearing the same name, built in 1934. The old dairy had stopped production in 1985, and all equipment had been dismantled. The new owners of the dairy privatised the buildings and brought new production equipment from Eastern Germany.

Initially, there was no other owners' equity apart from the privatized buildings, and bank loans were taken to provide with the needed working capital.

Key Events in Issuer's History

1993 – 1995: the dairy's water tower, boiler house and milk separation unit were renovated, and milk separation was launched. The cheese production department started making of low-fat fermented cheese Peptatas. A butter production unit was also launched.

After these initial investments, the Company's growth gathered momentum. In early 1997, the cheese production department started making the Tilsit-type cheese, also launching production of Gouda-type fermented cheese a year later.

1997-1998: EUR 0.8m was invested in the company. Electricity power substation was renovated, the Company was fully computerized, a boiler house by the Danish company BWE was built and a Dutch-made cold warehouse with a capacity for 400 tonnes of products was installed. Almost EUR 0.4m was invested in vehicles, buildings, milk refrigerators, production equipment, a new cheese production unit and other main means.

1999- 2000: EUR 1.1m was invested in the construction of new production departments, vehicles and a major overhaul. EUR 2.5m was invested into the new TetraPakTebel cheese production facility. As a result, new fully computerised and automated cheese production line was installed, enabling the company to make EU-compliant products.

In the same year, the Company was issued with a license to export its products to the European Union.

2001: The Company acquired the Tauragė dairy facility of the Mažeikiai branch of Pieno žvaigždės AB. Since 2007, it houses the head office of Modest AB, a subsidiary of Vilkyškių pieninė AB.

2003-2005: The Company adopted accounting and enterprise resource planning solution Microsoft Dynamics Nav. An EU-compliant wastewater treatment facility, made by the Dutch company NewWaterTechnology, was installed, and investments were made into cheese packaging equipment in the same year. Boiler house of Tauragė production facilities was reconstructed to use new fuel type.

As of 17 **May 2006**, a total of 9,353,000 common registered shares of Vilkyškių pieninė AB were listed on the Current List of the NASDAQ OMX Vilnius exchange. As of 1 January 2008, the shares are listed in the Official list of NASDAQ OMX Vilnius exchange.

In 2006, the Issuer acquired an 80.25 percent stake in Modest AB. Now Vilkyškių pieninė AB holds 99.7 percent of the Modest AB stock. In 2009, the share capital of Modest AB was increased from EUR 37,190 up to EUR 178,730 through the issue of 488,710 new common registered shares. Meanwhile, the share capital of Modest AB was raised from EUR 178,730 to EUR 1,626,830 by Vilkyškių pieninė AB contribution in cash in 2010.

In **2006**, the Company's main dairy production facility was expanded significantly, adding two new cheese evaporators, three new cheese press machines and a buffer tank, as well as a new wash station for the cheese production line. In addition, the cheese brining shop and cheese loading processes were fully automated. Maximum production capacities of the Company increased from 10,000 to 14,000 tonnes per year. The Company used the support from the EU funds.

In **2007**, a new modern whey processing facility was launched. The total value of the whey processing facility was more than EUR 2.3m. The investment increased the Company's productivity, improved quality controls and reduced waste considerably. The Company had no whey processing until then. The Company used the support from the EU funds.

2007: Modest AB was allocated EUR 0.6m in support from EU structural funds. Modest AB used the funds to upgrade its fleet of refrigerated vans for product transportation and to modernise its production processes. It installed new milk processing technologies and packaging line for its main product Mozzarella cheese.

2008: Vilkyškių pieninė AB took over Kelmės pieninė AB by acquiring 99.09 percent of the company's stock. At present Vilkyškių pieninė AB controls 100 percent of the Kelmės pieninė AB stock. As a result of the acquisition, the Vilkyškių pieninė AB entered the market of fresh dairy products.

2009: EUR 9.5m in EU support was under an agreement with the Lithuanian National Paying Agency/ The support was awarded under the Lithuanian Rural Development Programme for 2007-2013, measure "Adding Value to Agricultural and Forestry Products", activity "Processing and Marketing of Agricultural Products".

2011: EUR 0.5m was invested into new cold storage equipment, and another EUR 0.2m was invested to expand the existing wastewater treatment and equipment washing capacities. Also investments were mainly made into refrigeration equipment, a cheese cutting and packaging line. The installation of the Equinox warehouse management system was also started.

2012: a new cheese production line was assembled (EUR 4.6m in value), increasing output by 30 percent. In addition, EUR 2.7m packaging and plastic-coating line was installed.

2013: the trademark of Vilkyškiai was recognized as Brand of the year 2013 in Lithuania.

2013: investments were made in auxiliary facilities: a tank truck washer, a garage, a utility room, a mechanical workshop with utility premises, administrative offices, utility services, landings and a truck entry point. Another EUR 1.5m was invested to expand the whey processing unit's daily capacity to 600 tonnes.

By the end of the year, the whey ultrafiltration project was also completed — it is a technology that breaks whey proteins into their basic components, which results in new profitable products.

In **2013** Kelmės pieninė AB installed a new TetraTop packaging line for liquid dairy products. This packaging is innovative and preserving environment. Reliable carton packaging protects product from environmental effects – light, air, microorganizms and it is more comfortable to use.

2013: after Modest AB completed the modernisation of its blue cheese production facility, its output has increased by 30 percent.

2014: Vilkyškių pieninė AB launched a new cheese-slicing line, allowing to cut the cheese in slices, and acquired new storage tanks for milk products. The project was financed from the EU funds.

In **2014**, Kelmės pieninė AB renovated its compressor station.

In **2015**, Modest AB rebuilt its boiler house and launched a whey denaturation facility.

In 2015, Vilkyškių pieninė AB signed a contract to connect to a gas distribution system with Lietuvos dujos AB. Dry milk products production plant will need gas.

In 2015, Vilkyškių pieninė AB completed modernization of the waste water treatment facilities in order to improve the waste water treatment efficiency.

In 2015 the trademark of Vilkyškiai was recognized as Brand of the year 2015 in Lithuania.

In **2016** Kelmės pieninė AB started the Project of whey processing plant. For the implementation of it, Kelmės pieninė AB signed a support agreement with the National Paying Agency under the Ministry of Agriculture of the Republic of Lithuania for 4 million EUR support.

On April **2017**, Vilkyškių pieninė AB has been announced as the Lithuanian investor of the year 2016. The title has been gained for investing to the whey processing plant in Taurage, allocating 28 million EUR to investments and creating new work places in region.

In the end of **2017** production of test batches was started in the new whey factory in Tauragė. Over the past two years the company invested about 28 million euro to this project. The project was funded by EU funds also (according to the Lithuanian Rural Development Program 2014-2020). EUR 3m have already been received in 2017, EUR 0.5m – in 2018 and EUR 0.38m – in January 2019. The new whey factory is currently the most modern one in the region, with a fully automated manufacturing process and a packaging line. The factory will produce dry whey-dairy products for customers in the EU and Asia. Most of them are used in the food industry.

2017: Vilkyškių pieninė AB Group was awarded as “Lithuanian Export Prize 2017” winner. The Company was recognized as the most contributing to the growth of the economy and exports.

2017: Vilkyškių pieninė AB was awarded in three dairy product categories in Lithuanian competition “Most Popular Product 2017”. Vilkyškių curd spread with greenery in curd spread category, Vilkyškių strawberry drink yogurt 750 g in drink yogurt category and Memel Blue cheese 100 g in cheese with mould category. Experts confirmed that products marked with label “Most Popular Product 2017” are absolutely safe and high quality. The prizes are awarded to products that have the highest sales in supermarkets Maxima, IKI, RIMI, Norfa.

In December **2018** Vilkyškių pieninė AB was announced as winner of prestigious award “Golden Phenix” and received nomination “Sponsor of Culture of the Year” for cultural activities.

9. Main Investments Of AB Vilkyškių pieninė Group During Reporting Period

During 2018 the Group of companies invested EUR 1.269m, and maintainance investments in the Group amounted to EUR 0.333m.

10. Patents & Licenses

On 8 May 2000, the Company received a license to export its products to the European Union member states. The Company operates a quality management system.

The Group is committed to the quality of its products, customer satisfaction and compliance with food safety regulations. Vilkyškių pieninė AB has obtained certification of its Quality Management and Food Safety systems under the international standard ISO 22000:2005. These standards set a number of rules that ensure stable and safe production processes. The system covers every process from raw material supplies to customer satisfaction surveys, all performed in line with the organisation's policies.

Until 2013, Kelmės pieninė AB worked in accordance with ISO 22000:2005 / FSSC 22000 standards, but in 2015 it extended the scope of certification and now covers the processing of all products.

In 2015, the production of Modest AB was also certified according to ISO 22000:2005 / FSSC 22000 for production and distribution of dairy products (pasteurized cream, semi-hard (mozzarella and moulded) cheese, soft cheeses, melting, melting-smoked cheeses and smoked cheeses.

In order to attract buyers in Islamic countries, Vilkyškių pieninė AB and Modest AB have been certified according to Halal rules. From 2015 Modest certification for Halal products continues every year. Halal products are associated with product safety, health, quality, ecology. These products are used by people of other religions as well.

The quality management and food safety systems are subject to continuous monitoring, review and improvements with a view to maintaining the high quality of the Company's products. The continual search for improvements and adherence to the top food safety standards has enabled *AB Vilkyškių pieninė* to start preparation in 2016 for certification under ISO 22000:2005/FSSC 22000, a stricter version of the same standard. This certification scheme is part of the Global Food Safety Initiative (GFSI) and is equivalent to such internationally recognised standards as BRC and IFS.

In 2017, drying department of dry milk products of Kelmės pieninė AB Taurage division was registered and started to operating. It received the veterinary approval number LT 77-07 P EC, which granted the right to export production to all EU and other third countries. The factory has established a physico-chemical research laboratory equipped with state-of-the-art ultra-reliable equipment for ensuring the quality control of products. The laboratory carries out research using analyzers operating on the basis of infra-red analyzers and using reference (classical) methods of investigation.

On April 2017 Vilkyškių pieninė AB has successfully completed a second supervisory audit on the support of ISO 22000: 2005 + FSSC 22000. A very favorable assessment was received.

In 2018 Kelmės pieninė AB Tauragė Division production certified according to ISO 22000:2005/FSSC 22000 Certification Scheme.

In 2018 Modest AB carried out recertifying audit according to ISO 22000:2005/FSSC 22000 standards.

In 2018 Kelmės pieninė AB carried out supervisory audit according to ISO 22000:2005/FSSC 22000 standards.

In 2018 Vilkyškių pieninė AB, Modest AB, Kelmės pieninė AB Tauragė Division production certified according to Halal requirements.

11. Human Resources

Vilkyškių pieninė AB Group human resources policy is focused on an effective cooperation of all employees to reach the organisational goals. Aiming to retain the professional advancement and loyalty of employees, great attention is being paid to improvement of qualifications, training, safety and healthcare of the employees. In order to attract new qualified workforce, the Group intensively cooperates with institutions of higher education and constantly improves the selection process. Presentations of professional information and career planning, excursions to factories are organized for this purpose.

In Vilkyškių pieninė AB Group traditions are important in nurturing corporate culture. Each working day starts with general discussion of staff while having cup of coffee. Employees are congratulated on their birthdays, each year the staff celebrates the company's birthday, Christmas, organizes education trips. Various achievements and smaller events are announced in the intranet.

In early 2010, using EU financial support, Vilkyškių pieninė AB set up children day care service, which was completely free of charge for the parents. After public funding ended in 2013, Vilkyškių pieninė AB took over the financial burden and retains the free day care service for its employees. While the employees are occupied at work, their children are engaged in pre-school training. It is planned to organize contests of Vilkyškių pieninė AB logo pictures and/or poems about the dairy and its products.

Many employees travel to work from neighbouring towns and districts (Pagėgiai, Jurbarkas, Tauragė), the Company offers them free transport to work and back home.

Occupational safety and health is another key priority for the Group. Every year, employees are offered free health checkups and flu vaccination. Work safety and medical staff continuously monitors work places comply with safety and health requirements according to regulatory norms.

One of Vilkyškių pieninė AB Group companies - Kelmės pieninė AB has the status of a social enterprise. The aim of the company is to encourage people depending to specific groups, who lost their professional and overall capabilities, that cannot compete on equal terms with others, economically inactive, return to labor market. Approximately 40 percent of its staff are people with disabilities. The company provides them with opportunities to utilizes their current potential. Employees are invited to particitpate in organized meetings, lectures, excursions, festivals, and other events that relate to involvement and motivation of staff.

We seek to be an active member in the community, we support and participate in cultural and educational events. We contribute to active social life, sthrengthen relationships and cooperation in the region.

12. Environmental Protection

Based on the European Parliament and Council IPPC Directive 2008/1/EC, Vilkyškių pieninė AB is attributable to the Annex I installations and is required to have an IPPC permit. The Company obtained its first IPPC permit from the Klaipėda Regional Environmental Protection Department on 10 August 2004, which was renewed on 28 December 2012.

The first IPPC permit was issued to Kelmės pieninė AB on 28 December 2005 by the Šiauliai Regional Environmental Protection Department. The permit has been extended four times, with the last extension on 5 August 2008. The Company has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels.

Modest AB IPPC permit was revoked in 2012 according to the criteria 1 and 2 of the Order of the Minister of the Environment of the Republic of Lithuania D1-330 "On the Rules for Updating and Eliminating the Issues of Integrated Pollution Prevention and Control Authorization" and the Klaipėda Regional Environmental Protection Department letter No. (4) -LV-1610. The activities performed by the company do not meet the criteria specified in the annexes to the order, therefore the IPPC permit is not required.

Vilkyškių pieninė AB Group has an environmental protection policy aimed at reducing the environmental impact of its operations, ensuring integrated pollution prevention measures, minimising the use of resources and waste generation, so that its operations do not affect air, water and soil. Vilkyškių pieninė AB performs regular environmental impact assessments.

Based on the existing legal requirements, programmes have been put in place at Vilkyškių pieninė AB to monitor the impact of water source and fuel storage on underground waters and to monitor air emissions and wastewaters.

In 2015 Vilkyškių pieninė AB finished modernisation of its wastewater treatment plant in order to boost treatment efficacy. This is being done in line with the main national strategies and legal acts on wastewater treatment: the Baltic Marine Environment Protection Strategy, the Lithuanian Law on Water Bodies, the National Long-Term Development Strategy and the National Sustainable Development Strategy.

Production wastewater is treated at the Company's own combined biomechanical treatment facility. In 2018, Vilkyškių pieninė AB treated 477,905 m3 of wastewaters. The resulting sludge is given to local waste managers and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be till 99 percent range.

Production wastewater generated by Kelmės pieninė AB is discharged into "Kelmės vanduo" UAB water treatment plants. In 2018 Kelmės pieninė *AB* treated 123,278 m3 of wastewaters. Kelmės pieninė AB Tauragė Division releases its wastewater to "Tauragės vandenys" UAB sewage system, in 2018 – 141,265 m3 wastewater were released.

Kelmės pieninė AB Tauragė Division produces powdery, dusty products therefore it is very important to minimize hard particle and waste emissions to air and environment. Air polluted with hard particles is directed towards filters and cleaned there is emmited to environment. According to drying plant equipment manufacturers' data whey, permeate, skimmed milk are odorless materials therefore no odors are released into envirement.

Modest AB has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels. Wastewater of Modest AB is discharged into the urban wastewater system operated by Tauragės Vandenys UAB. Before discharging into the city's drainage system, the wastewater is flowing through a grease and heavy particle settler. Monitoring is carried out by Tauragės vandenys UAB. In 2017, wastewater meter was installed in order to account wastewater more accurately.

In all Companies of the Group waste is disposed according to Republic of Lithuania regulatory norms therefore there is no negative impact on environment.

13. Company Results of Operations

Taking into account the goals and strategy of Vilkyškių Pieninė AB Group, we use the selected long-term values that are the most important indicators for assessing the Company's and our Group's activities. We devide the indicators into financial and relative.

Key financial consolidated indicators of the Company:

	2014	**2015**	**2016**	**2017**	**2018**
Revenue (EUR tho)	126,297	97,404	102,260	130,325	126,242
EBITDA (EUR tho)	1,702	-1,777	6,111	7,124	-1,055
EBITDA margin, pct	1.3	-1.8	6.0	5.5	-0.8
Operating profit (EUR tho)	-68	-3,660	4,237	5,272	-2,974
Operating profit margin, pct	-0.05	-3.8	4.1	4.0	-2.4
Profit before tax (EUR tho)	1,839	-717	7,493	7,044	-2,712
Profit before tax margin, pct	1.5	-0.7	7.3	5.4	-2.1
Net profit	1,886	-83	6,991	6,202	-2,028
Profit margin, pct	1.5	-0.09	6.8	4.8	-1.6
Earnings per share (EUR)	0.16	-0.01	0.59	0.52	-0.17
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2018 **sales revenue** of the Company amounted to 126.2 million EUR and comparing to the sales revenue of 2017 which was 130.3 million EUR decreased by 3.1 percent.

EBITDA – profit before interest, taxes and depreciation is a measure of the company‘s earnings before the company's financing policy, as well as the assessment of the effect on profit on profit tax. In 2018 EBITDA of the Company was -1.1 million EUR and in 2017 it was 7.1 million EUR. In the reporting financial year EBITDA margin was -0.8 percent and in 2017 it amounted to 5.5 percent. The EBITDA margin is the ratio of EBITDA and revenue.

Operating profit (EBIT) **-** Profit before interest and taxes. It shows the company's profit earned during the activity and investment cycles, but before the assessment of the impact of the company's financing policy on profit and the deduction of corporate income tax. This indicator is reflected in the profit and loss statement in the operating profit line. Operating profit (EBIT) in 2018 was -3.0 million EUR, operating profit margin was -2.4 percent. 2017 operating profit (EBIT) was 5.3 million EUR, operating profit margin was 4 percent.

Net profit (loss) is the amount shown in the line of the income statement summarizing all items of income and expense recognized during the period and showing the increase (decrease) in economic benefits. In 2018 net loss was 2.0 million EUR and comparing to 2017, when net profit was 6.2 million EUR decreased by 8.2 milion EUR**.**

Key financial ratios of the Company:

	2014	**2015**	**2016**	**2017**	**2018**
Return on equity (ROE), pct	8.5	-0.4	24.4	18.5	-6.8
Return on assets (ROA), pct	3.9	-0.2	12.8	11.3	-3.7
Debt ratio	0.54	0.56	0.48	0.39	0.45
Deb/equity ratio	1.18	1.25	0.91	0.63	0.82
Quick liquidity ratio	0.95	1.03	1.40	1.53	1.04
Asset turnover ratio	2.60	2.02	1.87	2.38	2.32
Capital-to-assets ratio	0.46	0.44	0.52	0.61	0.55

Calculating Relative Indicators:
1. Return on equity (ROE) is the ratio of net profit to equity.
2. Return on assets (ROA) - the ratio of net profit to assets.
3. Debt ratio is the ratio of all company liabilities and assets.
4. Debt and equity ratio is the ratio of all liabilities and equity of the company.
5. Liquidity ratio is the ratio of current assets and current liabilities.
6. Asset turnover - the ratio of sales and assets.
7. Capital-to asset ratio-Equity / equity ratio

In 2018, **assets totaled** EUR 54.5 milion, 0.2 milion less than in 2017. The carrying amount of **long-term assets** decreased by 4.7 percent comparing to 2017 and amounted to 31.7 million EUR. In 2018, **equity** was EUR 29.9m, down by 10.7 percent from the previous year 2017 (EUR 33.5m)

14. Group Results of Operations

Key financial consolidated indicators of the Vilkyškių pieninė AB Group:

	2014	**2015**	**2016**	**2017**	**2018**
Revenue (EUR tho)	109,660	84,445	90,490	113,939	103,162
EBITDA (EUR tho)	6,218	3,876	8,413	10,882	3,140
EBITDA margin, pct	5.7	4.6	9.3	9.5	3.0
Operating profit (EUR tho)	3,766	1,137	5,683	8,113	-884
Operating profit margin, pct	3.4	1.3	6.3	7.1	-0.9
Profit before tax (EUR tho)	3,176	545	4,970	7,560	-1.870

Profit before tax margin, pct	2.9	0.6	5.5	6.6	-1.8
Net profit	3,212	1,168	4,455	6,686	-1.186
Profit margin, pct	2.9	1.4	5.0	5.9	-1.1
Earnings per share (EUR)	0.27	0.10	0.37	0.56	-0.10
Number of shares (units, tho)	11.943	11.943	11.943	11.943	11.943

In 2018, **sales** amounted to EUR 103.2m, decreased by 9.5 percent from EUR 113.9m in 2017. Revenue decrease was driven by falling prices in cheese, cheese product, cream and mozzarella categories.

EBITDA – profit before interest, taxes and depreciation is a measure of the company‘s earnings before the company's financing policy, as well as the assessment of the effect on profit on profit tax. In 2018 EBITDA of the Group was 3.1 million EUR and in 2017 it was 10.9 million EUR, decreased 3.5 times . In the reporting financial year EBITDA margin was 3.0 percent and in 2017 it amounted to 9.5 percent. The EBITDA margin is the ratio of EBITDA and revenue.

Operating profit (EBIT) **-** Profit before interest and taxes. It shows the company's profit earned during the activity and investment cycles, but before the assessment of the impact of the company's financing policy on profit and the deduction of corporate income tax. This indicator is reflected in the profit and loss statement in the operating profit line. Operating profit (EBIT) in 2018 was -0.9million EUR, operating profit margin was -0.9 percent. 2017 operating profit (EBIT) was 8.1 million EUR, operating profit margin was 7.1 percent. Operating profit decreased by 9.0 milion EUR.

Net profit (loss) is the amount shown in the line of the income statement summarizing all items of income and expense recognized during the period and showing the increase (decrease) in economic benefits. In 2018 net loss was 1.2 million EUR and in 2017 net proft was 6.7 million EUR (decreased by 7.9 milion EUR). The decrease was affected by a decrease in the price level of the export markets.

Key financial ratios of the Vilkyškių pieninė AB Group:

	2014	**2015**	**2016**	**2017**	**2018**
Return on equity (ROE), pct	13.5	4.8	15.4	19.5	-3.8
Return on assets (ROA), pct	5.7	1.9	6.0	8.2	-1.4
Debt ratio	0.58	0.60	0.61	0.58	0.62
Deb/equity ratio	1.36	1.52	1.57	1.37	1.61
Quick liquidity ratio	0.86	0.88	0.90	1.00	0.81
Asset turnover ratio	1.95	1.38	1.22	1.40	1.25
Capital-to-assets ratio	0.42	0.40	0.39	0.42	0.38

Calculating Relative Indicators:

1. Return on equity (ROE) is the ratio of net profit to equity.
2. Return on assets (ROA) - the ratio of net profit to assets.
3. Debt ratio is the ratio of all company liabilities and assets.
4. Debt and equity ratio is the ratio of all liabilities and equity of the company.
5. Liquidity ratio is the ratio of current assets and current liabilities.
6. Asset turnover - the ratio of sales and assets.
7. Capital-to asset ratio-Equity / equity ratio

In 2018, **assets totaled** EUR 82.3 m, 2.5 percent more than in 2017. In 2018, **long-term assets** decreased by 5 percent and totaled EUR 58.6m EUR.In 2018, **equity** was EUR 32.3m, down by 5.7 percent from the previous year 2017 (EUR 34.3 m). As at 31 December 2018, the total value of **loans** was EUR 27.8m, decrease by 1 percent comparing to 31 December of 2017.

Vilkyškių pieninė AB Group production output, tonnes:

	2014	2015	2016	2017	2018
Cheese, cheese products and other	76,533	77,720	82,960	87,370	86,702
Fresh milk products	26,230	19,255	17,492	14,576	15,120
Dry milk products	0	0	0	2,966	8,321

In 2018 cheese and cheese product and other production 86.7 tho tonnes, down by 0.8 percent comparing to 2017. Production of fresh milk products 15.1 tho tonnes, up by 3.7 percent comparing to 2017. Production of dry milk products 8.3 tho tonnes in 2018 up by three times comparing to 2017.

Raw milk purchases by Vilkyškių pieninė AB Group:

	2014	2015	2016	2017	2018
Raw milk, tonnes	253,947	237,065	243,633	249,992	267,785
Cost of raw milk, EUR tho	63,254	44,883	45,683	65,713	67,695
Raw milk price, EUR/t	249.0	189.3	187.5	262.9	252.8

In 2018, a total of 268 tho tonnes of milk was purchased, an increase by 7.1 percent as compared with 2017. Meanwhile, the price of raw milk in 2018 decreased by 3.8 percent from the year 2017.

15. Sales and Marketing

Core product sales, EUR thousand:

	2014	2015	2016	2017	2018
Cheese, cheese products and other	84,018	61,737	69,650	94,754	76,196
Fresh milk products	25,642	22,708	20,840	19,097	19,499
Dry milk products	0	0	0	88	7,467
Iš viso pajamų	**109,660**	**84,445**	**90,490**	**113,939**	**103,162**

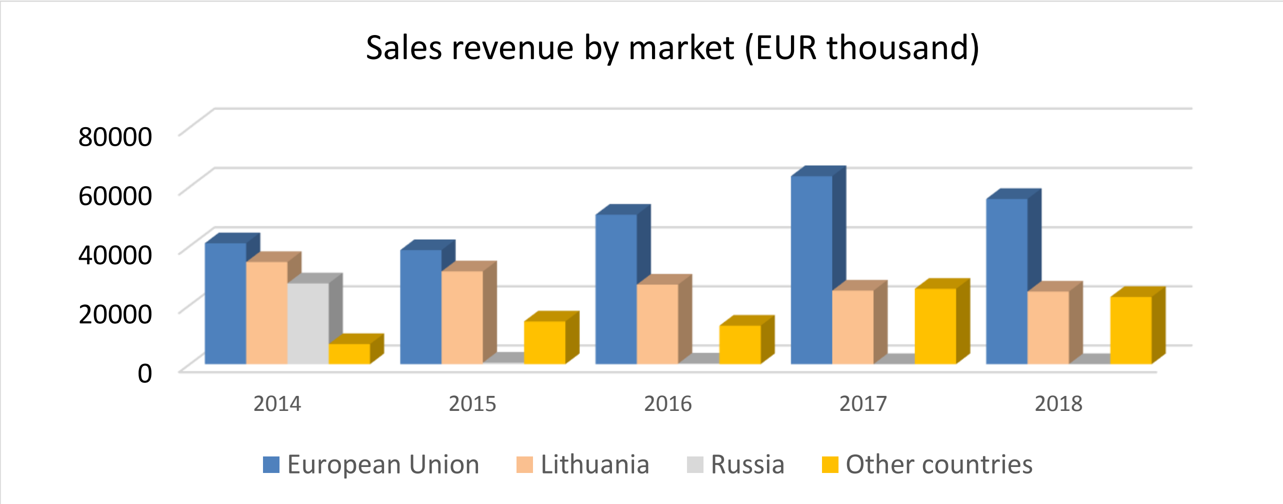
In 2018, income from sales decreased by 9.5% year-on-year. Income from sales in the domestic market contracted by 1%, and exports contracted by 12%. In 2018 exports contributed 76 percent of total sales and it is less by 2 percent comparing to last year.

Sales in the European Union states were the largest. The volumes grew in Italy, Netherlands, Finland, Hungary, Romania, Bulgaria. The Group puts lots of effort in market diversification, we seek to estatblish sales even in countries that have stringent requirements to imports of dairy import and just preparation for such move takes about 3-6 months. In 2018 we started selling in Vietnam, Pakistan, Malaisia, Montenegro, Serbia, Bahrain, Iraq, Kuwait.

Similarly to the previous years, the exports were dominated by cream, whey product and cheese sales.

Sales revenue by geographical segments, EUR thousand:

	2014	2015	2016	2017	2018
European Union	40,932	38,593	50,545	63,531	55,865
Lithuania	34,574	31,391	26,934	24,891	24,585
Russia	27,350	0	0	0	0
Other countries	6,804	14,461	13,011	25,517	25,712
Total revenue	**109,660**	**84,445**	**90,490**	**113,939**	**103,162**



Vilkyškių pieninė AB strategy to invest in innovative exclusive products has enabled the Company to deliver on its brand promise and continue surprising consumers with wider choices, new products, new taste sensations and new ways to enjoy dairy products, at the same time contributing to the brand‘s positions on the market .

The Company is targeting with its *Vilvi* brand. Branded and originally packaged products with great value propositions have strong potential on export markets.

16. Exhibitions and Awards

Since **2011**, the Company takes part in one of the largest exhibitions “Anuga”in Germany, SIAL in France and Gulfood in United Arab Emirated.

2012: Vilkyškių pieninė AB was named among global innovation leaders at the SIAL international exhibition in Paris, with the Vilkyškių gooseberry yogurt and chocolate-glazed cottage cheese bars winning the SIAL Innovation award.

2014: Vilkyškių pieninė AB named as Exporter of the Year 2014 in the Lithuanian Business Leaders 2014 contest.

In November **2015**, the trade fair Food Ingredients Beijing 2015 took place in China. Our participation in this trade fair coincided with an important event of Lithuania and China signing a protocol that permits the export of dairy products. With account of the needs of this market, appropriate ingredients (concentrate of whey proteins) were presented at the fair.

In December **2015**, with a view to finding new contacts for the whey products (concentrate and permeate of proteins) made by Vilkyškių pieninė AB, the company took part in the fair Food Ingredients Paris 2015 that brings together many representatives of food industry producers and wholesalers.

In May **2016**, Vilkyškių Pieninė AB participated in the exhibition SIAL China 2016 in Shanghai, China. It is the largest exhibition of food innovations held in Asia. The Company introduced cheese products, the whey protein concentrate (WPC 80) and the permeate.

In June **2016**, Vilkyškių pieninė AB participated in the exhibition Summer Fancy Food Show 2016 in New York, where presented its cheese products. The main purpose of participation in this project was to analyse the US retail market and to establish new business contacts.

In October **2016**, Vilkyškių Pieninė AB traditionally took part in the International exhibition of food industry SIAL 2016, held in Paris. In the International exhibition of food industry SIAL 2016 Vilkyškių Pieninė AB ranked among among the most innovative representatives of food industry in the world. Lithuania products under the brand “Vilve”, dedicated for foreign markets, were marked even in several dairy product categories. The yogurt drink Yoga with lemon and aloe, new flavours of coated cheeses Murr – mascarpone and pistachio won recognition for advanced recipes. Cheeses of Vilkyškių Pieninė AB won a reward for packaging – for its informative and educational nature.

On April **2017**, "GymON" products were presented at the international sports exhibitionin Germany, Frankfurt - FIBO.

On May **2017**, Vilkyškių pieninė AB participated in the largest Asian food exhibition in Shanghai "SIAL China 2017".

On June **2017**, New York Summer Fancy Food Show, the largest food industry exhibition in North America, was held in New York. During the exhibition, Vilkyškių pieninė AB introduced cheeses for the American market, had meetings with new possible customers.

In December **2017**, Vilkyškių pieninė AB presented whey powder products in exhibition "Food ingredients" which was held in Frankfurt, Germany.

In April **2018** GymOn protein products for athletes were presented in international sport exhibition FIBO 2018 in Frankfurt, Germany. GymOn star Žydrūnas Savickas met with fans, GymOn products were presented and tasted, new customer search was conducted.

In May **2018** Vilkyškių pieninė AB participated in exhibition Food West Africa for the first time. The company was searching for new partners during it.

In May **2018** for the fourth consecutive year in a row the Company participated in the largest Asian food exhibition in Shanghai SIAL China 2018. The main focus was on mozzarella cheese and milk/whey powder.

In May **2018** Vilkyškių pieninė AB participated in the exhibition in Amsterdam PLMA's World of Private Label for the first time.

In June **2018** Vilkyškių pieninė AB participated in exhibition Food Taipei 2018 in Taiwan for the first time. At the exhibition hosted meetings with current and future customers, mozzarella cheese was presented for new partners.

17. Risk Factors Associated with Issuer‘s Business

Key risks in the business of Vilkyškių pieninė AB Group:

The Group operates in the business of dairy processing (production of fermented cheese). The main factors that may pose business risks for the Company are possible changes on the raw material and product markets, competition, as well as changes in the legal, political, technological and social environment. These may affect – whether directly or indirectly – the Group‘s cash flows and results.

The Company specialises in cheese production, with most of its revenue coming from the sale of matured cheese and cheese products. Consequently, the Company‘s sales, profit and overall financial standing may be affected by negative changes in the cheese market demand or pricing (market risks). Meanwhile, price pressure may originate from competition on the international and local cheese markets.

The production of matured cheese is a lengthy process that may last between one and three months. As a result, the Company may be unable to respond quickly to market changes, which may tell upon its cash flows and bottom line.

The Group‘s credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. In the end of 2017, for 2 years term, the Company obtained credit insurance for its overseas customers with the insurer *Euler Hermes*. The risk of each client is assessed individually.

Credit risk associated with cash in banks is limited, as the Company works only with Lithuania‘s largest banks (mainly AB SEB Bankas). On 31 December 2018, the Company‘s debt-to-assets ratio was 0.62. The balance of outstanding loans on 31 December 2018 was EUR 27,824. Repayment is performed under the established schedule, without any delays.

18. Competition

Vilkyškių pieninė AB estimates that it has a 16-percent share of the Lithuanian market for cheese, i.e. it is in fourth place behind competitors Rokiškio sūris AB, Pieno žvaigždės AB and Žemaitijos pienas AB.

On foreign markets, Vilkyškių pieninė AB has to compete against local manufacturers, who have the advantage of lower transportation costs. However, Vilkyškių pieninė AB is trying to compensate for this disadvantage by offering a range of higher value-added cheese products

Vilkyškių pieninė AB offers industrial products in dry milk product segment, which are oriented into export thogh part is sold also locally.

19. Key Events After Fiscal Year-End

There have been no significant events after 31 December 2018.

20. Business Plans and Forecasts

In 2019, the main task of Vilkyškių pieninė AB Group is to revise product assortment, refine it, expand markets for dry milk products, set strong market positions in China, Malaisia, Indonesia and Arabic countries.

Kelmės pieninė AB main task – to increase volume of production, evaluate current product portfolio and produce these products that have higher margins, expand dry milk products markets.

Modest AB main task is to start working with new cheese shredding equipment, reorganize mozzarella and moulded cheese production processes.

In all Companies of the Group strive for maximum production efficiency by automating processes.The big focus of the Companies of the Group will be developing innovative products, personnel management, wage policy, and ensuring safe and healthy working conditions, implementation of common data protection regulation.

III. OTHER INFORMATION ABOUT ISSUER

21. Structure of Issuer‘s Share Capital

Vilkyškių pieninė AB Group Share Capital:

Type of share	Number of share	Share face value, EUR	Total face value, EUR	Type of share
Vilkyškių pieninė AB	Common registered shares	11,943,000	0.29	3,463,470
Kelmės pieninė AB	Common registered shares	2,457,070	0.29	712,550
Modest AB	Common registered shares	5,617,118	0.29	1,628,964
Pieno logistika AB	Common registered shares	371,333	0.29	107,687

22. Information on Treasury Stock

The Company does not hold its own shares.

23. Rights of Shareholders

<u>Shareholders have these non-proprietary rights:</u>

- to attend and vote in general meetings of shareholders;
- to receive information about the Company as set out in Article 18 (1) of the Law on Public Companies;
- to lodge a claim in a court of law for compensation of damages caused to the Company through inaction or inappropriate actions of the Company's director, also in other cases set out by the law;
- other non-proprietary rights stipulated by legal acts.

<u>Shareholders have the following proprietary rights:</u>

- to receive a share of the Company's profit (dividend);
- to receive a share of the assets of the Company in liquidation;
- to be granted shares free of charge where the Company's share capital is increased from its own capital, save exceptions set out by the Law on Public Companies;
- to have priority to buy new shares and share options in the Company, except for cases where a general meeting of shareholder has legitimately voted to revoke this right for all;
- to transfer all or part of their shares to other persons, using a procedure set out in the Law on Public Companies;
- other proprietary rights granted by the law.

None of the Company's shareholders has any special control rights. The rights of all shareholders are equal. One common registered share grants one vote in a general meeting of shareholders.

24. Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

25. Information About Shareholders

The total number of shareholders of Vilkyškių pieninė AB on 31 December 2018 was 880. The following are the major shareholders, who own more than 5 percent of the Issuer's stock:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Swisspartners Versicherung AG Zweigniederlassung Österreich	6,067,206	51%	51%
Multi Asset Selection Fund	2,035,729	17%	17%
Minority shareholders	3,840,065	32%	32%
Total stock	**11,943,000**	**100%**	**100%**

Kelmės pieninė AB shareholders

The total number of shareholders of Kelmės pieninė AB on 31 December 2018 was 1. The major shareholder, who owns more than 5 percent of the Issuer‘s stock was 1:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Vilkyškių pieninė AB	2,457,070	100%	100%
Total stock	**2,457,070**	**100%**	**100%**

Modest AB shareholders

The total number of shareholders of Modest AB on 31 December 2018 was 85. The major shareholder, who owns more than 5 percent of the Issuer‘s stock was 1:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Vilkyškių pieninė AB	5,601,277	99.7%	99.7%
Minority shareholders	15,841	0.3%	0.3%
Total stock	**5,617,118**	**100%**	**100%**

Pieno logistika AB shareholders

The total number of shareholders of Pieno logistika AB on 31 December 2018 was 169. The major shareholder, who owns more than 5 percent of the Issuer‘s stock was 1:

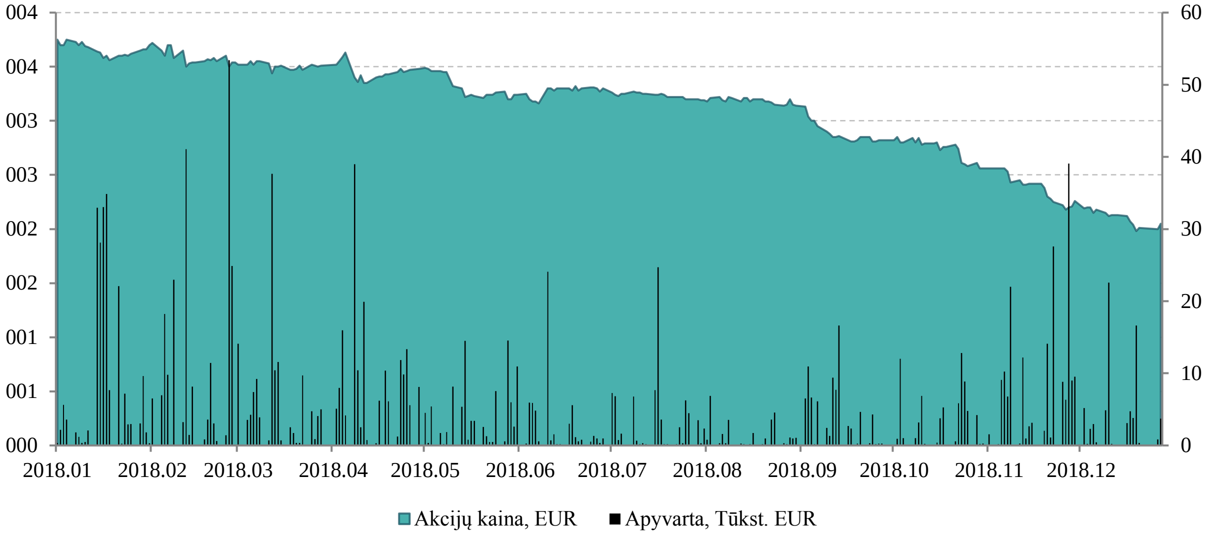
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Vilkyškių pieninė AB	218,781	58.9%	58.9%
Minority shareholders	152,552	41.1%	41.1%
Total stock	**371,333**	**100%**	**100%**

26. Agreements Between Shareholders, Known to Issuer, Which May Lead to Restrictions on Securities Transfers or Voting Rights

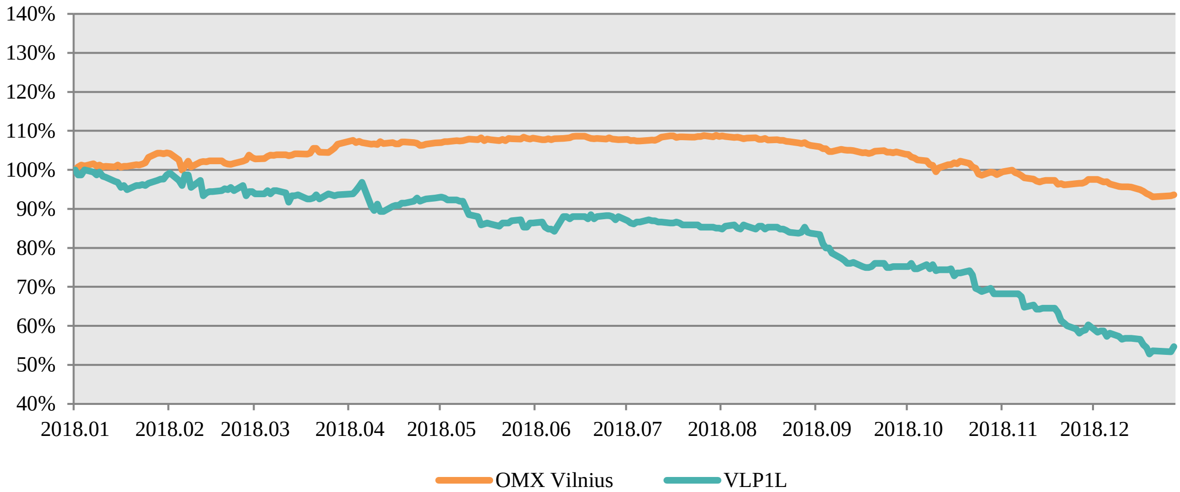
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

27. Trading in Issuer‘s Securities on Regulated Markets

The change of price of Vilkyškių pieninė AB shares and trade volume in 2018



Comparison of Vilkyškių pieninė AB share price and Nasdaq OMX Vilnius Index, 2018



Security trading history of Vilkyškių pieninė AB during 2015-2018:

Price	**2015**	**2016**	**2017**	**2018**
Open	2,00	1,76	2,34	3,72
High	2,05	2,43	3,94	3,76
Low	1,65	1,35	2,25	1,95
Fast	1,75	2,35	3,75	2,05
Traded volume	604.550	828.726	1.045.396	472.421
Turnover, million	1,13	1,43	3,26	1,46
Capitalisation, million	20,9	28,07	44,79	24,48

28. Dividend

Vilkyškių pieninė AB approved a dividend policy in 2012. The following is an extract from that dividend policy:

Dividends and the size of them

1. The Law on Public Companies of the Republic of Lithuania stipulates that the dividend constitutes a share of profit payable to a shareholder in proportion to the face value of the stock held by the shareholder.

2. The Company‘s shareholders cannot vote to pay a dividend at a general meeting of shareholders, if 1) the Company is insolvent 2) the distributed result for the fiscal year ended is negative 3) the Company‘s equity is smaller than the sum of its authorised capital and reserves, or in cases where it would become smaller following a dividend payout.

3. The Company‘s board shall submit to the General Meeting of Shareholders an amount of dividend based on the audited net profit result for the fiscal year ended.

4. If the Company has been profitable, the Company‘s board shall allocate a certain part of revenue for dividend as set out in Clause 2.6, reinvesting the rest of the revenue so as to increase the Company‘s capitalisation.

5. The Company shall pay dividend in cash.

6. The Company‘s board should establish the amount of dividend after taking into account the consolidated net profit of the Company for the year ended. The dividend amount must be not less than 25 percent of the consolidated net profit of the Company for the year ended, but not larger than the Company‘s annual consolidated net profit

7. The Company reserves the right to diverge from the criteria for the amount of dividend, provided it gives reasons for such divergence.

Vilkyškių pieninė AB dividend payments in the past 5 years:

Dividends	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)
Dividend (EUR)	1,037,680	836.010	-	1,433,000	1,672,020
Dividend per share (EUR)	0.09	0.07	-	0.12	0.14
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

Kelmės pieninė AB dividend payments in the past 5 years:

Dividends	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)
Dividend (EUR)	2,419,497	3,489,039	3,931,312	2,285,075	786,262
Dividend per share (EUR)	0.98	1.42	1.60	0.93	0.32
Number of shares	2,457,070	2,457,070	2,457,070	2,457,070	2,457,070

Modest AB and Pieno logistika AB did not pay any dividend in the last five years.

29. Employees

On 31 December 2018, there were 934 employees working at Vilkyškių pieninė AB Group.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	30	25	5	-	-	2,805
Specialists	332	130	87	111	4	905
Workers	572	17	166	338	51	638
	934	**172**	**258**	**449**	**55**	**796**

On 31 December 2017, there were 930 employees working at Vilkyškių pieninė AB Group.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	11	8	3	0	0	3,448
Specialists	326	140	90	92	4	901
Workers	593	19	175	347	52	596
	930	**167**	**268**	**439**	**56**	**727**

Employees work on the basis of labour contracts, while their rights and duties are set out in their job descriptions. Employees do not have any special rights or duties, and all work is organised in compliance with the Labour Code of the Republic of Lithuania.

30. Vilkyškių pieninė AB Group Governing Bodies

According to the Articles of Association of Vilkyškių pieninė AB, the Company‘s governing bodies are the General Meeting of Shareholders, the Board and the Chief Executive Officer. No supervisory council is set up. The Board of the Company represents the shareholders and performs oversight and control functions. The decisions taken by the General Meeting of Shareholders, where they concern issues falling within the remit of the General Meeting of Shareholders as specified in the Articles of Association, are binding to all shareholders, the Board, the CEO and other employees of the Company.

Board members are elected for a term of four years. The Chairman of the Board is elected for a tenure of four years by the Board from among its own members. Members of the Board are elected by a General Meeting of Shareholders in accordance with the Law on Public Companies.

The Board sets up two committees – Audit Committee and Salaries Committee – each consisting of three members.

The Board elects and dismisses the Chief Executive Officer. The CEO is the head of the Company. The head of the Company is a single governing body in charge of organising the current business operations of the Company.

Under the Articles of association of Kelmės pieninė AB and Modest AB, both companies are governed by a general meeting of shareholders, the Board and CEO

31. Procedure of Amendments to Company Articles

Amendments to the group‘s Articles of Association can be adopted at a General Meeting of Shareholders. Decisions on changes to the Articles are considered adopted, if approved by two-thirds of shareholder votes.

32. Activities of the Board

In the course of 2018, a total of 10 ordinary Board meetings were held, with the required quorum present at each of them. The Board approved the 12-month financial accounts for 2017, the 2018 three-month, six-month and nine-month interim financial statements, the 2017 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2017 profit for an ordinary meeting of shareholders, approved decision to revoke the unused reserve for purchase of own shares. Also, the Board approved the management structure and elected the Company's Board members for four years term.

As well as, the Board discussed issues related to granting/extension of loans and other current issues.

Kelmės pieninė AB and Modest AB hold their board meetings regularly to discuss issues within the remit of the board of directors.

33. Board & Administration Members

Vilkyškių pieninė AB Board Members

Gintaras Bertašius – a Board Chairman since 30 January 2006, re-elected for a four-year term on 27 April 2018, CEO of Vilkyškių pieninė AB. Has higher education diploma in mechanical engineering. Membership in other companies' governing bodies: a shareholder of *Šilgaliai* ŪKB (CRN 177356654, address: Šilgalių k., LT-99424 Pagėgiai), board chairman of Modest AB, board chairman of Kelmės pieninė AB. On 31 December 2018 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder's meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

Sigitas Trijonis – a Board Member since 30 January 2006, re-elected for a four-year term on 27 April 2018, Chief Technology Officer of Vilkyškių pieninė AB. Has higher education degree in mechanical engineering. As of 31 December 2018, he held 425,607 shares of Vilkyškių pieninė AB, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rimantas Jancevičius – a Board Member since 30 January 2006, re-elected for a four-year term on 27 April 2018. Has a college diploma as livestock engineer. Chief Purchasing Officer at Vilkyškių pieninė AB. As of 31 December 2018, he held 286,563 shares of Vilkyškių pieninė AB, 2.4 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vilija Milaševičiutė – a Board Member since 30 April 2009, re-elected for a four-year term on 27 April 2018. Has higher education in finance and credit. Chief Economics and Financial Officer of Vilkyškių pieninė AB. Membership in other companies' governing bodies: A board member of Modest AB, Kelmės pieninė AB and *Šilumos tinklai* UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As of 31 December 2018, she held 7,813 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Linas Strėlis – a Board Member since 7 March 2008, re-elected for a four-year term on 27 April 2018. Has higher education. Director of *LS Capital* UAB (CRN 133118295, address: V. Kudirkos g. 9, Kaunas) and *Biglis* UAB (CRN 133688345, address: V. Kudirkos g. 9, LT-50283 Kaunas), council chairman of Association of Social Enterprises (*Socialinių imonių asociacija*) (CRN 300542018, address: Raudondvario pl. 107, Kaunas), board member of *Auga Group* AB (CRN 126264360, address: Konstitucijos pr. 21C, Quadrum North, LT-08130 Vilnius), *Umega* AB (CRN 126334727, address: Metalo g. 5, LT-28216 Utena) and *East West Agro* AB (CRN 300588407, adrdress: Tikslo g. 10, Kumpiai, LT-54311 Kauno r.). Also the member of the supervisory board in SIA *Preses nams*. As of 31 December 2018, did not have any shares in Vilkyškių pieninė AB.

Andrej Cyba – a Board Member since 7 March 2008, re-elected for a four-year term on 27 April 2018. Has higher degree in business administration and management. CEO of *GP1* UAB (CRN 302582709, address: Maironio g. 11, Vilnius), *GP2* UAB (CRN 302582716, address: Maironio g. 11, Vilnius) and *Piola* UAB (CRN 120974916, address: Mindaugo g. 16-52, LT-03225 Vilnius). Business Develompent Manager of *INVL Asset Management* UAB (CRN 126263073, address: Gynėjų g. 14, LT-01109 Vilnius); chairman of the Board in *FMĮ INVL Finasta* UAB (CRN 304049332, address: Gynėjų g. 14, LT-01109 Vilnius) and

Mundus Asset Management UAB (CRN 303305451, address: Vilniaus 31, LT-01402 Vilniu); chairman of the supervisory Board at IPAS *INVL Asset Management* (CRN 40003605043, address: Smilšu iela 7-1, LV-1050, Rīga) and AS *Pirmais atklātais pensiju fonds* (CRN 40003377918, address: Rīga, Smilšu iela 7-1, LV-1050). As of 31 December 2018, did not have any shares in Vilkyškių pieninė AB.

Vilkyškių pieninė AB Members of Administration

Gintaras Bertašius – CEO and Chairman of the Board. Works at the Company since 1993. Has higher education diploma as mechanical engineer. Membership in other companies' governing bodies: a shareholder of Šilgaliai ŪKB (CRN 177356654, address: Šilgalių k., LT-99424 Pagėgiai), board chairman of Modest AB, board chairman of Kelmės pieninė AB. On 31 December 2018 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder's meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

Vilija Milaševičiutė – Chief Financial Officer, a Board Member, working at the Company since 2000. Has higher education in finance and credit. A board member of Modest AB, Kelmės pieninė AB and *Šilumos tinklai* UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As of 31 December 2018, she held 7,813 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vaidotas Juškys – Executive Officer, working at the Company since 2010. Has a higher education in IT. As of 31 December 2018, he held 250 shares of Vilkyškių pieninė AB, 0.002 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Sigitas Trijonis – Chief Technology Officer, a Board Member, working at the Company since 1993. Has higher education in mechanical engineer. As of 31 December 2018, held 425,607 shares of Vilkyškių pieninė AB, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rimantas Jancevičius – Chief Purchasing Officer, a Board Member, working at the Company since 1996. Has college diploma as livestock engineer. As of 31 December 2018, held 286,563 shares of Vilkyškių pieninė AB, 2.4 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Arvydas Zaranka – Chief Production Officer, working at the Company since 1995. Has college degree in dairy technology. Membership in other companies' governing bodies: a board member of Modest AB. As of 31 December 2018, held 1,933 shares of Vilkyškių pieninė AB, 0.016 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rita Juodikienė – Management and quality director. Woking at the company since 2002 Has a master degree in buisiness management. A board member of Kelmės pieninė AB as of 20 June 2017. Has no seats in other companies' governing bodies.

The bonuses to the CEO and CFO totaled EUR 127,800, or EUR 63,900 per person on average.

The salaries were paid out to Vilkyškių pieninė AB board members in 2018:

	Board members (4 members), EUR tho	Average size per month, EUR tho
salary	219,803	4,579

In 2018, the Company did not issue any loans, guarantees or letters of credit to members of its governing bodies. Also, the Company did not pay its board members or employees any salaries, bonuses or other payments from the profits of the Company's subsidiaries.

Members of Kelmės pieninė AB board and administration

Gintaras Bertašius – Chairman of the Board, last re-elected for a four-year term on 2016. Participation in the governing bodies of other companies: board chairman and CEO of Vilkyškių pieninė AB, shareholder of

Šilgaliai ŪKB (CRN 177356654, address: Šilgalių k., LT-99424 Pagėgiai), board chairman at Modest AB. Holds higher education degree in mechanical engineering. On 31 December 2018 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder's meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

Vilija Milaševičiutė – a member of the board, elected for a four-year term on 2017. Holds higher degree in finance and credit Participation in the governing bodies of other companies: Chief Financial Officer and a board member of Vilkyškių pieninė AB, a board member of Modest AB and *Šilumos tinklai* UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As of 31 December 2018, held 7,813 shares in Vilkyškių pieninė AB, i.e. 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rita Juodikienė – a member of the Board, elected for a four-year term on 20 June 2017. Has master degree in business management. Participation in the governing bodies of other companies: Quality and management director of Vilkyškių pieninė AB. Has no seats in other companies' governing bodies.

Jolita Valantinienė - CEO of Kelmės pieninė AB, working at the company since 2017. Has master degree in management and business administration. Has no seats in other companies' governing bodies.

In 2018, Kelmės pieninė AB did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

Members of Modest AB board and administration

Gintaras Bertašius – Chairman of the Board, last re-elected for a four-year term on 5 April 2017. Holds higher education degree in mechanical engineering. Participation in the governing bodies of other companies: board chairman and CEO of AB Vilkyškių pieninė AB, shareholder of *Šilgaliai* ŪKB (CRN 177356654, address: Šilgalių k., LT-99424 Pagėgiai), board chairman at Modest AB. On 31 December 2018 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder's meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

Arvydas Zaranka – a member of the board, re-elected for a four-year term on 5 April 2017. Participation in the governing bodies of other companies: Chief Production Officer of AB Vilkyškių pieninė. Has college degree in dairy technology. As of 31 December 2018, held 1,933 shares in Vilkyškių pieninė AB, i.e. 0.016 percent of share capital and voting rights.

Vilija Milaševičiutė – a member of the board, re-elected for a four-year term on 5 April 2017. Participation in the governing bodies of other companies: Chief Financial Officer of and board member in Vilkyškių pieninė AB, Kelmės pieninė AB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). Has higher education in finance and credit. As of 31 December 2018, held 7,813 shares in AB Vilkyškių pieninė, i.e. 0.07 percent of the stock and voting rights.

Kęstutis Keršys – CEO of Modest AB, working at the company since 2010. Has higher education degree in economics. Has no seats in other companies' governing bodies.

In 2017, AB Modest did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

34. Committees

Members of the Audit Committee: Aušra Lobinienė (The Head of Internal Audit of Tauragė Credit Union), Vilma Morkaitienė (senior accountant of Bonus Modus UAB) and Milana Buivydienė (Vilkyškių pieninė AB employee). None of the Committee members hold senior positions in the Company's administration or have shares in the Company.

During 2018, 5 meetings of the Audit Committee were held. They discussed and approved the following: the Company's 2017 financial statements, the draft 2017 annual report, the draft 2017 profit distribution report, the 2018 internal audit plan and the 2018 budget, reviewed the salaries of the company's employees and appoved salary policy of the Vilkškių pieninė AB group. Also, they reviewed preparation of the General

Data Protection Regulation (GDPR) in Vilkyškių pieninė AB Group. Each meeting was attended by all members of the Committee.

No committees are formed in subsidiary companies.

35.Agreements Enacted by Change of Control, Where Issuer is a Party

There are no agreements, to which the Issuer is a party, that would take effect if control of the Issuer changed.

36. Information about Agreements Between the Issuer and its Governing Members or Employees on Compensation Payouts in Case of Their Resignation, Unfair Dismissal or Discharge Upon Change in the Control of the Issuer

The Board Rules of Procedure do not provide for any compensation or payouts if a member of the Board resigns before the Board's term has expired. All employees are employed and dismissed in conformity with the provisions of the Lithuanian Labour Code.

37. Information About the Company's Transactions With Related Parties

Information about transactions with parties that are related to the Company has been included in the Vilkyškių pieninė AB financial statements for the year ended 31 December 2017, in Chapter 26.

38. Information About Detrimental Acts Concluded by the Issuer that Could Affect Issuer's Operations

The Issuer has not concluded any detrimental transactions that had or could in the future have any negative impact on the Issuer's operations or results. Nor has the Issuer concluded any transactions involving conflict of interest on behalf of the Issuer's top management, major shareholders or other related parties.

VILKYŠKIŲ PIENINĖ AB GROUP'S
Social Responsibility Report of the year
2018

ABOUT THE SOCIAL RESPONSIBILITY REPORT 2018

The Company's second Social Responsibility Report IS prepared to show how the responsible business approach and the principles of group management are reflected in our daily activities and future plans, even with the constantly growing challenges of the milk processing sector.

The Vilkyškių pieninė AB Group provides a report of social responsibility, it is based on the recommendations of the European Commission Communique "Guidelines for non-financial reporting" (2017/C 2015/01) and the recommendations of the project DESUR of the European Regional Development Fund (ERDF), according to which companies and organizations can to assess and to disclose their economic, environmental and social activities. The annual review and evaluation of the Company's Social Responsibility Report is a key component of the company's business success.

We are presenting the activities of AB Vilkyškių pieninė in the area of social responsibility that is in the relations with customers, employees and society, market participants as well as environmental activities in our social accountability report of year 2018.

The report describes the strategic directions, actions and achievements in the Company‘s social, economic and environmental aspects. The report is available in Lithuanian and English. Please read this report together with consolidated and separate annual report of Vilkyškių pieninė AB, 2018. The reporting period covers 1 January – 31 December 2018.

Accountability to the public

The report is published on the Company's website www.vilkyskiu.lt, stock exchanges "NASDAQ OMX Vilnius" website www.nasdaqbaltic.com. An independent audit of this report has not been carried out.

THE PRINCIPLES AND PRIORITIES OF RESPONSIBLE BUSSNES

The Vilkyškių pieninė AB Group seeks to contribute to the development of a sustainable society, promotes to get interested in to advanced tools and technologies.

The basics of responsible activities of the Vilkyškių pieninė AB Group are *– to increase the efficiency of production, to promote society and business to preserve energy resources and to change consumption patterns. The key to a mutually responsible partnership between business and society is the sustainable, safe and clean environment that we will leave for future generations.*

The Vilkyškių pieninė AB Group works in socially responsible way with interested groups in other areas to first of all it is the behavior based on ethical and equitable partnership with employees, attention to their work environment and safety. The employees of the Vilkyškių pieninė AB Group shift such a practice into external relations with customers, society and the environment. The Vilkyškių pieninė AB Group encourages other companies to integrate into the development of responsible, sustainable development activities. Cooperation and the sharing of good practice lead the country and society to social and economic well-being.

The Vilkyškių pieninė AB Group follows the following principles of sustainable development in its activities:

- ensuring maintenance of the environment while producing dairy products, cheeses and whey products;
- efficient use of natural resources for ongoing activities;
- intelligent and efficient use of energy and reduction of environmental impact during the production process;
- promoting a sustainable attitude to the environment among employees, contractors, suppliers, buyers and the public.

Responsible and sustainable development in the Vilkyškių pieninė AB Group means the ensuring the reliability of production, which contributes to economic and social development, without prejudice to the balance of the environment. Timely and well-grounded development of innovative technologies, the harmonized satisfaction of the needs of employees, clients and society, minimize the environmental impact.

Vilkyškių pieninė AB Group follows the principles of business ethics and social responsibility in its activities, which are implemented in these areas:

- **Economic responsibility**
- **Social responsibility**
- **Environment**

Economic responsibility

- Created value for shareholders
- The assurance of the correct remuneration for the employees
- Strengthening trade mark
- Customer needs are met
- Production efficiency
- Development of innovative products

Social responsibility

- Respect for human rights
- Safe and healthy working conditions are ensured
- Collaboration with all interested parties, communities
- Pre-primary education at the kindergarten is supported for the children of group employees
- Ensured transparent internal and external communication

Environment

- Effective reduction and reuse of production waste
- Preservation of natural resources
- Systematic environmental monitoring
- Compliance with environmental requirements

Vilkyškių pieninė AB Group seeks to preserve the status of a reliable social partner by contributing nationally and solving the actual social problems of our society.

The priorities of the Group's responsible activities:

- taking care of the health, safety, well-being and motivation of their employees, and developing the professional competence of employees;

- maintaining open relations with local communities, as well as openness to other interested parties and the public;

- the development of various social initiatives and projects for local communities and nationally;

- the development of civil society (through educational campaigns), which is interested in sustainable development (through the use of innovative technologies in production, saving energy and resources).

Social responsibility and support measures are important in order to maintain good partnerships with local communities and society at national level.

ABOUT THE VILKYŠKIŲ PIENINĖ AB GROUP

Vilkyškių pieninė AB Group consists of:

Vilkyškių pieninė AB	Modest AB	Kelmės pieninė AB	Pieno logistika AB
• Parent company. Established in 1993 • Manufacture of fermented cheese, cream; whey processin	• Subsidiary. Established in 1992 • Joined the Group on 2006 • Manufacture of mozzarella, blue cheese, melted cheese, smoked cheese	• Subsidiary. Established in 1993 • Joined the Group on 2008 • Manufacture of fresh dairy product • Manufacture of dry Products from 2018 (Factory in Tauragė)	• Subsidiary. Established in 2013 • The renting of the buildings

Vilkyškių pieninė AB Group produces a lot of delicious dairy products of original recipes and taste characteristics for many of them have been high qualified in international exhibitions.

We are proud to continue the long and honest traditions of cheese making history, cherishing our traditions in a particularly beautiful region of Lithuania. The richness of the Nemunas meadows inspires us to create and to share the generosity of nature.

Vilkyškių pieninė AB Group strategy is based on ensuring the functions identified in the group's mission for safe, reliable and efficient production of dairy products. Increasing the value of the group is aimed at improving internal processes, improving the organizational structure and developing competences.

Vilkyškių pieninė AB Group defines its responsibility and follows the following policies in its activities:

- **occupational safety and health policy;**
- **wage policy;**
- **quality policy.**

The mission	Provide gourmet satisfaction to people with dairy products.
The Vision	Reliable dairy producer, creating added value through the sustainable development.
The Values	Quality, Innovation, Competence, Honesty, Transparency, Social Responsibility.

- ***Quality*** – we produce high-quality dairy products and adhere to the highest standards.
- ***Innovations*** – we are constantly investing in new technologies and increasing the range of products. We are constantly investing in new technologies and expanding our product range. We are interested in creating and sharing what we create. After all, new traditions are born.
- ***Competence*** – the dairy products turn into exclusive and original high quality products in the hands of competent craftsmen.
- ***Honesty*** – we are open and reliable. The trust and respect of our users is of paramount importance to us. The basis of our business is the time to check relationships with business partners and the professionalism of our employees.
- ***Transparency*** – Vilkyškių pieninė AB Group strives to comply with the principles of the Corporate Governance Code of the “NASDAQ OMX Vilnius” listed on the stock exchange and to provide the investors and the general public with timely and relevant information about the company's activities in a comprehensive and timely manner.
- ***Social Responsibility*** – in carrying out its activities, the Company follows the principles of sustainable business development, which include social responsibility and environmental initiatives. The company invests in additional activities that increase not only the economic returns to investors, but also focus on environment-friendly technologies, it supports a wide range of social projects as they are pre-school childcare of employees’ children at kindergarten, ensuring the health of workers and a fair remuneration system.

GROUP MANAGEMENT

According to the valid statutes, Vilkyškių pieninė AB management bodies are:

- General shareholders meetings
- Collegiate governing body is the board
- The sole governing body is the general director

According to the valid statutes, Vilkyškių pieninė AB and Modest AB management bodies are:

- General shareholders meetings
- Collegiate governing body is the board
- The sole governing body is the director

According to the valid statutes, Pieno logistika AB management bodies are:

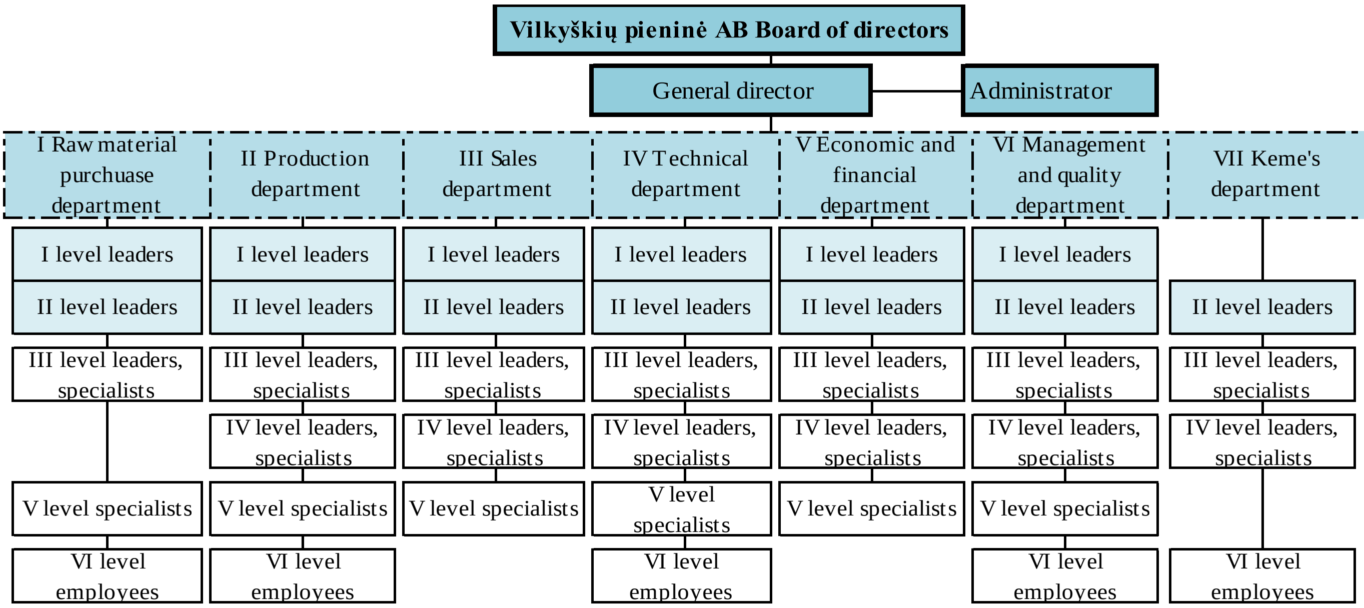
- General shareholders meetings
- The sole governing body is the director

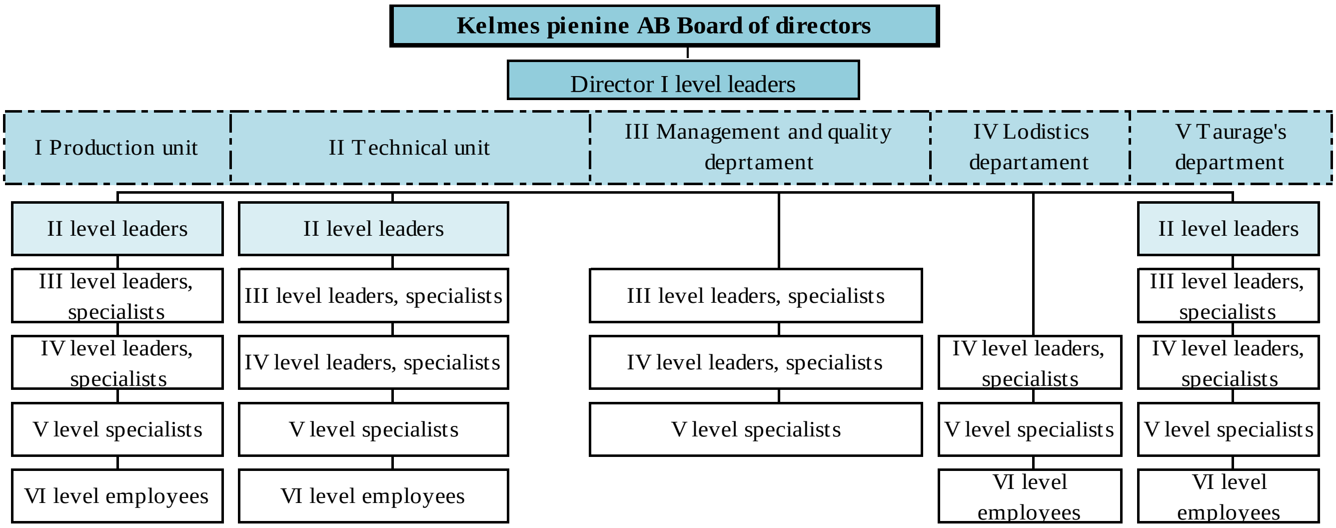
General shareholders meetings. During the reporting period, the Company's shareholders had equal rights (property and non-property), provided by laws, other legal acts and the Company's Articles of Association. No shareholder had any special control rights, all shareholder rights are equal. The company's management bodies provided the right conditions for the exercise of shareholders' rights during the reporting period.

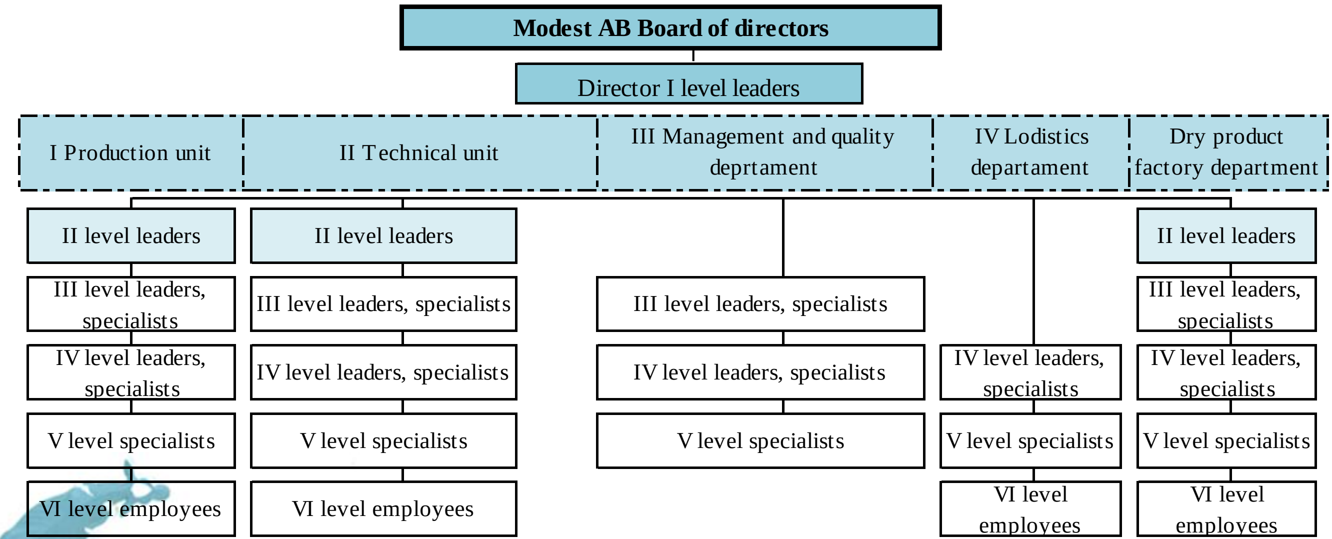
The Board. The Board of Vilkyškių pieninė AB consists of six members, the board of Kelmės pieninė AB and Modest AB – three members of the Board. The members of the Board are elected by the General Meeting of Shareholders, pursuant to the Law on Companies of the Republic of Lithuania, they are elected for a four-year term. The Board elects its chairman from among its members. *I.e. the section „Group management bodies of Vilkyškių pieninė AB" of consolidated and parent company's Vilkyškių pieninė AB 2018 audited annual report.* The Board forms two committees: Audit and Remuneration. Each committee consists of three members. *I.e. The section "Committees" of consolidated and parent company's Vilkyškių pieninė AB 2018 audited annual report.*

General director. The competence of the Director General, the procedure for collecting and revoking of him is established by laws, other legal acts and the Articles of Association of the Company. The General Director is elected and revoked and dismissed by the Board of the Company. The Director General organizes the activities of the Company, directs it, operates on behalf of the Company and concludes transactions on an arbitrary basis, except in cases provided for in the Articles of Association and legal acts of the Company.

THE STRUCTURE OF THE GROUP MANAGEMENT



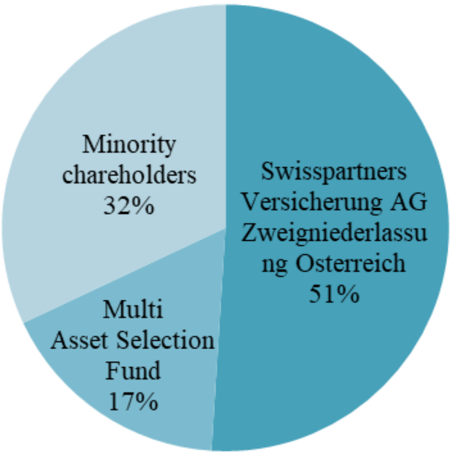




THE STRUCTURE OF SHAREHOLDERS

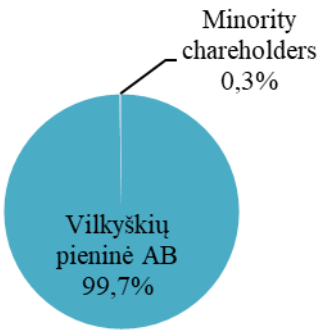
The shares of Vilkyškių pieninė AB are listed on the Official List of the NASDAQ OMX Vilniaus prekyba in 17 May 2006. The Company's shares are traded on the NASDAQ OMX Vilniaus Stock Exchange only.
ISIN code LT0000127508. Securities shorthand VLP1L.

AB Vilkyškių pieninė



AB Kelmės pieninė

"Modest" AB



GROUP ACTIVITIES

The purposeful development and broadening of Vilkyškių pieninė AB Group and chosen marketing strategy and effective management allowed the group to become a competitive dairy company in Lithuanian and foreign markets. Today Vilkyškių pieninė AB occupies 16% according to the quantity of milk processed and is the fourth one after Pieno žvaigždės AB, Rokiškio sūris AB and Žemaitijos pienas AB.

The main group activity:

- Manufacture of cheese, cheese products and other dairy products;
- Manufacture of cream and whey products by trying to rationalize the use of the intermediate products and raw materials that have been released during the production process of the main products;
- Manufacture of fresh dairy product;
- Manufacture of dry dairy product.

The company's products have gained international recognition, were awarded silver, gold medals and other awards at the international food industry exhibitions.

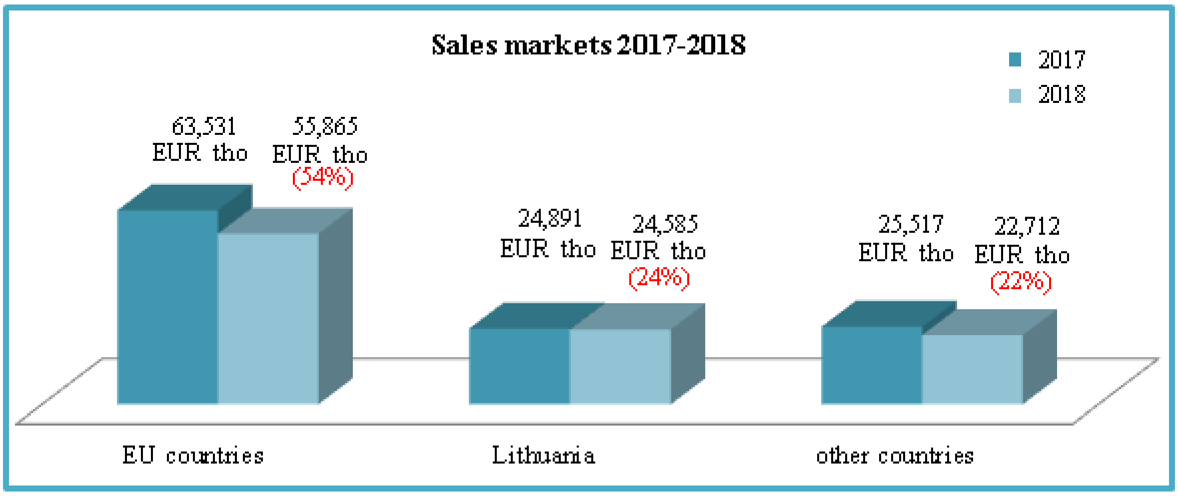
The cheeses of Vilkyškių pieninė AB won the prize for packaging – as they were informative and had the desire to expand knowledge of consumer about cheese.

The company has been focusing on Western markets from all the beginning as well as finding new markets on the Asian continent and in Africa.

Vilkyškių pieninė AB Group sells its products in 55 countries:

Albania	Croatia
Angola	Latvia
Austria	Poland
Azerbaijan	Lebanon
Belarus	Macedonia
Belgium	Malta
Bosnia and Herzegovina	Moldova
Bulgaria	New Zealand
Czech Republic	Norway
Denmark	The Netherlands
Great Britain	South Africa
Estonia	Portugal
Gambia	France
Greece	Romania
Italy	Saudi Arabia
Israel	Singapore
USA	Slovakia
United Arab Emirates	Finland
Kazakhstan	Taiwan
China	Ukraine
Cyprus	Uzbekistan
Republic of Korea	Hungary
Kosovo	Germany etc.

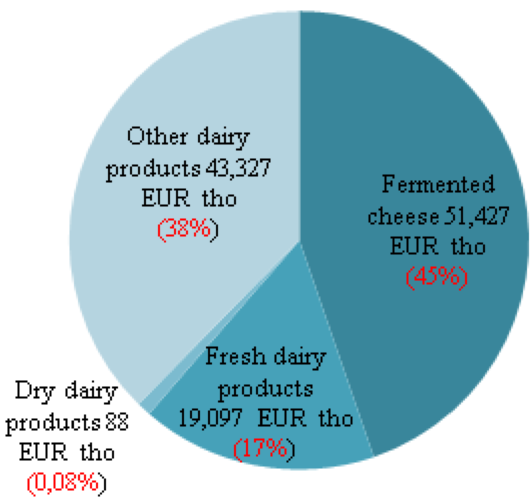
The majority of sales of Vilkyškių pieninė AB Group consists of exports to EU countries (56% in 2016 and 2017, 54% in 2018), sales in Lithuania in 2018 was 24%, in 2017 – 22%, in 2016 – 30%; exports to other countries in 2018 was 22%, in 2017 – 22%, in 2016 – 14%.



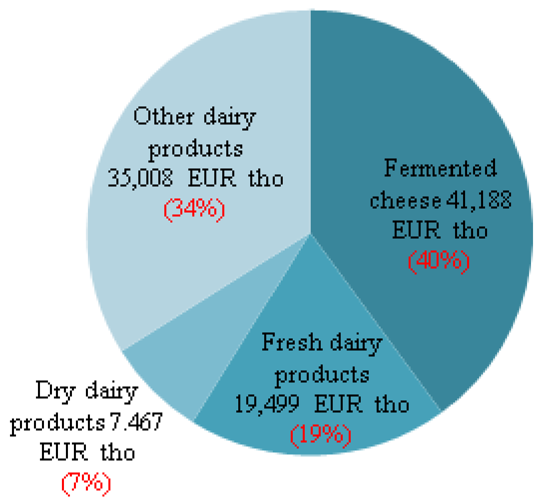
Vilkyškių pieninė AB Group invests in innovative exclusive products that enable the company to continue its promise of the brand and constantly rejoice consumers of local market for their choice by offering the new products and shaping new taste sensations and new traditions of dairy consumption; as well as strengthening their brand position.

The company is active in developing the export trademark "Vilvi" in foreign markets, where products with added value and original packaging have great potential. A part of Vilkyškių pieninė AB Group's production is marketed as industrial products.

Sources of sales revenue in 2017



Sources of sales revenue in 2018



AB VILKYŠKIŲ PIENINĖ ENTERPRISES GROUP IN 2018

25 years of experience

103 million EUR consolidated turnover

934 employees

1.5 million EUR investments in the Group's technological renewal

>19 thousand sq. m. administrative and industrial space

>268 thousand tons of milk bought

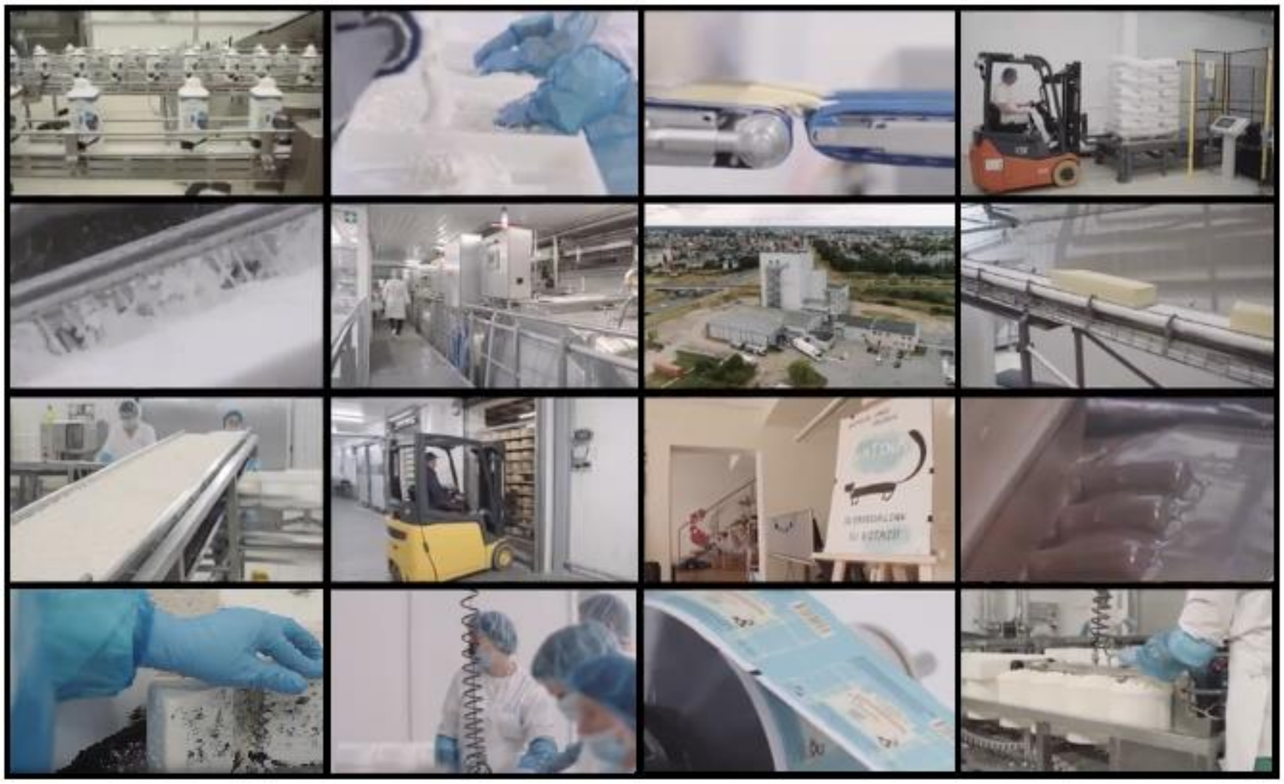
>350 clients in the EU and other countries

6.9 million EUR paid taxes to the state

76 percent export

21 thousand EUR for child welfare, education, culture, sports, etc. areas

ACTIVITY INDICATORS

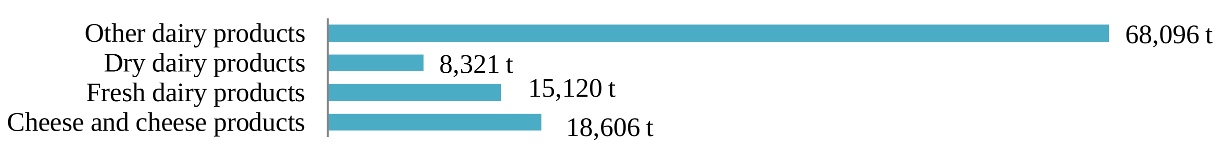


Consolidated group of Vilkyškių pieninė AB companies in 2018 sales revenue was 103.2 million EUR and, compared to 2017 income of EUR 113.9 million EUR, decreased by 9.5 percent. The fall in revenue was driven by a fall in export prices for basic products. Prices fell in the categories of cheese, cheese product, cream and mozzarella.

AB Vilkyškių pieninė Group in 2018 has suffered 1.2 million EUR loss, in 2017 net profit amounted to EUR 6.7 million EUR (decreased by 118%). The result was adversely affected by the fall in the price level in export markets.

In 2018 bought 267,785 tons of milk and this is 7.1% more than in 2017.
Amount for which 2018 was bought milk accounted for 67,695 thousand EUR.
Purchased milk price in 2018 was 252.8 EUR/t, which is 3.8% lower than in 2017.

Production volumes produced by Vilkyškių pieninė AB group, in tonnes:



In 2018 fermented cheeses produced 18.6 thousand tons. Compared to 2017, production increased by 1.3%. Produced 15.1 thousand tonnes of fresh dairy products, production compared to 2017 increased by

3.7%. Produced 8.3 thousand tonnes of dry milk products; in the reference year 2018 production increased 3 times compared to 2017.

Revenue from major products, in thous. EUR:

Consolidated group of Vilkyškių pieninė AB companies in 2018 paid to the state 6.9 million EUR. This is 30% more than in 2017.

INTERESTED PARTIES

The group has a wide range of interested parties in the internal and external environment. Interested parties are natural and legal persons and organizations that may be positively or negatively affected by the activities of Vilkyškių pieninė AB Group and those who are interested in it and wish to express their opinion.

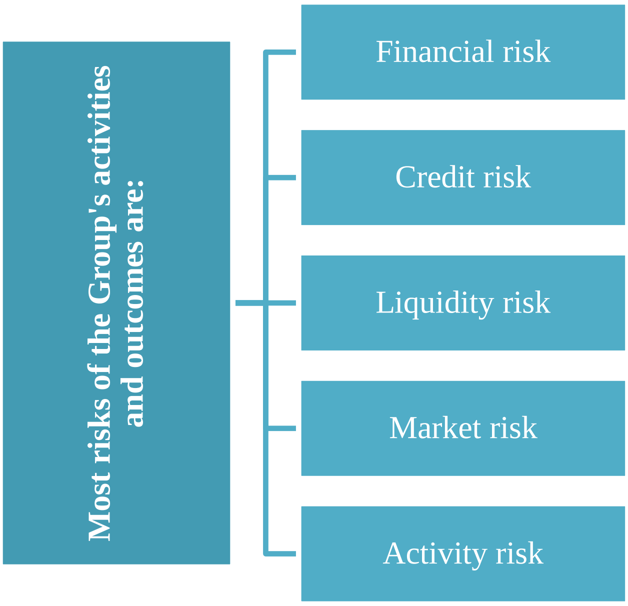
The group of interested parties	The most important interested party	Interests
Customers, service providers and contractors	Existing and potential	Partnership, rational price of products and services, reliable delivery of products, accessible and accurate relevant information, promptness of work, quality of products and services.
Suppliers of basic raw materials	Existing and potential	Partnership, rational price of products and services, reliable delivery and submission of products.
Suppliers	Fuel and electricity companies	Daily cooperation
	Water supply companies	
	Local waste management companies	
	Other natural and legal persons providing services and products	

Continuation of the table

The group of interested parties	The most important interested party	Interests
National Regulatory Authorities	Environmental Protection Agency	Safety control and monitoring of activity
	State Labour Inspection under the Ministry of Social Security and Labour	Safety and health of employees, occupational risk management
	Public company (VĮ) The Lithuanian Agency for Agricultural and Food Products Market Regulation	Export development, milk market supervision
	Competition Council of the Republic of Lithuania	Maintaining effective competition for consumer welfare
	National Paying Agency under the Ministry of Agriculture	Publicity and provision of EU support and administration of the support
	Ministry of Agriculture of the Republic of Lithuania	Assurance of rural development, food safety and quality
	State Food and Veterinary Service	Assurance of national food and veterinary control
	State Enterprise Agricultural Information and Rural Business Center	Assurance of the efficient operations of registries and information systems in the field of regulation of the Ministry
Interested parties inside the Group	Direction	Long-term value creation of the group, perspective for product development
	Employees	Wages, guarantees, employment and social integration, perspective for improvement
Other interested parties	Shareholders	Implementation of financial objectives, increase of efficiency of activities, increase of company value
The public	State institutions	Evaluation of financial statements, environmental statements, audit reports
	Organizations, associations	Cooperation
	Schools and universities	Excursions and practice
The general public	Readers of newspapers and magazines	Realization of production, transparency, social responsibility, reduction of environmental impact
	Listeners to radio stations	
	TV viewers	
	Readers of Internet sites	
Research centers, consultants	Laboratories	Evaluation of quantitative and qualitative indicators
	Training centers, consulting companies, natural persons	Training, counselling

RISK EVALUATION

Risk management is an integral part of the activities of Vilkyškių pieninė AB Group. In the Company, risks are identified, analyzed and evaluated in the context of the Company's objectives, activities and external environment. The meeting of directors is responsible for the establishment and maintenance of the joint risk management program. The Group's risk management policy is designed to identify and analyze the risks faced by companies, to identify adequate risk limits, to control the risks and adhere to the limits set for them.



Risk management policies and systems are systematically reviewed as they are hoped to reflect changes in market conditions and group activities. Through its teaching and management standards and procedures, the Group seeks to create a disciplined and constructive control environment where each employee has a clear role and responsibility.

Risk management is designed to maintain a sufficient level of control over operational processes, minimize the probability of occurrence of risk-causing events and potential negative consequences, and ensure that the group's objectives are achieved. There is disclosed more about each risk in the Audited Annual Report 2018 of Consolidated and parent Vilkyškių pieninė AB.

PERSONNEL AND EMPLOYEES

The employees are the biggest asset of Vilkyškių pieninė AB Group in order to achieve its goals.

We focus on continuous development of employees and the formation of a common culture of the entire group of companies.

The main “driver” of organizational culture is the leaders: their active engagement, the demonstration of values and desirable work principles by their behavior and decisions, and their promotion in teamwork.

Traditions are an important part of fostering culture. The strongest families are those who have traditions and hold them. Therefore, each working day begins with a joint staff discussion of 10 minutes at the cup of coffee. Workers are also welcomed on the occasion of the birthday, wedding, childbirth.

There are holidays being organized for employees to be able to chat in the informal environment: the company's birthday, Christmas celebration, orienteering biking, educational excursions are organized.

It is rejoiced in the company's internal page (intranet) with various achievements and smaller calendar events.

The one of Vilkyškių pieninė AB Group – Kelmės pieninė AB – is a social enterprise.

The aim of this company is to promote the return of people from target groups who have lost their professional and general ability to work, unable to compete on an equal footing, economically inactive, returning to the labour market. The company employs for about 40% of disabled workers. They are given the opportunity to work according to their potential makings.

Employees are given of the opportunities to attend meetings, lectures, trips, celebrations and other events organized in the field of informing, educating and motivating employees.

One of the strategic goals of Vilkyškių pieninė AB Group is to become an Employer No. 1 in Tauragė District. To achieve the goal, the staff policy focuses on the formation and improvement of an image of the employer, involvement of employees and cooperation. The most important steps on the formation of the image of the employer are: attraction of employees, selection, introduction, education, maintenance, dismissal.

ATTRACTION AND SELECTION OF EMPLOYEES

In order to attract employees there is a close cooperation with regional, vocational and higher education institutions. A lot of attention is paid to the selection process.

For the search of new employees is used:

- the internal resources of the company (this way encourages the company's employees to improve , take up the career ladder within the company);

- recommendations of existing employees in accordance with the approved recommendations procedure “Bring a Friend” (employees know the company's culture, policy, job functions, and therefore can recommend a suitable candidate);

- ads on internet portals, labor exchange, databases;

- services of employment agencies (when looking for top managers or employees from other countries).

The initial selection of the CVs of potential employees is carried out by the staff manager according to the criteria specified for the particular job described in the job descriptions. Selected candidates are invited to the first selection interview, in which: the candidate presents himself, the company is presented, the duties are described widely and the expectations of both parties are elaborated. Non-selected candidates are sent a note with gratitude for participation in the selection and invitation to participate in future selections. The selected employee is invited to a second interview, which details the start date, salary and recruitment procedure.

INTRODUCTION OF EMPLOYEES

The adaptation of new employees in Vilkyškių pieninė AB Group becomes one of the most important factors in order to prepare a new employee for the proper performance of functions and adaptation to the culture of the company, currently a new employee introduction system is being developed.

The goal is that the consistent introduction of the new employee will increase the integration of the employee, its efficiency of learning and will motivate for working in this organization and the costs for the search for new employees will be reduced.

EDUCATION OF EMPLOYEES

The education of employee is a process during which time it is tried to motivate and educate both individuals individually and the whole team together.

The Vilkyškių pieninė AB Group devotes much attention to the development of employee competences. The company has a library, where employees can find professional, motivational and fiction literature.

Every year, staff development plans are drawn up, taking into account the group's goals and compliance of staff competence.

Particular attention is paid to the training of the main professions, which ensures efficient and high-quality work, customer service and work safety.

General trainings are organized both by sending individual employees to seminars and conferences organized by external suppliers, and within the Group.

Training of year 2018	
	230 employees participated in the training of general competences
	28 hours of training was devoted to professionals
	40 hours of training was devoted for leaders

In 2018, an internal training program was signed to promote mutual cooperation, improve internal communication and manage stress and changes, leadership development and self-knowledge.

RETENTION OF EMPLOYEES

The retention of employees is closely linked to organizational culture.

We cherish organizational culture so that the employee would like to come to work, by developing a sense of family life, positiveness, and ensure the safety and comfort of the workplace.

The employee turnover is continuously monitored and research on motivation and engagement of employee is conducted at the Vilkyškių pieninė AB Group. In order to build a stable team, the good relationships are maintained internally what provide opportunities for improvement, growth, new responsibilities and participation in decision-making.

DISSMISS OF THE EMPLOYEES

Vilkyškių pieninė AB Group pays attention to the employee not only on the moment of hiring, but also on dismissal. The staff manager or manager communicates with the outgoing employee, strives to find out the reasons for the exit. It is important not to prevent the employee from returning to the company in the future.

HEALTH AND WORK SAFETY OF EMPLOYEE

An important task of Vilkyškių pieninė AB Group's employee policy is to assure health of employees and to improve their working conditions.

Employee health check and other motivational measures	•102 people were tested for health in 2018. •All employees wishing are vaccinated against influenza (133 were vaccinated in 2018). •Dentist services (as an additional motivational measure) were used by 50 employees. •Conditions are created for checking eyesight and ordering glasses at the workplace every year.

Every year, employees have the opportunity to check their health, vision, and get a free flu vaccine. The Occupational Safety Specialist and the Medical Specialist are constantly monitoring and ensuring that the places of work meet safety and health requirements in accordance with legislation and norms.

Civil safety functional exercises were organized on year 2018, during which the personnel and civil protection actions were simulated in case of fire in the Company's object.

130 employees participated in compulsory vocational training in 2018, where the special work permitting certificates were issued.

Employees were trained in the following training programs:

- *Work with hazardous explosives;*
- *Mandatory first aid training;*
- *An informal training program at workplaces where the amount of noise exposure to the worker may exceed 85 dB per day;*
- *Manual lifting of loads;*
- *Other training programs.*

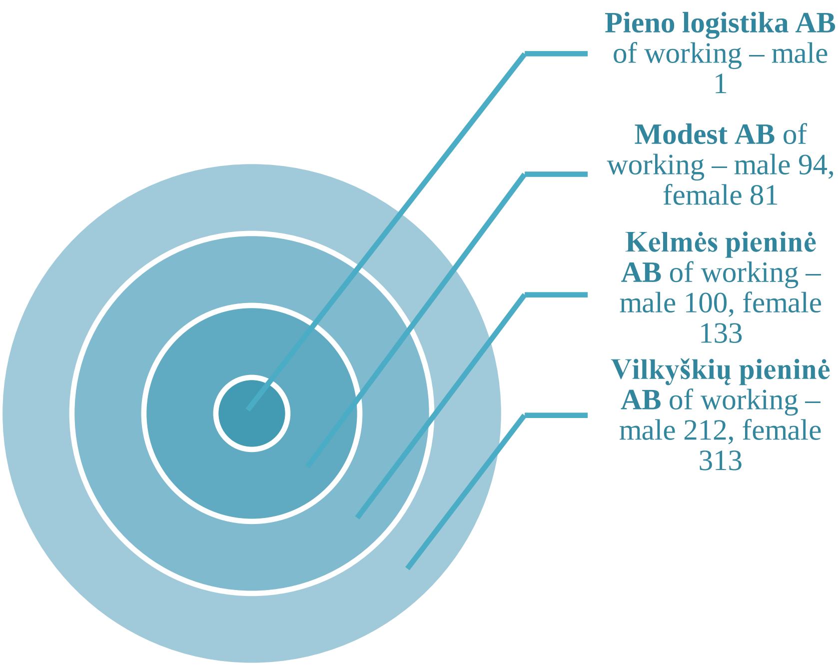
HUMAN RIGHTS PROTECTION

Vilkyškių pieninė AB Group does not tolerate human rights violations; it advocates a fair and transparent wage policy.

The group complies with overtime and working time laws, respects the right of employees to rest, and does not tolerate harassment or violence of any kind, advocates against any discrimination and compulsory (or child) labour. There was no discrimination or other incidents related to human rights violations in the Vilkyškių pieninė AB Group in year 2018.

All employees can voice their comments, opinions, complaints about unsatisfactory working conditions or relationships with colleagues, etc. during weekly individual meetings with executives or referring to the staffing unit.

DIVERSITY AND EQUAL OPPORTUNITIES



Gender distribution at the top management level: at the end of 2018 were 6 male and 3 female (Level 1 manager).

Vilkyškių pieninė AB	**212**	**313**
Kelmės pieninė AB	**100**	**133**
Modest AB	**94**	**81**
Pieno logistika AB	**1**	

The majority of employees of Vilkyškių pieninė AB Group were – 527 in year 2018

REMUNERATION SYSTEM

The provisions of the remuneration system have been prepared in accordance with the provisions of the Labour Code of the Republic of Lithuania (Law No. XII-2603) and its implementing legislation, as well as the Rules of Procedure of the Vilkyškių pieninė AB Group, other legal acts regulating the payment of employees' remuneration, as well as the right to remuneration for work and gender equality and non-discrimination on other grounds.

The system is harmonized with other local laws of the Company and applies to the calculation and payment of remuneration for employees working under employment contracts. The remuneration system includes the categories of employees and the positions assigned to these categories. The provisions for work remuneration stipulated in the system and its annexes are applied in a way that avoids any discrimination based on sex and other grounds. Men and women receive equal remuneration for the same or equivalent work.

The content of the work performed by the employee, its description, qualification requirements for employees (if applicable for a separate post), compulsory and voluntary qualification improvement procedures are set out in the employees' employment regulations and / or employment contracts.

Upon obtaining a higher professional qualification, a higher remuneration may be paid or a higher wage rate may be applied to such an employee upon the decision of the manager. In the case of vacant jobs with higher requirements, such jobs are primarily offered to employees of the company who meet the requirements for the position and have a higher level of qualifications. In this case, the employee will be covered by a higher remuneration system. Employees may be awarded additionally for qualification acquired and / or bonus for additional work or additional duties or tasks. Accessories for employees may also be awarded for a job well done. In order to encourage the employee for the work or performance of his or a company's subdivision or group of employees, etc. A bonus may be awarded to an employee on the initiative of the Company.

ASSURANCE OF CORRECT REMUNERATION

Vilkyškių pieninė AB Group participates in the Hay Group Remuneration Market Survey, which provides clarity in the remuneration system; this allows the transparent and efficient management of remuneration. By using unique Hay Group databases, we can compare the remuneration system of the Vilkyškių pieninė AB Group with the local market; this allows us to find out how competitive the remuneration offers are.

There is still a high wage inequality within companies and in the Lithuanian labour market. Remunerations vary on average of 60% for the same or very similar work.

The discrepancy between business possibilities of the business and expectations of employees threatens to increase the migration of important and good employees – they will increase their remuneration by changing workplaces because they cannot do it internally in the company. There are no clearly defined positions ‘structure in the companies, so they do not see how much of value create each position in a common context.

It's important for people to know if their results correspond to the remuneration they receive, so if they do not hear logical arguments, they feel dissatisfied. In order to avoid this and to accurately determine the salaries prevailing on the market and to compare them with group remuneration,
Vilkyškių pieninė AB Group uses the services of the world's leading provider of accurate remuneration information and analyzes – Hay Group.

PUBLIC

POSIBILITIES FOR PRACTICE, EDUCATION – EXCURSIONS

The company actively collaborates with educational institutions, enabling higher and vocational school students to apply theoretical knowledge and acquire practical skills during their practice. Presentations of professional information and career planning

as well as sightseeing tours to factories are organized. Pupils and graduates are encouraged to practice so that they have the opportunity to become more familiar with the work of the manufacturing company and may be able to secure jobs after graduation.

PROMOTING THE COMMUNITY, PROVIDING THE SUPPORT

Vilkyškių pieninė AB is a socially responsible company. At the beginning of the year 2010, having received financial supports from the European Union funds, it founded a child care room, and it was called kindergarten by people of Vilkyškiai. Parents did not have to pay for a kindergarten completely.

This kindergarten is partially funded by Vilkyškių pieninė AB upon completion of project funds from 2013. So while employees work in a dairy, their children are involved in pre-school education.

The competitions of the drawings of the logo of Vilkyškių pieninė AB and / or poems about the company and production are organized.

Vilkyškių pieninė AB is turning back to Lithuanian traditions - basketball fostering – it supports “Žalgiris” basketball team since 2009.

The company contributes to the organization of tournaments and employees support the "Žalgiris" team in every match.

2018 AB Vilkyškių pieninė celebrated its 25th anniversary. In Vilkyškių town there was a real fiesta not only for the employees of the Group, but also for the community of the town.

In order to be an active member of the community, Vilkyškių pieninė AB Group promotes and develops community spirit - supports and participates in cultural, educational events, entertainment, educational activities for adults and children. We contribute to a more active social life in the district, strengthening mutual relations and cooperation in this way.

We support for many years in close cooperation not only the community of Vilkyškiai but the communities of cities Pagėgiai, Tauragė, Kelmė too. Pagėgiai School, Pagėgiai Regional Festival, Vilkyškiai and Pagėgiai Town Festivals, International Organ Music Festival and Tytuvėnai Sports Festival “Tytuvela” are supported by us as well. There is an international organ music festival organized in Vilkyškiai town every year where we participate as sponsors and as listeners. 2018 The company's contribution to culture has been rated as the most important and one of the most significant cultural awards in the country – nomination “Sponsor of Culture of the Year”.

ENVIROMENTAL PROTECTION

Vilkyškių pieninė AB Group in its activities aims to preserve the environment, to use natural resources economically, to introduce modern, effective and environmentally sound technologies in production activities. The Group follows the requirements of environmental legislation and norms, professionally applies preventive measures that reduce the negative impact on the environment.

2018 the company did not receive any complaints about the negative impact of activities on the environment.

The main environmental issues raised are:

- safe exploitation of the equipment;
- safe use of environmentally hazardous substances;
- management of waste generated and reduction of them.

Vilkyškių pieninė AB Group seeks to continuously reduce the negative impact on the environment in the production of dairy products, implement pollution prevention measures.

The Group fulfils all the environmental requirements for it and cares for the construction of new facilities and the renovation of old equipment so that the group activities will have even less impact on the environment on its own initiative. The Group promotes the regard on the use of electronic devices and paper.

According to Directive 2008/1 / EC of the European Parliament and of the Council on Integrated Pollution Prevention and Control (IPPC), Vilkyškių pieninė AB and Kelmės pieninė AB are included in the Annex I installations for which IPPC permit has been granted.

The Group has installed the best available techniques (BAT), resource consumption and emission levels consistent with those achieved in the European Union.

Environmental policy of Vilkyškių pienine AB Group

- **to seek to reduce environmental impact;**
- **to implement pollution prevention measures;**
- **to assure minimum resource consumption and waste generation, so that the activities carried out do not cause undesirable effects on the air, water, land.**

Vilkyškių pieninė AB Group periodically performs an environmental impact analysis and assessment. Reducing environmental pollution is also occurring during the annual renewal of the fleet.

- Every year, AB Vilkyškių pieninė Group uses **8 tons of stationery paper,** which is **1.6 million sheets**. And these numbers are growing. In order to ensure the minimum consumption of resources, the paper used by the Group complies with FSC and Ecolable certificates. This means that the felled trees are replanted and produced in paper, less water, electricity and gas are consumed.

- **Paper towels and toilet paper** are used by the Group up to **11 tonnes per year**. From 2017 After switching from towel-napkins to paper rolls, the annual consumption decreased by 40%.
- Products made in the Group's factories are packed in **cardboard secondary packaging**, glued paper stickers and so on. The Group consumed **about 530 tonnes per year**. Part of the production is already delivered to customers in multiple plastic boxes. The Group consumed 152 tons of cardboard per year alone to pack the product of tetratop, and now the total volume of secondary cardboard packaging has decreased by as much as 30%. Other product categories are gradually being introduced in preparation for reusable secondary packaging.

In accordance with the established procedure, the monitoring program of the water supply site for groundwater and monitoring are carried out, as well as the potential impact of the service station on groundwater is controlled by the monitoring program and the monitoring of emissions into the air pollutant, pollution sources with wastewater discharges is carried out

Name of the source or installation of pollution	Pollutant name	Pollutant release medium	Tax rate standard N, tons	Total emissions in 2018, t	Total emissions in 2017, t	≤ N
MONITORING OF ENVIRONMENTAL IMPACT INDICATORS						
Biological wastewater treatment plants	Fat	Water bodies	3.2850	2.8380	2.2485	✓
	B. phosphorus	Water bodies	0.6570	0.4658	0.2275	✓
	Ammonium nitrogen	Water bodies	2.1120	0.2633	0.0770	✓
Surface wastewater	BDS	Water bodies	0.2436	0.0216	0.0310	✓
	SM	Water bodies	0.2100	0.0254	0.0260	✓
	Oil	Water bodies	0.0029	0.0004	0.0010	✓
Boiler room I	Carbon monoxide (A) CO	Atmosphere	3,4641	0.4178	3.4641	✓
	Nitrogen oxides (A) NOx	Atmosphere	1.2533	0.5570	1.2533	✓

Vilkyškių pieninė AB (2011), Kelmės pieninė AB (2016) and Modest AB (2014) are equipped with modern, fully automatic refrigeration compressors, which use an environmentally friendly refrigerant for ammonia.

Vilkyškių pieninė AB has a regenerative thermal energy exchange system, which enables the collection and use of both heat and refrigeration energy.

Industrial and domestic waste water is purified by the purification plant situated in the factory up to the required environmental standards and discharged into open water bodies.

Milk and whey dryers are installed at Kelmės pienine AB Tauragė branch. Energy saving, energy recovery systems are installed there, which significantly save heat, reduce gas consumption, and emit less heat into the environment. The natural gas is used to produce heat in the dryers -whose combustion products are less polluting the environment.

It is planned to install a natural gas boiler house at Kelmės pieninė AB Department for the replacement of the current, using diesel fuel.

The fuel the Vilkyškių pienine AB Group uses are- gas what is more environmentally friendly than fuel oil or wood shavings.

FIGHT AGAINST CORRUPTION AND BRIBERY

Transparent, honest and open business activity is one of the most important elements of impeccable business reputation. Business companies that implement anti-corruption measures in their activities gain a competitive advantage over other market participants in the long run protection and improve their reputation, they manage to attract more investment and establish long-term relationships with reliable business partners.

Vilkyškių pieninė AB Group does not tolerate any manifestations of corruption, including bribery and grafting and advocates fair business policy and transparent communication with state institutions and other interested parties, seeks to work with socially responsible organizations.

Vilkyškių pieninė AB Group pays transparently all taxes, conducts fair accounting, all cash flows of the Group are documented with necessary documents, the Group follows a transparent wage policy – does not tolerate the practice of paying employees a part of the salary in the “envelopes”.

The Group ensures the transparency of its procurements and requires potential and existing suppliers to operate transparently and fairly. The Group trades its products in accordance with the principle of transparency, does not participate in any transactions where any bribes are requested or is offered to behave in an opaque manner. The Group evaluates the visions and proposals of the responsible institutions and their transparency.

The Group is politically neutral and does not provide any financial support for political parties, groups or politicians.

The Group has clearly defined rules for giving and receiving gifts. There are circumstances indicated under which you can give or receive gifts, participate in activities organized by third parties.

Long-term sponsored groups are posted publicly on the website.

2018 the company has not been accused of corruption.

INFORMATION ABOUT COMPLIANCE TO MANAGEMENT CODE

The Company has prepared a Disclosure on Compliance with the Management Code Principles, which is attached as an Annex to this Consolidated Report.

V. INFORMATION ON DISCLOSURES

On the 10th day of each month, sales figures for the preceding months are published. A report has been published on an ordinary meeting of shareholders, as well as reports on the annual and interim results.

Annex

Announcement of Vilkyškių pieninė AB Group concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2018

The public company Vilkyskiu Pienine AB following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Trading Rules of the NASDAQ OMX Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company constantly presents information related with the development strategy and with the optimization of shareholder value via the information system of the Stock Exchange, on its website (www.vilkyskiu.lt/investuotojams/).
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the company act in furtherance of the declared strategic objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The company has set up the Management Board (with the exception of Pieno logistika AB) which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the Vilkyskiu pienine AB.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The bodies of the company are general shareholders' meeting, Management Board and chief executive officer. AB Pieno logistika's governing bodies are a General Meeting and the head of company. No Management Board is set up in this Company. The company does not set up a supervisory board as a collegial management body. The Management Board is responsible for the supervision of company's activity and management (except for AB Pieno logistika).
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions that are indicated in this recommendation are implemented by the Management Board. (except AB Pieno logistika)
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The company does not follow this recommendation, where a company chooses to form only one collegial body, as Management Board is the one collegial body. The company does not follow the Recommendation 2.3 of the Governance Code – at present the only collegial body of the company is a management body, not a supervisory one. The management body of the company implements the supervisory functions as well.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	Management board collects and cancells the Head of the Company. Establishes its salary, other work conditions, approves the position regulations, encourages him and imposes penalties.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	At present, in accordance with the Articles of Association, the Management Board of AB Vilkyškių Pieninė is composed of 6 members who are appointed for the period of four years. The Management Board of AB Modest is composed of 3 members.

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

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

		The Management Board of AB Kelmės Pieninė is composed of 3 members. No Management Board is set up at AB Pieno logistika. The number of members of the collegial body is sufficient to dominate decision-making.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	In accordance with the Articles of Association, the members of the Management Board are appointed for the period of four years without limiting the number of their terms of office. The Articles of Association provides the company with the possibility to withdraw the whole Management Board or any of its members. The withdrawal of a member of the Management Board should be based on the legislation.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	No Yes	AB Vilkyškių Pieninė does not follow the Recommendation 2.7 because the chairman of the Management Board is Director General of the Company. The independence of supervision is guaranteed by other five members of the Management Board. AB Modest and AB Kelmės Pieninė follow the recommendation.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[3]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. The company follows all provisions that are indicated in this recommendation, moreover, the company could additionally mention the document (such as the operating regulation of that body), if	Yes	While electing the collegial body of the company, the shareholders may take the cognizance of comprehensive information about the candidates early enough before the meeting of the shareholders and during it as well.

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

any, which determines the specific order of data exchange among the member of that collegial body.		
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. The company could comprehensively comment the implemented practice (for instance, prior to the announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year).	Yes	The company accumulates and discloses the entire information about the members of collegial body, their professional education, qualification and conflicts of interest, following the order set out in these recommendations.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education, professional background, etc. Information about the composition of the Management Board and particular competences of individual members is set out in the reports of the company.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly. The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit. No audit committee has been formed AB Modest and AB Kelmės Pieninė. and AB „Pieno logistika"

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the Management Board and the members of Audit Committee of AB Vilkyškių Pieninė constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional	Ne	The Company has not defined independence criteria for Management Board members. However, Vilkyškių pieninė AB has two Board members who meet the independence criteria specified herein.

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

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

remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this		

Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board. However, Vilkyškių pieninė AB has two Board members who meet the independence criteria specified herein.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Vilkyškių Pienine AB, Modest AB and Kelmes Pienine AB members may be paid tantrums for their work in the Board, however, in 2018, Tantemess Board members have not been paid.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		

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

[7] See Footnote 3.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting. The Board also submits recommendations and suggestions to the head of administration.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Based on the company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	In the year 2018, the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's	Yes	The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the

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

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.		main information about the company's activity in the periodical reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees (if formed) are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion.
4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial	Yes	Vilkyskiu pienine AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee. The committees are not formed in AB Modest, AB Kelmės Pieninė. and AB „Pieno logistika“

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

body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The key objective of the Nomination and Remuneration Committee of AB Vilkyškių Pieninė is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee of AB Vilkyškių Pieninė exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses	Yes	Each committee of AB Vilkyškių Pieninė is composed of 3 members.

[11] The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance. In its annual report, AB Vilkyškių Pieninė also announces the Audit Committee's report on its composition, the number of meetings and the attendance of its members during the previous year, as well as its main activities.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial	Yes	The functions of Nomination committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the	Yes	The functions of Remuneration committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of	Yes	AB Vilkyškių Pieninė substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control. The Audit Committee ensures effectiveness of internal audit function as well.

the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act		

as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about	Yes	The chairperson of the Management Board heads up the meetings of the Management Board.

the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.		
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12].	Yes	Meetings of the Board are organised once a month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and which may include specialists who are not the employees of the company
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.

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

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary shares that grant the same personal property and not-property right.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Important transactions are approved following the order set in the Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.

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

6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. If the shareholder wishes in writing, the Head of the Company shall, within 3 days from the receipt of the written request, submit all draft decisions of the meeting to the shareholder by signing and send by registered mail. The draft decisions must indicate who they are involved in on the initiative. If the originator of the draft decision has provided explanations for the draft decision, they are annexed to the draft decision. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ Vilnius in Lithuanian and English languages: 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Company has not applied the means of modern technologies.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within	Yes	The members of the Management Board avoid situations of a conflict of personal and company's interests.

reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.		
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.	Yes	The members of the Management Board do not mix the company's assets with his/her personal assets.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	Any member of the Management Board may conclude a transaction with the company. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Management Board abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company has approved the Remuneration System. The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and	No	

members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.		
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits	No	

under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.

in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.13. Shares should not vest for at least three years after their award.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	According to the Company's Articles of Association, the salaries of management fixed by the Management Board (except for AB Pieno logistika, where the salary for the company head is fixed by the General Meeting.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.

and get an explanation on the impact of the suggested changes.		
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related	Not applicable	

expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company and they have access to relevant information.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;	Yes, except salary information set out in point 4	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company

5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.		
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	When disclosing the information set in item 1 of Recommendation 10.1, a company, which is the parent of other companies, discloses the information regarding the consolidated results of the whole group to which the company belongs.
10.3. When disclosing information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes, except 4 point	Except for salary information.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Not applicable	
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The company presents the information via the information disclosure system applied by NASDAQ OMX Vilnius simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavours to announce the information before or after a trading session on NASDAQ OMX Vilnius and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have an impact on the price of its issued stocks and does not disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient, and in cases stipulated by law, is not remunerated, access to relevant information by users. It is recommended that information technologies should be employed for	Yes	The company publicly announces all the essential information (in Lithuanian and English languages) on the website of the company, thus ensuring fair, timely and cost-efficient access to relevant information.

wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.		
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The company follows this recommendation and places all the essential information on the company's website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Management Board nominates the candidate firm of auditors to the General Meeting (except for AB ‚Pieno logistika, where the nomination is done by the copmpany head), and the General Meeting is responsible for appointing the audit firm.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any not-audit services and it has not received from the company any remuneration for not-audit services.