Consolidated and the parent company's separate financial statements for the year ended 31 December 2019

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.

Table of contents

Company details

VILKYŠKIŲ PIENINĖ AB

Telephone:	+370 441 55330
Telefax number:	+370 441 55242
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
OP Corporate Bank plc Lithuania branch

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 separate and consolidated annual 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, 21 April 2020

Management:

Gintaras Bertašius
General Manager

Vilija Milaševičiutė
Director for Economic and Financial Affairs

Independent auditor's report

To the shareholders of VILKYŠKIŲ PIENINĖ AB

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of VILKYŠKIŲ PIENIĖ AB ("the Company") and its subsidiaries (together "the Group") as at 31 December 2019, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 21 April 2020.

What we have audited

The Company's and the Group's consolidated and separate financial statements comprise:

- The consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of profit or loss and statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statement of cash flows for the year then ended; and
- the notes to the consolidated and separate 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 consolidated and separate financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

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

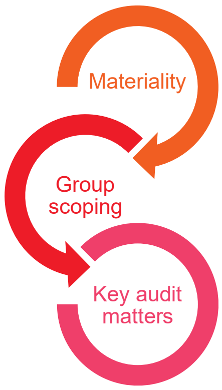
The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 7 to the financial statements.

Material uncertainty relating to going concern

We draw attention to Note 27 in the financial statements, which indicates that the Group's and the Company's current liabilities exceed current assets by EUR 7,914 thousand and EUR 3,929 thousand respectively as at 31 December 2019. During the year ended 31 December 2020 the Group and the Company should repay significant amount of their short-term borrowings. There is a material uncertainty whether the Group and the Company will be able to re-negotiate restructuring of these borrowings. These events or conditions, along with other matters as set forth in Note 27, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Group and Company materiality: Euro 800 thousand and Euro 800 thousand respectively.

- We conducted 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.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate 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 consolidated and separate 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 2018 – EUR 800 thousand).
Overall Group materiality	Overall Group materiality: EUR 800 thousand (in 2018 – EUR 800 thousand).
How we determined it	0.70% of the Group's and 0.57% 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 22, accounting estimates and assessments on pages 37-38 and note 13 'Intangible assets' in the financial statements. The Group has goodwill balance of EUR 6,916 thousand as at 31 December 2019. Under the requirements of IAS 36 Impairment of assets 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	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 2020–2024; - 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.

was recognized neither in the current, nor in the prior years as the Group has concluded, that 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 the future results and the discount rates applied to future cash flows forecasts.	We also reviewed the disclosures in the financial statements regarding impairment tests.
Inventory write-down to net realisable value	
Refer to accounting policy on inventory on page 22, accounting estimates and assessments on page 37-38 and note 16 'Inventories' in the financial statements. We focused on this area due to the size of the inventory balance (EUR 11,161 thousand and EUR 6,148 thousand as at 31 December 2019 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. As at 31 December 2018 the Group's and the Company's inventory write-down allowance to net realisable value amounted to EUR 932 thousand and EUR 702 thousand respectively. During 2019 the Group and the Company sold inventory at higher prices and reversed the write-down allowance, recognised in the previous period. As at 31 December 2019 the Group's and the Company's white-down to net realisable value allowance amounted to EUR 37 thousand and EUR 4 thousand, 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 analysed sales prices of the finished goods items sold 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.

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, 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 audits of parent entity VILKYŠKIŲ PIENINĖ AB and subsidiaries Kelmės Pieninė AB and Modest AB. Our audits 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).

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.

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 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 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 of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 28 April 2017. Our appointment represents a total period of uninterrupted engagement appointment of 3 years.

The key audit partner 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
21 April 2020

Consolidated and separate statements of financial position

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

GROUP At 31 December 2019	GROUP At 31 December 2018	EUR '000	Note	COMPANY At 31 December 2019	COMPANY At 31 December 2018
		Assets			
48,452	51,310	Property, plant and equipment	11	19,069	20,633
1,303	-	Right-of-use assets	11,12	1,292	-
6,936	6,933	Intangible assets	13	21	18
-	-	Investments in subsidiaries	14	10,713	10,713
358	314	Non-current amounts receivable	15	358	324
159	-	Deferred income tax assets	23	159	-
57,208	**58,557**	**Non-current assets**		**31,612**	**31,688**
11,161	15,228	Inventories	16	6,148	10,888
8,699	7,347	Trade and other receivables	17	12,083	10,908
679	746	Prepayments	18	630	700
298	407	Cash and cash equivalents	19	231	337
20,837	**23,728**	**Current assets**		**19,092**	**22,833**
78,045	**82,285**	**Total assets**		**50,704**	**54,521**
		Equity			
3,463	3,463	Share capital		3,463	3,463
3,301	3,301	Share premium		3,301	3,301
2,455	2,579	Reserves		2,374	2,491
21,831	22,153	Retained earnings		16,722	20,664
31,050	**31,496**	**Equity attributable to owners of the Company**	20	-	-
51	51	**Non-controlling interest**		-	-
31,101	**31,547**	**Equity**	20	**25,860**	**29,919**
		Liabilities			
12,308	14,300	Borrowings	21	80	-
642	600	Lease liabilities	21	672	572
5,243	5,824	Government grants	22	1,071	1,275
-	844	Deferred income tax liabilities	23	-	844
18,193	**21,568**	**Non-current liabilities**		**1,823**	**2,691**
14,142	12,650	Borrowings	21	10,160	8,610
391	274	Lease liabilities	21	375	248
-	-	Income tax payable		-	-
14,218	16,246	Trade and other payables	24	12,486	13,053
28,751	**29,170**	**Current liabilities**		**23,021**	**21,911**
46,944	**50,738**	**Liabilities**		**24,844**	**24,602**
78,045	**82,285**	**Total equity and liabilities**		**50,704**	**54,521**

The notes on pages 18 to 76 are an integral part of these separate and consolidated financial statements.

General Manager — Gintaras Bertašius

Director for Economic and Financial Affairs — Vilija Milaševičiutė

21 April 2020

Consolidated and separate statements of profit or loss

For the year ended 31 December

GROUP 2019	GROUP 2018	EUR '000	Note	COMPANY 2019	COMPANY 2018
114,581	103,162	Revenue	1	140,492	126,242
-107,485	-97,389	Cost of sales	2	-140,167	-122,960
7,096	**5,773**	**Gross profit**		**325**	**3,282**
322	326	Other operating income	3	2,565	1,878
-4,568	-4,317	Distribution expenses	5	-4,486	-4,561
-2,916	-2,517	Administrative expenses	6	-2,256	-1,998
-140	-149	Other operating expenses	4	-2,190	-1,575
-206	**-884**	**Results of operating activities**		**-6,042**	**-2,974**
20	13	Finance income		1,738	803
-1,262	-999	Finance costs		-757	-541
-1,242	**-986**	**Finance costs, net**	8	**981**	**262**
-1,448	**-1,870**	**Profit (loss) before income tax**		**-5,061**	**-2,712**
1,002	684	Income tax expenses	9	1,002	684
-446	**-1,186**	**Profit (loss) for the reporting year**		**-4,059**	**-2,028**
		Attributable to:			
-446	-1,186	Shareholders of the Company			
-	-	Non-controlling interest			
-446	**-1,186**	**Profit (loss) for the reporting year**		**-4,059**	**-2,028**
-0.04	-0.10	Basic and diluted earnings per share (in EUR)	10	-0.34	-0.17

The notes on pages 18 to 76 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	
2019	**2018**	EUR ’000	**2019**	**2018**
-446	**-1,186**	**Profit (loss) for the reporting year**	**-4,059**	**-2,028**
		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	Change in fair value of hedging instruments	-	118
-	**118**	**Other comprehensive income for the year, net of income tax**	**-**	**118**
-446	**-1,068**	**Total comprehensive income for the year**	**-4,059**	**-1,910**
		Attributable to:		
-446	-1,068	Shareholders of the Company		
-	-	Non-controlling interest		
-446	**-1,068**	**Total comprehensive income for the year**	**-4,059**	**-1,910**

The notes on pages 18-76 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 2018		3,463	3,301	-118	2,508	2,274	346	21,727	33,501
Profit for the year		-	-	-	-	-	-	-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		3,463	3,301	-	-	2,145	346	20,664	29,919
Balance at 1 January 2019		3,463	3,301	-	-	2,145	346	20,664	29,919
Profit (loss) for the period		-	-	-	-	-	-	-4,059	-4,059
Other comprehensive income									
Depreciation, write-off of revalued assets		-	-	-	-	-117	-	117	-
Total other comprehensive income		-	-	-	-	-117	-	117	-
Total comprehensive income for the year		-		-	-	-117	-	-3,942	-4,059
Transactions with owners recognised directly in equity									
Transfers to reserve for acquisition of own shares		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balance at 31 December 2019	20	3,463	3,301	-	-	2,028	346	16,722	25,860

The notes on pages 18-76 are an integral part of these separate and consolidated financial statements.

Consolidated statement of changes in equity

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 2019	20	3,463	3,301	2,233	-	-	346	22,153	31,496	51	31,547
Comprehensive income for the year											
Net profit (loss)		-	-	-	-	-	-	-446	-446	-	-446
Other comprehensive income											
Depreciation, write-off of revalued assets		-	-	-124	-	-	-	124	-	-	-
Change in fair value of hedging instruments		-	-	-	-	-	-	-	-	-	-
Total other comprehensive income		-	-	-124	-	-	-	124	-	-	-
Total comprehensive income for the year		-	-	-124	-	-	-	-322	-446	-	-446
Contributions by and distributions to owners:											
Transfers to reserve for acquisition of own shares		-	-	-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-	-	-
Changes in the Group not resulting in a loss of control											
Change (decrease) in minority interest		-	-	-	-	-	-	-	-	-	-
Total transactions with shareholders		-	-	-	-	-	-	-	-	-	-
At 31 December 2019	20	3,463	3,301	2,109	-	-	346	21,831	31,050	51	31,101

The notes on pages 18-76 are an integral part of these separate and consolidated financial statements.

Consolidated statement of changes in equity (continued)

		Equity attributable to owners of the Company									
EUR '000	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	Reserve for acquisition of own shares	Legal reserve	Retained earnings (deficit)	Total	Non-con-trolling interest	Total equity
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											
Profit for the year		-	-	-	-	-	-	-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	20	3,463	3,301	2,233	-	-	346	22,153	31,496	51	31,547

The notes on pages 18-76 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 2019	GROUP 2018	EUR '000	COMPANY 2019	COMPANY 2018
		Cash flows from operating activities		
-446	-1,186	Profit for the year	-4,059	-2,028
		Adjustments for:		
4,473	4,632	Depreciation of property, plant and equipment	2,010	2,139
12	32	Amortisation of intangible assets	12	27
-581	-640	Amortisation and write-off of grants	-204	-247
-894	-413	Change in impairment of inventories	-699	-115
-56	-62	Loss (gain) from disposal and write-off of property, plant and equipment	-55	-35
-	-21	Other operating income	-	-21
-1,002	-684	Income tax expenses	-1,002	-684
1,242	986	Finance costs, net	-981	-262
2,748	**2,644**		**-4,978**	**-1,226**
4,959	-5,164	Change in inventories	5,439	-4,916
-44	-60	Change in non-current amounts receivable	-34	-55
-1,682	1,839	Change in trade and other receivables and prepayments	-1,136	3,860
-2,672	4,893	Change in trade and other payables	-999	3,788
3,309	**4,152**		**-1,708**	**1,451**
-833	-790	Interest paid	-351	-347
-8	-40	Income tax paid	-	-
2,468	**3,322**	**Net cash flows generated from operating activities**	**-2,059**	**1,104**
		Cash flows from investing activities		
-2,058	-1,441	Payments for acquisition of property, plant and equipment	-1,016	-529
-15	-4	Payments for acquisition of intangible assets	-15	-4
118	69	Proceeds from sale of property, plant and equipment	111	40
-150	-103	Loans granted	-150	-103
376	791	Government grants received	-	245
-	-	Dividends received	1,720	786
103	-	Repayment of loans	109	5
-1,626	**-688**	**Net cash flows generated from (used in) investing activities**	**759**	**440**

Consolidated and separate statements of cash flows (continued)

For the year ended 31 December

GROUP 2019	GROUP 2018	EUR '000	Note	COMPANY 2019	COMPANY 2018
		Cash flows from financing activities			
4,758	4,257	Proceeds from borrowings	21	4,035	2,956
-5,258	-4,694	Repayments of borrowings	21	-2,405	-2,320
-451	-435	Lease payments		-436	-402
-	-1,672	Dividends paid		-	-1,672
-951	**-2,544**	**Net cash flows generated from (used in) financing activities**		**1,194**	**-1,438**
-109	90	**Net increase (decrease) in cash and cash equivalents**		-106	106
407	317	Cash and cash equivalents as at 1 January		337	231
298	407	**Cash and cash equivalents as at 31 December**	19	231	337

The notes on pages 18-76 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 "subsidiary Modest AB");
- Kelmės Pieninė AB, a subsidiary (hereinafter "subsidiary Kelmės Pieninė AB").
- Pieno Logistika AB, a subsidiary (hereinafter "subsidiary Pieno Logistika AB").

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

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

As at 31 December 2019, the Company's shareholder structure was as follows:

Shareholder	Shares	Nominal value, EUR	Total value, 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 at 31 December 2018, the Company's shareholder structure was as follows:

Shareholder	Shares	Nominal value, EUR	Total value, 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 from April 2018, Mr Gintaras Bertašius, the main shareholder of Vilkyškių Pieninė AB, together with related persons concluded a joint life insurance policy with Swisspartners Versicherung AG Zweigniederlassung Österreich, by contributing in total 6,067,206 (50.8%) of ordinary registered shares held in Vilkyškių Pieninė AB. The insurance company had irrevocably granted powers to exercise all non-property rights of a shareholder, including the right to vote at the meeting of shareholders of the issuer, to Mr Gintaras Bertašius and the related persons 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 facilities 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 is controlling a 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, other cheese products, and processes whey.

The Parent Company is also controlling a 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.

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

As at 31 December 2019, the Group had 828 (31 December 2018: 934) employees.

As at 31 December 2019, the Company had 477 (31 December 2018: 525) 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 a historical cost basis except for:

- derivative financial instruments that are measured at fair value;
- buildings that are part of property, plant and equipment and that 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, 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 profit carried forward from the previous period 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.

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

Buildings	10-40
Plant and machinery	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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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.

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 2019**	**At 31 December 2018**
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.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Financial assets and liabilities

The Group and the Company classify their financial assets into the following categories:

- financial assets subsequently measured at fair value (either at fair value through other comprehensive income or at fair value through profit or loss), and the Group and the Company have no such assets;
- financial assets 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 instruments when and only when its business model for managing those assets changes.

All 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.

On 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 measured 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.

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 derecognised from statement of financial position and at year-end there is no balances outstanding.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Impairment

The Group and Company assess on a forward-looking basis the expected credit losses associated with its debt instruments measured 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 profiles of receivables from sale of goods over the period of 48 months before 31 December 2018 or 31 December 2019, 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 the amounts due.

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 outstanding liabilities for goods and services provided to the Group prior to the end of financial year. The amounts payable are unsecured and are usually paid within 30 days after their 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.

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 rate method. Costs incurred in relation to collateralisation of borrowing facilities are recognised as transaction costs of the borrowings 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 related costs are capitalised as a prepayment for liquidity services and amortised over the period of the loan facility to which it relates.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, plus transaction costs. Subsequently, interest-bearing amounts 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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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.

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.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

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.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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 – accounting policies applied as from 1 January 2019

The Group and the Company adopted new requirements of IFRS 16 with effect from 1 January 2019 under the modified restrospective approach. The comparative figures for 2018 were not restated, as permitted under the transition guidelines of the standard. The reclassifications and adjustments resulting from adoption of the new standard are recognised in the balance sheet as from 1 January 2019.

The impact of IFRS 16 adoption as at 1 January 2019 is disclosed in Note 12.

Where the Group and the Company acts as a lessee

The lease liabilities arising from a lease are measured by a lessee at the commencement date on a present value basis, including the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

The interest rate implicit in the lease is the interest rate as a result of which the present value of the lease payments and unguaranteed residual value is equal to the sum of fair value of leased assets and any other initial direct costs of the lessor.

The lease liability is measured at amortised cost using the effective interest rate, which represents the discount rate used in discounting of lease payments. Interest expenses relating to the lease liability are allocated over the lease period and recognised through profit or loss.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by a lessee; and
- restoration costs.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Leases – accounting policies applied after 1 January 2019 (continued)

Subsequently the right-of-use assets are recognised by the lessee at cost less accumulated depreciation and impairment losses. When the title of ownership is transferred to the lessee at the end of the lease period or when the price of the right-of-use assets shows that the lessee will exercise the buy option, then the lessee estimates depreciation of right-of-use assets from the commencement date to the end of the useful life of the leased assets. Otherwise, the lessee estimated depreciation for right-of-use assets from the commencement date to the end of the useful life of the right-of-use assets or the end of the lease period, depending on which occurs earlier.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Finance and operating leases – accounting policies applied before 31 December 2018

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 act as 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 act as lessees

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

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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

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 a 12-months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability 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.

Cost of sales

Cost of sales consists of 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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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. Interest expenses on leases 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, extra pays, 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.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Income tax (continued)

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 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.

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).

Impact on the financial statements of adoption of new standards, amendments and interpretations

Except for the changes described below, accounting policies applied in the current financial year are consistent with those of 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 adopted the following new standards and amendments, including the respective amendments to the existing standards with effect from 1 January 2019.

IFRS 16 Leases *(effective for annual periods beginning on or after 1 January 2018)*
IFRS 16 replaces IAS 17 *Leases* and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is of low value. Lessor accounting has substantially unchanged. Therefore, IFRS 16 did not have any impact on leases where the Company acted as a lessor, except for subleases treated as finance leases under IFRS 16.

The Company adopted IFRS 16 using the modified retrospective transition method with the date of initial application being 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* at the date of initial application.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Impact on the financial statements of adoption of new standards, amendments and interpretations (continued)

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets"). Also the Company elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics and used a hindsight in determining the lease term where the lease contract contained options to extend or terminate the lease.

The impact of adoption of IFRS 16 as of 1 January 2019 is disclosed in Note 12. New accounting policies upon adoption of IFRS 16 are set out in section ***Leases – accounting policies applied after 1 January 2019***.

IFRS 9: Prepayment features with negative compensation (Amendments) *(effective for annual periods beginning on or after 1 January 2018).*
Amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be "negative compensation"), to be measured at amortised cost or at fair value through other comprehensive income. These amendments had no impact on the financial statements of the Company and Group.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments) *(effective for annual periods beginning on or after 1 January 2018).*
The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments had no impact on the financial statements of the Company and Group.

ISA 28: Long-term Interests in Associates and Joint Ventures (Amendments) *(effective for annual periods beginning on or after 1 January 2018).*
The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the financial statements of the Company and Group.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments *(effective for annual periods beginning on or after 1 January 2018).*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income taxes*. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance, that its tax treatments (including those for the subsidiaries) would probably be accepted by the tax authorities. The interpretation did not have an impact on the financial statements of the Company and Group.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Impact on the financial statements of adoption of new standards, amendments and interpretations (continued)

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 *(effective for annual periods beginning on or after 1 January 2018).*
The narrow scope amendments impact four standards.

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes*: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits have been recognised.
- IAS 23 *Borrowing Costs*: The amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

These amendments had no impact on the financial statements of the Company and Group.

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

A number of 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 3 *Business Combinations (Amendments)* *(effective for annual periods beginning on or after 1 January 2020)*
The IASB has issued amendments to Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. These Amendments will affect future business combinations from time the amendments become effective.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments) *(effective for annual periods beginning on or after 1 January 2020)*
The Amendments clarify the definition of 'material' and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS. The Company and Group has preliminary evaluated the impact of the implementation of these Amendments and has not identified any impact to its financial statements.

Conceptual Framework in IFRS standards *(effective for annual periods beginning on or after 1 January 2020)*
The IASB issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework).

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

Standards, interpretations and amendments to existing standards that are not yet effective (continued)

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

Other standards

There are no other amended IFRSs, IASs or IFRIC interpretations that are not yet effective and that would be expected to have a significant impact on the Company and the Group. The Company and Group plan to adopt the above-mentioned standards and interpretations as from their effective dates, provided they are endorsed by the EU.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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 about the time value of money and the risks specific to the asset concerned.

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 any impairment indicators in respect of property, plant and equipment as at 31 December 2019 and 2018, and therefore, no impairment test was performed.

Assumptions and results of impairment test performed by the Group in respect of goodwill as at 31 December 2019 and 2018 are disclosed in Note 13 'Intangible assets'.

Impairment losses on 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, the Group and the Company assessed that expected credit losses as at 1 December 2019 and 31 December 2019 for non-impaired receivables was 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. For more information refer to Note 16 '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 (continued)

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 its sales to foreign clients under the credit insurance agreement concluded with the company Euler Hermes for the term of two years. On November 2019, the insurance was extended for additional two years. For each client, the credit risk is assessed individually. Trade receivables are regularly monitored by the Finance Department. In the event of overdue amounts receivable, the sale is suspended and debt recovery procedures are initiated.

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.

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.

Notes to the consolidated and separate financial statements

Summary of significant accounting policies (continued)

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 consolidated and separate financial statements

Notes

1 Segment reporting

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;
- *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.

Results of operations of the segments were as follows as at 31 December 2019:

<u>GROUP</u>

EUR '000	Cheese, cheese products and other	Dry milk products	Fresh milk products	Total
Sales	81,909	14,869	17,803	114,581
Cost of sales	-82,104	-11,246	-14,135	-107,485
Gross profit	**-195**	**3,623**	**3,668**	**7,096**
Other operating income				322
Distribution, administrative and other operating expenses				-7,624
Operating result				**-206**
Finance income				20
Finance costs				-1,262
Finance costs, net				**-1,242**
Profit (loss) before income tax				**-1,448**

Notes to the consolidated and separate financial statements

1 Segment reporting (continued)

Results of operations of the segments were as follows as at 31 December 2018:

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
Operating result				**-884**
Finance income				13
Finance costs				-999
Finance costs, net				**-986**
Profit before income tax				**-1,870**

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 2019 was recognised at point in time.

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.

Information on segments by geographical territory in 2019:

EUR ’000	Revenue	Assets
Lithuania	22,526	71,084
European Union, except for Lithuania	61,591	4,410
Other countries	30,464	2,551
	114,581	**78,045**

Information on segments by geographical territory in 2018:

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**

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

Notes to the consolidated and separate financial statements

2 Cost of sales (EUR ’000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
-84,152	-74,048	Raw materials	-76,713	-67,438
-	-	Resale cost of goods produced by the subsidiaries	-50,991	-41,689
-6,511	-6,464	Employee expenses, including social security contributions	-2,671	-2,791
-3,225	-3,059	Depreciation and grants’ amortisation	-1,194	-1,270
-4,964	-4,910	Milk collection and transportation costs	-4,964	-5,374
-4,512	-4,598	Gas, electricity, water	-1,427	-1,580
-4,121	-4,310	Other	-2,207	-2,818
-107,485	**-97,389**		**-140,167**	**-122,960**

3 Other operating income (EUR ’000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
59	52	Income from provision of services, including lease income	1,761	1,399
15	15	Revenue from accounting services	112	112
98	133	Income from sales of materials, non-current assets	629	309
81	67	Revenue from provision of transportation services to other companies	-	4
7	2	Amounts due not yet claimed	7	2
62	57	Other income	56	52
322	**326**		**2,565**	**1,878**

4 Other operating expenses (EUR ’000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
-102	-109	Cost of services rendered	-1,616	-1,322
-37	-36	Cost of materials sold	-573	-249
-	-	Loss on disposal of property, plant and equipment	-	-
-1	-4	Other expenses	-1	-4
-140	**-149**		**-2,190**	**-1,575**

5 Distribution expenses (EUR ’000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
-2.320	-1,785	Logistics and transport services	-2,320	-2,112
-323	-706	Marketing and advertising services	-321	-710
-884	-826	Employee expenses, including social security contributions	-884	-826
-72	-82	Depreciation expenses	-51	-59
-969	-918	Other selling expenses	-910	-854
-4,568	**-4,317**		**-4,486**	**-4,561**

Notes to the consolidated and separate financial statements

6 Administrative expenses (EUR ’000)

GROUP			COMPANY	
2019	**2018**		**2019**	**2018**
-1,260	-1,457	Employee expenses, including social security contributions and change in vacation reserve	-1,108	-1,246
-205	-218	Depreciation and amortisation, including amortisation of subsidies	-158	-168
-311	-191	Services received	-202	-124
-143	324	Taxes, other than income tax	-108	352
-111	-114	Veterinary services	-76	-80
-138	-163	Consultation services	-101	-142
-3	188	Inventory write-down, reversal	-2	98
-103	-94	Security	-41	-38
-70	-85	Fines and interest paid on late payments	-49	-85
-4	-1	Write-off of bad debt expenses	-4	-
-65	-106	Computer expenses	-61	-103
-51	-54	Fuel	-38	-41
-33	-31	Repair expenses	-21	-48
-26	-27	Fee for membership in association	-26	-27
-30	-31	Stock exchange expenses	-27	-29
-46	-48	Insurance	-24	-29
-15	-16	Bank charges	-13	-13
-302	-393	Other	-197	-275
-2,916	**-2,517**		**-2,256**	**-1,998**

Pursuant to the Lithuanian Law on Social Insurance, certain changes were introduced in the procedure for state social security contributions payable for employees with effect from 1 January 2019. The payment of state social security contribution was transferred in part to employees working under employment contracts. The remuneration of employees working at the Company and the Group under employment contracts was recalculated (indexed) by increasing it 1.289 times with effect from 1 January 2019.

In 2019, the Group’s and the Company’s social security contributions payable by an employer amounted to EUR 213 thousand and EUR 137 thousand, respectively (2018: EUR 2,506 thousand and EUR 1,573 thousand, respectively).

7 Services provided by the audit firm to the Company and the Group in 2019 (EUR ’000)

	GROUP	COMPANY
Audit of the financial statements under the agreements	36	20
Assurance and other related services	-	-
Tax consultation services	-	-
Expenses of other services	1	1
Total	**37**	**21**

Notes to the consolidated and separate financial statements

8 Finance costs, net (EUR '000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
		Finance income		
-	-	Dividends	1,720	786
5	5	Interest received	6	6
15	8	Other	12	11
20	**13**	**Total finance income**	**1,738**	**803**
		Finance costs		
-914	-789	Interest paid	-433	-347
-164	-114	Factoring charges	-164	-114
-88	-58	Foreign exchange loss	-88	-58
-96	-38	Other	-72	-22
-1,262	**-999**	Total finance costs	**-757**	**-541**
-1,242	**-986**		**981**	**262**

9 Income tax expenses (EUR '000)

Recognised in profit or loss

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
		Current year income tax expenses		
-	-	Reporting period	-	-
-1	-	Adjustment to previous year income tax	-1	-
		Deferred income tax expenses		
1,003	684	Change in deferred income tax	1,003	684
1,002	**684**		**1,002**	**684**

Reconciliation of effective income tax rate (EUR '000)

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
(1,448)	(1,870)	Profit for the year	(5 061)	(2,712)
(217)	(281)	Income tax calculated at a rate of 15%	(759)	(407)
-	-	Profit of Kelmės Pieninė AB not subject to tax due to the status of a social enterprise assigned to the company	-	-
193	164	Expenses not deductible for income tax purposes	22	30
(92)	(306)	Income not subject to tax	(265)	(307)
(1)	(1)	Charity expenses deductible twice for tax purposes	-	-
(885)	(260)	Income tax relief for the investment project	-	-
-	-	Other expenses deductible for tax purposes	-	-
(1,002)	**(684)**	Income tax expenses/(benefit)	**(1,002)**	**(684)**

Notes to the consolidated and separate financial statements

10 Earnings per share

GROUP 2019	GROUP 2018		COMPANY 2019	COMPANY 2018
11,943	11,943	Number of issued shares calculated based on the weighted average unit cost method, in thousands	11,943	11,943
-446	-1,186	Net profit attributable to holders of ordinary shares of the Parent Company, in EUR '000	-4,059	-2,028
-0.04	-0.10	Basic earnings per share (in EUR)	-0.34	-0.17

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	Right-of-use assets*	Land and buildings	Plant and machinery	Other assets	Construction in progress	Total
Cost/revalued amount						
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
Balance at 1 January 2019	1,366	14,905	54,735	3,582	2,179	76,767
Additions	554	48	506	50	1,819	2,977
Disposal	-	-	-507	-230	-1	-738
Reclassifications	-	230	760	1	-991	-
Balance at 31 December 2019	1,920	15,183	55,494	3,403	3,006	79,006
Depreciation and impairment losses						
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
Balance at 1 January 2019	371	2,287	20,948	1,851	-	25,457
Depreciation charge for the year	246	535	3,317	375	-	4,473
Disposals	-	-	-465	-214	-	-679
Reclassifications	-	-	-	-	-	-
Balance at 31 December 2019	617	2,822	23,800	2,012	-	29,251
Net book amounts						
At 1 January 2018	-	12,969	32,501	2,229	6,748	54,447
At 31 December 2018	-	12,618	34,782	1,731	2,179	51,310
At 31 December 2019	1,303	12,361	31,694	1,391	3,006	49,755

* For more details see Note 12.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

COMPANY

EUR '000	Right-of-use assets*	Land and buildings	Plant and machinery	Other assets	Construction in progress	Total
Cost/revalued amount						
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
Balance at 1 January 2019	1,286	12,520	22,314	1,527	263	37,910
Additions	606	48	149	25	965	1,793
Disposal	-	-	-470	-157	-	-627
Reclassifications	-	100	7	-	-107	-
Balance at 31 December 2019	1,892	12,668	22,000	1,395	1,121	39,076
Depreciation and impairment losses						
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
Balance at 1 January 2019	356	1,727	13,908	1,286	-	17,277
Depreciation charge for the year	244	440	1,241	85	-	2,010
Disposals	-	-	-431	-141	-	-572
Reclassifications	-	-	-	-	-	-
Balance at 31 December 2019	600	2,167	14,718	1,230	-	18,715
Net book amounts						
At 1 January 2018	-	11,052	10,315	638	225	22,230
Balance at 31 December 2018	-	10,793	9,336	241	263	20,633
Balance at 31 December 2019	1,292	10,501	7,282	165	1,121	20,361

Prepayments for non-current assets are classified as additions to non-current assets.

* For more details see Note 12.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

Pledges of assets

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

- buildings with the carrying amount of EUR 11,358 thousand as at 31 December 2019 (31 December 2018: buildings amounting to EUR 7,921 thousand);
- production plant and machinery, fixtures and equipment with the net book amount of EUR 30,107 thousand as at 31 December 2019 (31 December 2018: movable property, plant and equipment amounting to EUR 31,671 thousand) (Note 21).

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

- buildings with the carrying amount of EUR 9,942 thousand as at 31 December 2019 (31 December 2018: buildings amounting to EUR 6,485 thousand);
- production plant and machinery, fixtures and equipment with the net book amount of EUR 5,453 thousand as at 31 December 2019 (31 December 2018: movable property, plant and equipment amounting to EUR 6,111 thousand) (Note 21).

The acquisition cost of the Group's property, plant and equipment fully depreciated but still in use amounted to EUR 10,423 thousand as at 31 December 2019 (31 December 2018: EUR 10,088 thousand).
The acquisition cost of the Company's property, plant and equipment fully depreciated but still in use amounted to EUR 8,118 thousand as at 31 December 2019 (31 December 2018: EUR 8,002 thousand).

Motor vehicles acquired under lease contracts

As at 31 December 2018, the Group and the Company had motor vehicles that were acquired under the finance lease contracts. The net book amount of such assets of the Group was EUR 1,008 thousand. The net book amount of such assets of the Company was EUR 942 thousand. Assets acquired under leases with effect from 2019 are presented separately in Note 12 'Leases'. Changes in accounting policies are described in Note **'Leases – accounting policies applied after 1 January 2019'**.

Depreciation

Depreciation was included in the following line items:

GROUP			COMPANY	
2019	**2018**	EUR '000	**2019**	**2018**
4,209	4,364	Cost of goods produced	1,572	1,726
264	268	Distribution and administrative expenses	196	200
-	-	Other operating expenses	242	213
4,473	**4,632**		**2,010**	**2,139**

Valuation of buildings

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

On 1 December 2019, the Group/Company performed evaluation of the buildings in order to determine their fair value. For evaluation of assets, a market approach, an income approach and a cost approach were used. The estimated value did not differ significantly from the carrying amounts. No revaluation was performed for the assets. On 31 December 2014, the Group and the Company performed revaluation of the buildings and accounted for the revaluation results in the financial statements. The fair value of the buildings is attributed to Level 3 of the fair value hierarchy. The valuation methods used by an independent property valuer were a market approach and a cost approach or their combination.

Notes to the consolidated and separate financial statements

11 Property, plant and equipment (continued)

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

As at 31 December 2019, the net value of the Group's revaluation reserve amounted to EUR 2,109 thousand (31 December 2018: EUR 2,233 thousand). As at 31 December 2019, the net value of the Company's revaluation reserve amounted to EUR 2,028 thousand (31 December 2018: EUR 2,145 thousand).

Had the Group's buildings been stated at cost, their net book amount and revalued amount at 31 December 2019 would be EUR 5,982 thousand and EUR 8,307 thousand, respectively) (31 December 2018: EUR 6,605 thousand and EUR 9,070 thousand, respectively).

Had the Company's buildings been stated at cost, their net book amount and revalued amount as at 31 December 2019 would be EUR 4,605 thousand and EUR 6,892 thousand, respectively (31 December 2018: EUR 5,213 thousand and EUR 7,634 thousand, respectively).

12 Leases

On adoption of IFRS 16, the Group and the Company recognised lease liabilities in respect of leases that were classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were recognised at present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019.

Related right-of-use asset was measured at an amount equal to lease liabilities, adjusted for prepaid or accrued lease payments recognised in the statement of financial position as at 31 December 2018.

On initial application of IFRS 16, the Group and the Company used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial
- application.

Impact on the Group's and the Company's statement of financial position (increase/decrease) as at 1 January 2019:

GROUP			COMPANY	
At 1 January 2019	At 31 December 2018		At 1 January 2019	At 31 December 2018
		Assets		
50,315	51,310	Property, plant and equipment	19,703	20,633
1,270	-	Right-of-use assets	1,257	-
58,832	**58,557**	**Total non-current assets**	**32,015**	**31,688**
82,560	**82,285**	**Total assets**	**54,848**	**54,521**
		Liabilities		
824	600	Lease liabilities	837	572
21,792	**21,568**	**Total non-current liabilities**	**2,956**	**2,691**
325	274	Lease liabilities	310	248
29,221	**29,170**	**Total current liabilities**	**21,973**	**21,911**
51,013	**50,738**	**Total liabilities**	**24,929**	**24,602**
82,560	**82,285**	**Total equity and liabilities**	**54,848**	**54,521**

Notes to the consolidated and separate financial statements

12 Leases (continued)

The Group‘s and the Company‘s right-of-use assets under the lease contracts consist of buildings, motor vehicles, equipment and other assets. Movements on the account of right-of-use assets are presented in Note 11.

Lease liabilities, future minimum lease payments and total cash flows on lease are presented in Note 21.

13 Intangible assets

GROUP

EUR ’000	Goodwill	Computer equipment	Other intangible assets	Total
Cost				
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
Balance at 1 January 2019	6,915	558	12	7,485
Additions	-	15	-	15
Disposals	-	-28	-	-28
Reclassifications	-	-	-	-
Balance at 31 December 2019	6,915	545	12	7,472
Amortisation and impairment				
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
Balance at 1 January 2019	-	548	4	552
Amortisation charge for the year	-	12	-	12
Disposals	-	-28	-	-28
Balance at 31 December 2019	-	532	4	536
Net book amounts				
Balance at 1 January 2018	6,915	35	11	6,961
Balance at 31 December 2018	6,915	10	8	6,933
Balance at 31 December 2019	6,915	13	8	6,936

Amortisation charge for the year was included in administrative expenses.

Notes to the consolidated and separate financial statements

13 Intangible assets (continued)

COMPANY

EUR '000	Goodwill	Computer equipment	Other intangible assets	Total
Cost				
Balance at 1 January 2018	-	652	12	664
Additions	-	4	-	4
Disposals	-	-1	-	-1
Reclassifications		-	-	-
Balance at 31 December 2018	-	655	12	667
Balance at 1 January 2019		655	12	667
Additions	-	15	-	15
Disposals	-	-28	-	-28
Reclassifications	-	-	-	-
Balance at 31 December 2019	-	642	12	654
Amortisation and impairment				
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
Balance at 1 January 2019	-	645	4	649
Amortisation charge for the year	-	9	3	12
Disposals	-	-28	-	-28
Balance at 31 December 2019	-	626	7	633
Net book amounts				
Balance at 1 January 2018	-	30	11	41
Balance at 31 December 2018	-	10	8	18
Balance at 31 December 2019	-	16	5	21

Notes to the consolidated and separate financial statements

13 Intangible assets (continued)

Recoverable amount of cash generating units to which goodwill is attributed

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

EUR '000	At 31 December 2019	At 31 December 2018
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 6.2% (2018: 6.7%) The key assumptions used in the calculation of the value in use were as follows:

- the 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 3% (2018: growth rate of 1%);
- the main objectives of Vilkyškių Pieninė AB group of companies for 2020 included as follows: analysis of the company's strategic actions and assessment of potential further alternative actions aimed at ensuring a higher value for the shareholders; further expansion of markets for dry milk products, and strengthening of the market position in China, Malaysia, Indonesia, and Arab countries;
- the objective for all the Group companies was to maximise production efficiency through process automation. The Group companies would continue to focus on the development of production of innovative products, the issues pertaining to HR management, remuneration policy, assurance of safe and healthy work conditions.
- the Group's management expected that in 2020 the prices of raw milk would not differ significantly compared to the prices that prevailed in the second half of 2019;
- based on the budget prepared by the management for Kelmės Pieninė AB, revenue and EBITDA estimated for 2020 would be around EUR 34,900 thousand and EUR 10,500 thousand, respectively;
- based on the budget prepared by management for Modest AB, revenue and EBITDA estimated for 2020 would be around EUR 22,200 thousand and EUR 1,252 thousand, respectively.

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

Notes to the consolidated and separate financial statements

14 Investments in subsidiaries

EUR '000	At 31 December 2019	At 31 December 2018
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 2019 (31 December 2018: 99.7%). On 30 April 2008, the Company acquired the shares of Kelmės Pieninė AB under the share purchase and sale agreement. The ownership interest held was 100% as at 31 December 2019 (31 December 2018: 100%). As at 31 December 2019, the Company held the ownership title to 58.9% (31 December 2018: 58.9%) of shares of subsidiary Pieno Logistika AB with voting rights. No impairment indicators were established in respect of investment in Modest AB as at 31 December 2019. The estimated recoverable amount of the investment in Modest AB showed that the investment was not impaired as at 31 December 2019, therefore no impairment was recognised.

- The main objective of Modest AB is to expand production capacity of *Mozzarella* cheese, optimise the production process of mozarella and blue-veined cheese.

The recoverable amount of investment in Kelmės Pieninė AB as at 31 December 2019 and 2018 was estimated by assessing impairment of goodwill (Note 13). The estimated recoverable amount of investment in Kelmės Pieninė AB showed that the investment was not impaired as at 31 December 2019 and 2018, therefore no impairment was recognised.

- The main objective of Kelmės Pieninė AB is to increase the quantity of milk and whey processed, assess the available range of products, produce only those products that provide higher profit margin, and expand the markets of dry products.

Key financial indicators of Pieno Logistika AB as at 31 December 2019 are given below

	At 31 December 2019	At 31 December 2018
Total assets	181	186
Shareholders' equity	109	107
Net profit (loss)	2	1

15 Non-current amounts receivable (EUR '000)

GROUP 31/12/2019	GROUP 31/12/2018	Note		COMPANY 31/12/2019	COMPANY 31/12/2018
			Financial instruments		
63	63	26	Loans granted to related parties (b)	63	73
81	37		Non-current amounts receivable from farmers (c)	81	37
144	**100**			**144**	**110**
			Non-financial assets		
214	214	26	Prepayments to related parties (a)	214	214
-	-		Other non-current amounts receivable	-	-
358	**314**			**358**	**324**

Notes to the consolidated and separate financial statements

15 Non-current amounts receivable (EUR ’000)

(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.

16 Inventories (EUR ’000)

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
8,662	12,823	Finished products	5,234	9,865
8,662	12,823		5,234	9,865
102	104	Raw materials	20	48
2,090	2,046	Consumables	894	975
307	255	Work in progress	-	-
11,161	**15,228**		**6,148**	**10,888**

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

As at 31 December 2019, there was no write-down of the Group’s inventories (finished products) to net realisable value (31 December 2018: EUR 897 thousand).

As at 31 December 2019, there was no write-down of the Company’s inventories (finished products) to net realisable value (31 December 2018: EUR 700 thousand).

As at 31 December 2019, the write-down of the Group’s materials (packaging, auxiliary materials, etc.) to net realisable value amounted to EUR 37 thousand (31 December 2018: EUR 35 thousand).

As at 31 December 2019, the write-down of the Company’s inventories (tare, packaging, auxiliary materials, etc.) to net realisable value amounted to EUR 4 thousand (31 December 2018: EUR 2 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 2019, the Group’s inventories with the net book amount of up to EUR 5,548 thousand (2018: up to EUR 5,548 thousand) were pledged to financial institutions (Note 21).

As at 31 December 2019, the Company’s inventories with the net book amount of up to EUR 5,548 thousand (2018: up to EUR 5,548 thousand) were pledged to financial institutions (Note 21).

Notes to the consolidated and separate financial statements

17 Trade and other receivables (EUR '000)

GROUP		At 31 December 2019	At 31 December 2018
Trade receivables	Note	7,612	4,206
Impairment losses		-98	-97
Trade receivables from related parties		7	-
Loans granted to related parties, including interest charged and administration fee	26	251	215
Financial assets		**7,772**	**4,324**
Other receivables		78	430
Taxes receivable (other than income tax)		849	2,593
Total trade and other receivables		**8,699**	**7,347**

COMPANY		At 31 December 2019	At 31 December 2018
Trade receivables	Note	7,603	4,190
Impairment losses		-98	-97
Trade receivables from related parties	26	3,419	3,994
Loans granted to related parties, including interest charged and administration fee	26	255	215
Financial assets		**11,179**	**8,302**
Taxes receivable (other than income tax)		849	2,593
Other receivables from related parties	26	5	-
Other receivables		50	13
Total trade and other receivables		**12,083**	**10,908**

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

Taxes receivable mostly consist of VAT receivable.

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

As at 31 December 2019, there were no receivables of the Company that were pledged (31 December 2018: EUR 143 thousand).

18 Prepayments (EUR '000)

GROUP At 31 December 2019	GROUP At 31 December 2018	Note		COMPANY At 31 December 2019	COMPANY At 31 December 2018
491	552	a)	Prepayments	442	506
188	194	26	Prepayments to related parties	188	194
679	**746**			**630**	**700**

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

Notes to the consolidated and separate financial statements

19 Cash and cash equivalents (EUR '000)

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
196	275	Cash at bank	130	208
102	132	Cash on hand	101	129
298	**407**		**231**	**337**

As at 31 December 2019, all cash balances on bank accounts were pledged to secure repayment of bank borrowings (Note 21). In addition, cash inflows into bank accounts were pledged to secure repayment of bank borrowings (Note 21). The Group's and the Company's exposure to interest rate risk arising from cash and cash equivalents is disclosed in Note 27.

20 Capital and reserves

As at 31 December 2019 and 2018, 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 2019, the Company's and the Group's legal reserve amounted to EUR 346 thousand (31 December 2018: EUR 346 thousand).

Share premium

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

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.

Reserve for acquisition of own shares

During the ordinary general meeting of shareholders held on 28 April 2018, a decision was made to annul the unused reserve for acquisition of own shares. The reserve for acquisition of own shares was annulled.

Dividends

Dividends in 2019 were not paid (dividends of EUR 0.14 per share were paid to the shareholders in 2018).

Notes to the consolidated and separate financial statements

21 Borrowings and lease liabilities

GROUP				COMPANY	
At 31 December 2019	**At 31 December 2018**		Note	**At 31 December 2019**	**At 31 December 2018**
12,308	14,300	Non-current borrowings		80	0
642	600	lease liabilities		672	572
12,950	**14,900**	**Non-current**		**752**	**572**
14,142	12,650	Current bank and other borrowings	26,27	10,160	8,610
391	274	lease liabilities		375	248
14,533	**12,924**	**Current**		**10,535**	**8,858**
27,483	**27,824**	**Total borrowings and lease liabilities**		**11,287**	**9,430**

As at 31 December 2019, according to the agreements signed with the banks, the Company's and the Group's balance of undrawn short-term credit limits amounted to EUR 5,056 thousand (2018: EUR 4,626 thousand) and balance of undrawn long-term credit limits was zero (2018: EUR 591 thousand). According to the agreements signed with the banks, the Company's and the Group's borrowings are subject to the following interest rates: 3-month EURIBOR + a margin and 6-month EURIBOR + a margin; the interest rates set for overdrafts are as follows: 3-month EURIBOR + a margin and 1-week EONIA + a margin.

According to the agreements signed with the banks, the Company and the Group have committed to comply with certain covenants, such as financial debt to EBITDA ratio, debt service coverage ratio, equity ratio and other financial ratios. These ratios are calculated according to the data reported in the consolidated financial statements. As at 31 December 2019, the Group did not comply with the financial debt to EBITDA ratio. The letters were received from the banks confirming that no sanctions would be imposed for non-compliance with the ratios. As at 31 December 2019, the Group complied with the rest of the covenants set forth in the loan agreements with the banks.

Borrowings by maturity (EUR '000):

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
14,142	12,650	Within 1 year	10,160	8,610
12,308	14,300	Between 1 and 5 years	80	-
-	-	Later than 5 years	-	-
26,450	**26,950**		**10,240**	**8,610**

In 2019, the Group's borrowings were subject to an annual effective interest rate of 3.30% (2018: 2.81%). In 2019, the Company's borrowings were subject to an annual effective interest rate of 3.81% (2018: 3.60%).

Lease liabilities

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
391	274	Within 1 year	375	248
642	600	Between 1 and 5 years	672	572
1,033	**874**		**1,047**	**820**

Notes to the consolidated and separate financial statements

21 Borrowings and lease liabilities (continued)

Cash flows from financing activities

COMPANY	Liabilities arising from financing activities					
	Current portion of lease liabilities	Non-current portion of 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 2019	248	572	7,051	1,559	-	9,430
Cash inflows - proceeds from borrowings	-	-	2,746	1,209	80	4,035
Cash outflows - repayments of borrowings	-	-	(2,405)	-	-	(2,405)
Additions - lease	252	411	-	-	-	663
Repayments – lease	(189)	(247)	-	-	-	(436)
Other non-cash changes (reclassification of current/non-current portion)	64	(64)	-	-	-	-
At 31 December 2019	**375**	**672**	**7,392**	**2,768**	**80**	**11,287**

GROUP	Liabilities arising from financing activitie					
	Current portion of lease liabilities	Non-current portion of 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 2019	274	600	9,077	3,573	14,300	27,824
Cash inflows - proceeds from borrowings	-	-	3,038	1,209	511	4,758
Cash outflows - repayments of borrowings	-	-	(2,394)	(361)	(2,503)	(5,258)
Additions - lease	241	369	-	-	-	610
Repayments – lease	(178)	(273)	-	-	-	(451)
Other non-cash changes (reclassification of current/non-current portion)	54	(54)	-	-	-	-
At 31 December 2019	**391**	**642**	**9,721**	**4,421**	**12,308**	**27,483**

Notes to the consolidated and separate financial statements

21 Borrowings and lease liabilities (continued)

COMPANY	Lease liabilities					
	Current portion of lease liabilities	Non-current portion of 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	195	479	2,875	1,589	3,510	8,648
Cash inflows - proceeds from borrowings	-	-	2,956	-	-	2,956
Cash outflows - repayments of borrowings	-	-	(1,278)	(30)	(1,012)	(2,320)
Additions - lease	76	472	-	-	-	548
Repayments – lease	(23)	(379)	-	-	-	(402)
Other non-cash changes (reclassification of current/non-current portion)	-	-	2,498	-	(2,498)	-
At 31 December 2018	**248**	**572**	**7,051**	**1,559**	**-**	**9,430**

GROUP	Lease liabilities					
	Current portion of lease liabilities	Non-current portion of 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 inflows - proceeds from borrowings	-	-	3,080	1,072	105	4,257
Cash outflows - repayments of borrowings	-	-	(1,737)	(30)	(2,927)	(4,694)
Additions - lease	95	504	-	-	-	599
Repayments – lease	(28)	(407)	-	-	-	(435)
Other non-cash changes (reclassification of current/non-current portion)	-	-	2,498	-	(2,498)	-
At 31 December 2018	**274**	**600**	**9,077**	**3,573**	**14,300**	**27,824**

GROUP			COMPANY	
Minimum lease payments	Present value of minimum lease payments	Lease liabilities At 31 December 2019	Minimum lease payments	Present value of minimum lease payments
409	391	Lease payments within 1 year	393	375
658	642	Lease payments between 2 and 5 years	689	672
1,067	**1,033**	**Minimum lease payments**	**1,082**	**1,047**
(34)	–	Future finance charges	(35)	–
1,033	**1,033**	**Present value of minimum lease payments**	**1,047**	**1,047**

Notes to the consolidated and separate financial statements

21 Borrowings and lease liabilities (continued)

GROUP			COMPANY	
Minimum lease payments	Present value of minimum lease payments	Lease liabilities At 31 December 2018	Minimum lease payments	Present value of minimum lease payments
287	274	Lease payments within 1 year	261	248
614	600	Lease payments between 2 and 5 years	585	572
901	**874**	**Minimum lease payments**	**846**	**820**
(27)	–	Future finance charges	(26)	–
874	**874**	**Present value of minimum lease payments**	**820**	**820**

22 Government grants (EUR '000)

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
5,824	5,686	Opening net book amount	1,275	1,667
376	791	Grants received	-	244
-376	376	Grant receivable	-	-
-581	-661	Amortisation recognised in profit or loss and write-off of grants	-204	-268
-	-368	Write-off of grants upon disposal of assets	-	-368
5,243	**5,824**	Closing net book amount	**1,071**	**1,275**

In the period from 2007 to 2014, the Group and the Company received 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.

23 Deferred income tax assets (liabilities)

Deferred income tax assets and liabilities calculated using a 15% tax rate in 2019 (2018: 15%) were allocated to the following line items:

	Assets		**Liabilities**		**Net amount**	
EUR '000	At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018
Property, plant and equipment			1,867	1,905	1,867	1,905
Vacation reserve	-90	-104	-	-	-90	-104
Inventories	-1	-105	-	-	-1	-105
Government grants	-159	-186	-	-	-159	-186
Tax loss carry forward	-1,776	-666	-	-	-1,776	-666
Deferred income tax (assets)/liabilities	**-2,026**	**-1,061**	**1,867**	**1,905**	**-159**	**844**

Notes to the consolidated and separate financial statements

23 Deferred income tax assets (liabilities) (continued)

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%.

Decrease in deferred income tax liability of EUR 844 thousand was recognised in the statement of profit or loss.

Increase in deferred income tax assets of EUR 159 thousand was recognised in the statement of profit or loss.

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

EUR '000	At 1 January 2019	Recognised in profit or loss	Recognised in equity	At 31 December 2019
Property, plant and equipment	1,905	-38	-	1,867
Vacation reserve	-104	14	-	-90
Inventories	-105	104	-	-1
Government grants	-186	27	-	-159
	-666	-1,110	-	-1,776
Deferred income tax (assets)/liabilities	**844**	**-1,003**	**-**	**-159**

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**

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

Notes to the consolidated and separate financial statements

23 Deferred income tax assets (liabilities) (continued)

GROUP			COMPANY	
At 31 December 2019	**At 31 December 2018**	EUR '000	**At 31 December 2019**	**At 31 December 2018**
		Deferred income tax assets/(liability)		
1,894/ (38)	901/ (32)	Deferred income tax assets/(liability) to be realised within 12 months	1,894 /(38)	901 /(32)
132 /(1,829)	160 /(1,873)	Deferred income tax assets/(liability) to be realised after 12 months	132 /(1,829)	160 /(1,873)
159	**(844)**	**Net deferred income tax assets (liability)**	**159**	**(844)**

The Group and the Company do not recognise deferred income tax assets on income tax relief for investment projects. As at 31 December 2019, the amounts of such unused reliefs were EUR 13,633 thousand and EUR 716 thousand, respectively.

24 Trade and other amounts payable

GROUP				COMPANY	
At 31 December 2019	**At 31 December 2018**	EUR '000		**At 31 December 2019**	**At 31 December 2018**
		Financial instruments	Note		
11,443	12,918	Trade payables		9,414	10,794
24	2	Trade payables to related parties	26	1,257	2
71	-	Other amounts payable to related parties	26	71	-
11,538	**12,920**			**10,742**	**10,796**
		Non-financial instruments			
1,858	1,937	Employment-related liabilities		1,150	1,289
499	472	Advance amounts received		499	471
74	74	Dividends payable		-	-
46	465	Accrued expenses and provisions		24	448
203	378	Other amounts payable		71	49
2,680	**3,326**			**1,744**	**2,257**
14,218	**16,246**			**12,486**	**13,053**

The Group's and the Company's exposure to foreign currency and liquidity risks arising from trade and other amounts payable is discussed in Note 27.
Advance amounts received are on contracts signed with customers.

As at 31 December 2019, the balance of the Company's accrued expenses and provisions was EUR 24 thousand (31 December 2018: EUR 448 thousand).

Notes to the consolidated and separate financial statements

25 Contingent liabilities

Significant contractual liabilities as at 31 December 2019 were as follows:

GROUP			COMPANY	
2019	**2018**	EUR '000	**2019**	**2018**
560	1,433	Acquisition of property, plant and equipment	346	301
4,701	4,997	Purchase of raw materials	4,701	4,997
5,261	**6,430**		**5,047**	**5,298**

As at 31 December 2019, the Group's and the Company's assets pledged to secure the repayment bank borrowings were as follows (Note 21):

- Current and future cash inflows of the Group and the Company in different bank accounts;
- Immovable property of the Group with the carrying amount of EUR 11,358 thousand; immovable property of the Company with the carrying amount of 9,942 thousand;
- Movable property of the Group with the carrying amount of EUR 30,107 thousand; movable property of the Company with the carrying amount of 5,543 thousand;
- Inventories of the Group with the carrying amount up to EUR 7,048 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;
- Trademarks owned by the Group and the Company with the net book amount 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
- Surety for Vilkyškių Pieninė AB issued by Modest AB in respect of a loan granted by Luminor Bank;
- Surety of EUR 746 thousand 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 with 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 during 2019 and 2018 were as follows (EUR '000):
Kelmės Pieninė AB (subsidiary);
Modest AB (subsidiary);
Pieno Logistika AB (subsidiary);
Šilgaliai ŪKB (until 27 December 2019, the Company's General Manager held the voting right granted by 50.8% shareholding in Šilgaliai ŪKB. Šilgaliai ŪKB is a supplier of milk. All inter-company transactions with Šilgaliai ŪKB are presented as of 31 December 2019.

Notes to the consolidated and separate financial statements

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

GROUP

EUR '000	Note	2019	2018
Amounts payable			
Borrowings			
Borrowings from management personnel		1,400	-
Trade payables			
Šilgaliai ŪKB		24	2
Other amounts payable to management personnel (interest)		71	-
		1,495	**2**
Amounts receivable			
Prepayments			
Šilgaliai ŪKB (non-current assets)	15	214	214
Šilgaliai ŪKB (current assets)	18	188	194
Trade receivables			
Šilgaliai ŪKB		**7**	**-**
Loans granted, including interest charged and administration fee			
Šilgaliai ŪKB (non-current and current portions)	15, 17	164	173
Short-term loan granted to management personnel	17	150	105
		723	**686**
Interest income			
Šilgaliai ŪKB		3	3
Short-term loan granted to management personnel		2	2
		5	**5**
Interest expenses			
Borrowings from management personnel		71	-
		71	-
Sales of raw materials, products and services			
Šilgaliai ŪKB		14	18
		14	**18**
Purchase of raw materials, products and services		872	775
Šilgaliai ŪKB		**872**	**775**

Employee expenses amounting to EUR 728 thousand (including social security contributions) include payments to the Group's management personnel (2018: EUR 698 thousand).

Notes to the consolidated and separate financial statements

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

COMPANY

EUR '000	Note	2019	2018
Amounts payable			
Borrowings			
Kelmės Pieninė AB		320	
Borrowings from management personnel		1,400	-
Trade payables			
Kelmės Pieninė AB		1,233	-
Šilgaliai ŪKB		24	2
Other amounts payable to management personnel (interest)		71	-
		3,048	**2**
Amounts receivable			
Prepayments			
Šilgaliai ŪKB (non-current amounts receivable)	15	214	214
Šilgaliai ŪKB (current amounts receivable)	18	188	194
Trade receivables			
Kelmės Pieninė AB		-	1,892
Modest AB		3,412	2,102
Šilgaliai ŪKB		7	-
Other amounts receivable			
Kelmės Pieninė AB		4	-
Modest AB		1	-
Loans granted, including interest charged and administration fee			
Šilgaliai ŪKB (non-current and current portions)	15, 17	164	173
Pieno Logistika AB	17	4	10
Short-term loan granted to management personnel	17	150	105
		4,144	**4,690**

Notes to the consolidated and separate financial statements

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

EUR '000	Note	2019	2018
Interest income			
Šilgaliai ŪKB		3	3
Pieno Logistika AB		1	1
Short-term loan granted to management personnel		2	2
		6	**6**
Interest expenses			
Kelmės Pieninė AB		3	-
Borrowings from management personnel		71	-
		74	-
Sales of raw materials, products and services to:			
Kelmės Pieninė AB		11,507	12,062
Modest AB		18,734	14,752
Pieno Logistika AB		1	1
Šilgaliai ŪKB		14	18
		30,256	**26,833**
Purchase of raw materials, products and services from:			
Kelmės Pieninė AB		30,894	24,676
Modest AB		20,805	18,096
Pieno Logistika AB		-	-
Šilgaliai ŪKB		872	775
		52,571	**43,547**

Employee expenses amounting to EUR 499 thousand (including social security contributions) include payments to the Company's management personnel (2018: EUR 521 thousand).

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management

Credit risk

The maximum exposure to credit risk is the net book amount of financial assets classified within the category of financial assets measured at amortised cost. The maximum exposure to credit risk as at the reporting date was as follows:

GROUP

		Net book amount	
EUR'000	Note	At 31 December 201	At 31 December 2018
Non-current amounts receivable	15	144	100
Trade and other amounts receivable, net of tax	17	7,772	4,324
Cash and cash equivalents	19	298	407
		8,214	**4,831**

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

EUR'000	Net book amount	
	At 31 December 2019	At 31 December 2018
Lithuania	857	727
Great Britain	1,535	828
Israel	863	47
Saudi Arabia	742	315
Portugal	705	189
Italy	606	139
Poland	368	638
Latvia	365	268
Estonia	266	120
Republic of Korea	230	-
Kazakhstan	194	253
Albania	182	133
Denmark	123	5
Azerbaijan	79	34
Cameroon	76	-
Croatia	74	-
Germany	59	39
Libya	59	-
Ireland	56	74
Greece	48	-
Kosovo	48	-
Slovakia	46	-
Finland	43	58
Spain	36	-
Czech	25	229
Kuwait	24	-
Norway	16	43
Netherlands	-	92
Malta	-	47
Other	47	46
	7,772	**4,324**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

As at 31 December 2019, significant credit risk concentration is related to three customers, the receivables from which accounted for 40% of total trade receivables (31 December 2018: 42%).

COMPANY

EUR'000		Net book amount	
	Note	**At 31 December 2019**	**At 31 December 2018**
Non-current amounts receivable	15	144	110
Trade and other receivables	17	11,179	8,302
Cash and cash equivalents	19	231	337
		11,554	**8,749**

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:

EUR'000	Net book amount	
	At 31 December 2019	**At 31 December 2018**
Lithuania	4,264	4,705
Great Britain	1,535	828
Israel	863	47
Saudi Arabia	742	315
Portugal	705	189
Italy	606	139
Poland	368	638
Latvia	365	268
Estonia	266	120
Republic of Korea	230	-
Kazakhstan	194	253
Albania	182	133
Denmark	123	5
Azerbaijan	79	34
Cameroon	76	-
Croatia	74	-
Germany	59	39
Libya	59	-
Ireland	56	74
Greece	48	-
Kosovo	48	-
Slovakia	46	-
Finland	43	58
Spain	36	-
Czech	25	229
Kuwait	24	-
Norway	16	43
Netherlands	0	92
Malta	0	47
Other	47	46
	11,179	**8,302**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

As at 31 December 2019, a significant credit risk concentration is related to three customers, the receivables from which accounted for 52% of total trade receivables (31 December 2018: 58%).

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 2019	Impairment At 31 December 2019	Total At 31 December 2018	Impairment At 31 December 2018
Related parties:				
Not past due	216	-	171	-
Past due 0-30 days	-	-	-	-
Past due 31-60 days	7	-	-	-
More than 60 days	98	-	107	-
	321	**-**	**278**	**-**
Not past due	4,370	-	3,373	-
Past due 0-30 days	2,399	-	696	-
Past due 31-60 days	442	-	13	-
More than 60 days	482	-98	161	-97
	7,693	**-98**	**4,243**	**-97**
	8,014	**-98**	**4,521**	**-97**

Impairment losses related to trade and other receivables amounted to EUR 98 thousand as at 31 December 2019 (2018: EUR 97 thousand).

.

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

COMPANY

EUR'000	Total At 31 December 2019	Impairment At 31 December 2019	Total At 31 December 2018	Impairment At 31 December 2018
Related parties:				
Not past due	3,632	-	4,175	-
Past due 0-30 days	7	-	-	-
Past due 31-60 days	-	-	-	-
More than 60 days	98	-	107	-
	3,737	**-**	**4,282**	**-**
Other parties:				
Not past due	4,362	-	3,357	-
Past due 0-30 days	2,398	-	696	-
Past due 31-60 days	442	-	13	-
More than 60 days	482	-98	161	-97
	7,684	**-98**	**4,227**	**-97**
	11,421	**-98**	**8,509**	**-97**

Movements on the account of impairment of trade and other receivables during the year are set out below:

GROUP

EUR'000	Net book amount 2019	2018
Balance at 1 January	-97	-97
Impairment losses recognised	-1	-
Write-off of bad debts	-	-
Impairment losses reversed	-	-
Balance at 31 December	**-98**	**-97**

COMPANY

EUR'000	Net book amount 2019	2018
Balance at 1 January	-97	-97
Impairment losses recognised	-1	-
Write-off of bad debts	-	-
Impairment losses reversed	-	-
Balance at 31 December	**-98**	**-97**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Based on historical payment statistics and detailed analysis of customer solvency, the Company's management considers that the amounts which are past due more than 30 days and not impaired are still recoverable. During the five recent years, the Company recognised amounts receivable of EUR 98 thousand as bad debts.

Liquidity risk and going concern

The table below analyses financial liabilities, including estimated interest, based on their contractual maturities:

GROUP

At 31 December 2019

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank borrowings	23,613	(24,226)	(10,056)	(1,611)	(12,559)	
Other borrowings	1,400	(1,524)	(1,524)	-	-	-
Lease liabilities	1,033	(1,216)	(198)	(205)	(327)	(486)
Factoring	1,437	(1,444)	(1,444)	-	-	-
Trade payables	11,538	(11,538)	(11,538)	-	-	-
	39,021	**(39,948)**	**(24,760)**	**(1,816)**	**(12,886)**	(486)

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						
Bank borrowings	25,679	(26,518)	(10,626)	(1,101)	(2,212)	(12,579)
Lease liabilities	874	(907)	(147)	(143)	(284)	(333)
Factoring	1,271	(1,274)	(1,274)	-	-	-
Trade payables	12,920	(12,920)	(12,920)	-	-	-
	40,744	**(41,619)**	**(24,967)**	**(1,244)**	**(2,496)**	**(12,912)**

COMPANY

At 31 December 2019

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank borrowings	7,083	(7,131)	(7,131)	-	-	-
Other borrowings	1,400	(1,524)	(1,524)	-	-	-
Borrowings from Kelmės Pieninė AB	320	(327)	(124)	(122)	(81)	
Lease liabilities	1,047	(1,215)	(183)	(189)	(335)	(508)
Factoring	1,437	(1,444)	(1,444)	-	-	-
Trade payables	10,742	(10,742)	(10,742)	-	-	-
	22,029	**(22,383)**	**(21,148)**	**(311)**	**(416)**	**(508)**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

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						
Bank borrowings	7,339	(7,382)	(7,382)	-	-	-
Lease liabilities	820	(851)	(133)	(130)	(257)	(331)
Factoring	1,271	(1,274)	(1,274)	-	-	-
Trade payables	10,796	(10,796)	(10,796)	-	-	-
	20,226	**(20,303)**	**(19,585)**	**(130)**	**(257)**	**(331)**

Cash flows were discounted using the following rates:

	2019	**2018**
Borrowings and lease liabilities	1.7% - 4.0%	1.7% - 2.3%

As at 31 December 2019 the Group’s and the Company‘s current assets were lower than its current liabilities by 7,914 thousand and 3,929 thousand respectively. The Group‘s and the Company‘s total borrowings as at 31 December 2019 amount to EUR 27,483 thousand and EUR 11,287 thousand respectively. According to current loans and other agreements with banks, during 2020 the Group and the Company should repay EUR 14,142 thousand and EUR 10,160 thousand respectively (see note 21).

The Group continues its operations without any significant interruption because of COVID-19 situation (see note 28) and the Group‘s management expects that at least EUR 5,000 thousand of these loans and other agreements will be repaid from the Group‘s positive cash flows. The Group expects a significant increase in EBITDA in 2020 as compared to 2019 (EBITDA of 2019 – EUR 3,975 thousand), due to expected increase in sales prices together with optimized business proceses in each subsidiary.

In addition, the Group has a history of re-negotiating restructuring of its borrowing and the Group‘s management already started discussions with banks and expects to re-negotiate restructuring of short term borrowings of at least approximately EUR 10,000 thousand for at least one year period. As at the date of issue of these financial statements there were no such agreements with banks in place.

As the Group‘s and the Company‘s ability to continue as a going concern depends significantly on the banks‘ decisions and their agreement to restructure short term borrowings, as at the date of issue of these financial statements there is a material uncertainty whether the Group and the Company will be able to negotiate with banks restructuring of its borrowings. This uncertainty casts significant doubt upon the Group's ability to continue as a going concern.

Foreign exchange risk

Exposure to foreign exchange risk (EUR ‘000), at the exchange rates effective as at 31 December 2019, was as follows:

GROUP (COMPANY) (EUR ’000)	USD	PLN
Trade and other receivables, net of tax	766	170
Cash and cash equivalents	-	5
Trade payables	-	-
Net exposure	**766**	**175**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Exposure to foreign exchange risk (EUR '000), at the exchange rates effective as at 31 December 2018, was as follows:

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

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

	Average	
	2019	**2018**
USD	1.1196	1.1811
PLN	4.2978	4.2608

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

	2019	**2018**
USD	1.1189	1.1454
PLN	4.2567	4.3028

Analysis of sensitivity to changes in the exchange rates

The Company's functional currency is the euro (EUR). The Company's foreign exchange risk arises from purchases and sales denominated in currencies other than the euro. In 2019, the major portion of the Company's transactions were conducted in the euros, and therefore, the Company was not exposed to significant foreign exchange risk.

Interest rate risk

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

Interest rates applied to the Group's and the Company's financial instruments as at 31 December 2019 were as follows:

GROUP Net book amount		EUR '000	**COMPANY** Net book amount	
At 31 December 2019	**At 31 December 2018**		**At 31 December 2019**	**At 31 December 2018**
		Financial instruments bearing fixed interest rate		
-	-	Pieno Logistika AB	4	10
63	63	Non-current portion of loans granted	63	63
150	103	Short-term loan granted to management personnel	150	103
(1,400)	-	Current borrowings from management personnel	(1,400)	-
(1,187)	**166**		**(1,183)**	**176**

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

GROUP Net book amount At 31 December 2019	GROUP Net book amount At 31 December 2018	EUR '000	COMPANY Net book amount At 31 December 2019	COMPANY Net book amount At 31 December 2018
		Financial instruments bearing variable interest rates		
(23,613)	(25,679)	Bank borrowings	(7,083)	(7,339)
-	-	Kelmės Pieninė AB	(320)	-
(1,437)	(1,271)	Factoring	(1,437)	(1,271)
(1,033)	(874)	Lease liabilities	(1,047)	(820)
(26,083)	**(27,824)**		**(9,887)**	**(9,430)**
(27,270)	**(27,658)**		**(11,070)**	**(9,254)**

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 2018 was performed using the same basis.

GROUP Profit (loss) 100 bp increase	GROUP Profit (loss) 100 bp decrease	Impact (EUR '000)	COMPANY Profit (loss) 100 bp increase	COMPANY Profit (loss) 100 bp decrease
		At 31 December 2019		
(273)	(273)	Financial instruments bearing variable interest rates	(111)	(111)
		At 31 December 2018		
(277)	(277)	Financial instruments bearing variable interest rates	(93)	(93)

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 that 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

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Fair value of financial instruments / Fair value hierarchy (continued)

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:

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

The Group and the Company have no financial instruments measured at fair value.

GROUP

At 31 December 2019

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	144	144
Trade and other receivables	-	-	7,772	7,772
Cash and cash equivalents	298	-	-	298
Borrowings and lease liabilities	-	-	(27,483)	(27,483)
Trade and other payables	-	-	(11,538)	(11,538)
	298	**-**	**(31,105)**	**(30,807)**

At 31 December 2018

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	100	100
Trade and other receivables	-	-	4,324	4,324
Cash and cash equivalents	407	-	-	407
Borrowings and 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

27 Financial instruments and risk management (continued)

COMPANY
At 31 December 2019
EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	144	144
Trade and other receivables	-	-	11,179	11,179
Cash and cash equivalents	231	-	-	231
Borrowings and lease liabilities	-	-	(11,287)	(11,287)
Trade and other payables	-	-	(10,742)	(10,742)
	231	**-**	**(10,706)**	**(10,475)**

At 31 December 2018
EUR '000

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

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.

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 2019 and 31 December 2018.

Notes to the consolidated and separate financial statements

27 Financial instruments and risk management (continued)

Capital management (continued)

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 21.

28 Events after the reporting period

As a result of worldwide outbreak of CIVID-19 virus during the first months of 2020, the Group elaborated and implemented a plan for extra protective measures covering the processes of supply of raw materials, production, sales and administration, in order to ensure maximum protection against COVID-19 virus.

None of the above-mentioned processes are currently encountering disruptions, and the business activities are continued as usually in an environment of more intense monitoring. The Group makes timely orders for both local and foreign markets by focusing the production capacities on those categories of products that current are in the highest demand.

As the situation is still developing, it is impracticable to estimate its potential impact on the financial year 2020 results; however, it is obvious that the Group will not manage to avoid certain adverse effects. The management is looking for the ways to mitigate the adverse effects on the Group; however, the early indications show that the Group will incur losses in terms of quantity and prices of the cheese category due to lower demand levels (HORECA) and higher prices of transport services. The management projects that an overall decrease in sale prices of cheese will be 10% in Q2, which is approx. EUR 0.9 million, and overall negative effect on the category of cheese will be EUR 0.5 million (due to lower prices). The management does not project any significant changes in other categories of products due to effects of COVID-19.

The supply chain currently has no delays or disruptions that might have adverse effect on prices of products or fulfilment of orders. The major raw material used in the production of milk is raw milk of cows, and the Group has sufficient quantity of other raw materials/consumables that are necessary to maintain the production levels. The inventory of most of the raw materials required for the production was increased by the Group up to 4 months, which is held in the warehouses of the Group or suppliers.

Since only minor disruptions are currently observed in the demand for raw materials/consumables and logistics and only a slight increase in the prices of certain raw materials, the management considers the situation as temporary. If there occurred long-term disruptions in the supply chain, this could have a negative impact on the cost of products and the Group‘s revenue.

As at 31 December 2019, the Group‘s borrowings amounted to EUR 26,450 thousand, whereof EUR 14,142 thousand was classified as current portion of non-current borrowings or as current liabilities. For more details about the Group‘s plans in relation to these liabilities, see Note 27. In the opinion of the management, the uncertainty arising from the announced quarantine and current situation in the markets will have no significant impact on extension or re-financing of the borrowings, nor will it have impact due to more favourable credit repayment schedule and delay of settlement of contractual liabilities to credit institutions, unless the negative effects of CIVID-19 on the Group’s performance and cash flows from operating activities appear to be higher than currently projected.

In the event of changes in terms and conditions of its business activities, the Group will immediately communicate them by a separate notice.

Report of VILKYŠKIŲ PIENINĖ AB GROUP for 2019

I. ISSUER OVERVIEW

1. Reporting Period for this Report

This consolidated Report is for 2019.

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, glazed curd bars, 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 Securities Public Turnover

Vilkyškių pieninė AB has service agreement with UAB FMĮ Orion Securities brokerage (address A. Tumėno str. 4, B korp., LT-01109, Vilnius) regarding Vilkyškių pieninė AB, Kelmės pieninė AB and Modest AB securities shareholder accounting. AB FMĮ Finasta brokerage does shareholder accounting 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 inspire us to create and share what nature has so generously bestowed on us.

Our mission is to provide people across the whole world more opportunities to enjoy 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: 1.2 MEUR 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. Also, investments were made in vehicles, buildings, milk refrigerators, production equipment, a new cheese production unit and other main means.

1999- 2000: 1.1 MEUR was invested in the construction of new production departments, vehicles and a major overhaul. 2.5 MEUR 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 2.3 MEUR. 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 0.6 MEUR 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: 9.5 MEUR 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: 0.7m MEUR was invested into new cold storage equipment, 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 (4.6 MEUR in value), increasing output by 30 percent. In addition, 2.7 MEUR 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. About 1.5 MEUR 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.

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 is about 300 tonnes per year.

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 as dry milk products production factory will need gas and 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 factory. 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 factory in Tauragė.

In the end of **2017** production was started in the new whey factory in Tauragė. Over the past two years the company invested about 28 million EUR to this project. The project was funded by EU funds also (according to the Lithuanian Rural Development Program 2014-2020). 3 MEUR have already been received in 2017, 0.5 MEUR – in 2018 and 0.38 MEUR – 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, strawberry drink yogurt and Memel Blue cheese in their categories. 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.

2019 "Modest" AB has implemented the Mozzarella cheese grating line, which allows to produce large quantities of grated Mozzarella and to meet customers' needs both in Europe and in other world markets. Company invested 0.55 MEUR. Also, curing baths were put into operation (150 tEUR investment).

2019: Kelmės pieninė AB has reconstructed boiler house to use natural gas instead of diesel fuel. The new boiler house is fully automated and more energy efficient therefore it is more economical and ecological.

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

During 2019 the Group of companies invested 2.172 MEUR, and maintenance investments in the Group amounted to EUR 252 tEUR.

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 (HACCP 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/FSSC 22000.. This certification scheme is part of the Global Food Safety Initiative (GFSI) and is equivalent to such internationally recognised standards as BRC and IFS.

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.

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. Every year Vilkyškių pieninė AB Group audits according to ISO 22000: 2005 / FSSC 22000 certification scheme.

In order to attract buyers in Islamic countries, Vilkyškių pieninė AB, Modest AB and Kelmės pieninė AB Tauragė Division have been certified according to Halal rules. From year 2015 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.

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.

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

In 2019 the laboratory of Vilkyškių pieninė AB received Food business operator laboratory approval permit.

11. Human Resources

Vilkyškių pieninė AB Group human resources policy is focused on forming corporate culture that creates value, complete welfare of the team while cooperating, and developing professional and personal skills. Autonomy and sharing are promoted within the Group, knowledge sharing and improvement of skills is supported by internal and external learning activities. Open and supportive corporate environment promotes employee involvement in generation of ideas and participation in attracting new personnel.

In 2019 Career Management System project was launched that involves more than 200 administration employees. The goal is to evaluate the potential of current employees to exploit career opportunities internally.

The Group cooperates closely with educational and employment institutions to attract employees with the required qualification. Presentations about professional and career planning, and excursions to factories are organized.

The Group takes care of employee health and wellness. Every year employees are provided opportunity for free-of-charge medical check including vision, odontology and rehabilitation services, flu vaccination and sports club. Work safety and medical staff continuously monitors work places comply with safety and health requirements according to regulatory norms.

In 2019 Vilkyškių pieninė Group AB approved Salary System that ensures equal and transparent pay for work.

General Data Protection Regulation (GDPR) is implemented to ensure confidential information related to business and personal data is properly handled. Therefore, the Group has adopted IT Security Policy, Personal Data Protection Rules, etc.

Vilkyškių pieninė AB Group seeks to be an active member in the community, it supports and participates in cultural and educational events. The Company contributes to active social life, strengthens 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.

According to the requirements of the Writ 2019-07-08 No. (30.5)-A4-4593 issued by the Pollution Department of Environment Protection Agency and the IPPC Rules Annex 2 Permit No. 25 issued to Kelmės pieninė AB on 28 December 2005 by the Šiauliai Regional Environmental Protection Department, the procedure to change IPPC permit was initiated.

Modest AB IPPC permit was revoked according to the criteria 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". 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, minimizing 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 pollutant emissions and sources of wastewater.

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 Waters, 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 2019, Vilkyškių pieninė AB treated 448,889 m3 of wastewaters. The resulting sludge is given to local waste management bodies and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be up to 99 percent.

Production wastewater generated by Kelmės pieninė AB Kelmė Division is discharged into Kelmės vanduo UAB water treatment facilities. In 2019 Kelmės pieninė AB Kelmė Divisison disposed 98,096 m3 of wastewaters. Kelmės pieninė AB Tauragė Division releases its wastewater to Tauragės vandenys UAB sewage system, in 2019 – 185,578 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 emitted to environment. According to drying factory equipment manufacturers’ data whey, permeate, skimmed milk are odorless materials therefore no odors are released into environment.

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 filter. Monitoring is carried out by Tauragės vandenys UAB. In 2017, wastewater meter was installed in order to account wastewater more accurately. Rain water is collected and cleaned with oil product filter and afterwards released to Beržė river.

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. The indicators are financial and relative.

Key financial indicators of the Company:

	2015	2016	2017	2018	2019
Revenue (EUR tho)	97,404	102,260	130,325	126,242	140,492
EBITDA (EUR tho)	-1,777	6,111	7,124	-1,055	-4,224
EBITDA margin, pct	-1.8	6.0	5.5	-0.8	-3.0
Operating profit (EUR tho)	-3,660	4,237	5,272	-2,974	-6,042
Operating profit margin, pct	-3.8	4.1	4.0	-2.4	-4.3
Profit before tax (EUR tho)	-717	7,493	7,044	-2,712	-5,061
Profit before tax margin, pct	-0.7	7.3	5.4	-2.1	-3.6
Net profit	-83	6,991	6,202	-2,028	-4.059
Profit margin, pct	-0.09	6.8	4.8	-1.6	-2.9
Earnings per share (EUR)	-0.01	0.59	0.52	-0.17	-0.34
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11.943

In 2019 **sales revenue** of the Company amounted to 140,5 million EUR and comparing to the sales revenue of 2018 which was 126.2 million EUR increased by 11.3 percent.

EBITDA – profit before interest, taxes, depreciation and amortization 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. Vilkyškių pieninė AB calculates this indicator by adding depreciation and amortization to operating profit and subtracting grants. In 2019 EBITDA of the Company was -4.2 million EUR and in 2018 it was -1.1 million EUR. In the reporting financial year EBITDA margin was -3 percent and in 2018 it amounted to -0.8 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 loss in 2019 was 6.0 million EUR, operating profit margin was -4.3 percent. 2018 operating loss was 3.0 million EUR, operating profit margin was -2.4 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 2019 net loss was 4.1 million EUR and comparing to 2018, when net loss was 2.0 million EUR increased two times.

Key financial ratios of the Company:

	2015	2016	2017	2018	2019
Return on equity (ROE), pct	-0.4	24.4	18.5	-6.8	-15.7
Return on assets (ROA), pct	-0.2	12.8	11.3	-3.7	-8.0
Debt ratio	0.56	0.48	0.39	0.45	0.49
Deb/equity ratio	1.25	0.91	0.63	0.82	0.96
Quick liquidity ratio	1.03	1.40	1.53	1.04	0.83
Asset turnover ratio	2.02	1.87	2.38	2.32	2.77
Equity ratio	0.44	0.52	0.61	0.55	0.51

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. Equity ratio – the ratio of equity and assets.

In 2019, **assets totaled** 50.7 million EUR or 3.8 MEUR less than in 2018. The carrying amount of **long-term assets** decreased by 0.2 percent comparing to 2018 and amounted to 31.6 million EUR. In 2019, **equity** was 25.9 MEUR, down by 13.6 percent from the previous year 2018 (29.9 MEUR)

14. Group Results of Operations

Key financial consolidated indicators of the Vilkyškių pieninė AB Group:

	2015	2016	2017	2018	2019
Revenue (EUR tho)	84,445	90,490	113,939	103,162	114,581
EBITDA (EUR tho)	3,876	8,413	10,882	3,140	3,698
EBITDA margin, pct	4.6	9.3	9.5	3.0	3.2
Operating profit (EUR tho)	1,137	5,683	8,113	-884	-206
Operating profit margin, pct	1.3	6.3	7.1	-0.9	-0.2
Profit before tax (EUR tho)	545	4,970	7,560	-1.870	-1,448
Profit before tax margin, pct	0.6	5.5	6.6	-1.8	-1.3
Net profit	1,168	4,455	6,686	-1.186	-446
Profit margin, pct	1.4	5.0	5.9	-1.1	-0.4
Earnings per share (EUR)	0.10	0.37	0.56	-0.10	-0.04
Number of shares (units, tho)	11.943	11.943	11.943	11.943	11.943

In 2019, **sales revenue** amounted to 114.6 MEUR, increased by 11.1 percent from 103.2 MEUR in 2018.

EBITDA. In 2019 EBITDA of the Group was 3.7 million EUR and in 2019 it was 3.1 MEUR, increased 17.8 percent. In the reporting financial year EBITDA margin was 3.2 percent and in 2018 it amounted to 3.0 percent.

Operating profit (EBIT). In 2019 operating loss was 0.2 million EUR, operating profit margin was -0.2 percent. 2018 operating loss (EBIT) was 0.9 million EUR, operating profit margin was -0.9 percent. In 2019, operating loss (EBIT) was 0.7 MEUR less than in 2018.

Net profit (loss). In 2019 net loss was 0.4 million EUR and in 2018 net loss was 1.2 million EUR (decreased by 0.8 million EUR).

Key financial consolidated ratios of the Vilkyškių pieninė AB Group:

	2015	2016	2017	2018	2019
Return on equity (ROE), pct	4.8	15.4	19.5	-3.8	-1.4
Return on assets (ROA), pct	1.9	6.0	8.2	-1.4	-0.6
Debt ratio	0.60	0.61	0.58	0.62	0.60
Deb/equity ratio	1.52	1.57	1.37	1.61	1.51
Quick liquidity ratio	0.88	0.90	1.00	0.81	0.72
Asset turnover ratio	1.38	1.22	1.40	1.25	1.47
Equity ratio	0.40	0.39	0.42	0.38	0.40

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. Equity ratio – the ratio of equity and assets.

In 2019, **assets totaled** 78.0 MEUR or 5.2 percent less than in 2018. In 2019, **long-term assets** decreased by 2.3 percent and totaled 57.2 MEUR.

In 2019, **equity** was 31.1 MEUR, down by 1.4 percent from the previous year 2018 (31.5 MEUR).

As at 31 December 2019, the total value of **loans** was 26.5 MEUR, decrease by 1.9 percent comparing to 31 December of 2018.

Vilkyškių pieninė AB Group production output, tonnes:

	2015	2016	2017	2018	2019
Cheese, cheese products and other	77,720	82,960	87,370	86,702	112,877
Fresh milk products	19,255	17,492	14,576	15,120	12,277
Dry milk products	0	0	2,966	8,321	15,310

In 2019 cheese, cheese product and other production output 112.9 tho tonnes, up by 30.2 percent comparing to 2018. Production of fresh milk products 12.3 tho tonnes, down by 18.8 percent comparing to 2018. Production of dry milk products 15.3 tho tonnes in 2019 up by almost 2 times comparing to 2018.

Raw milk purchases by Vilkyškių pieninė AB Group:

	2015	2016	2017	2018	2019
Raw milk, tonnes	237,065	243,633	249,992	267,785	268,555
Cost of raw milk, EUR tho	44,883	45,683	65,713	67,695	68,720
Raw milk price, EUR/t	189.3	187.5	262.9	252.8	255.9

In 2019, a total of 269 tho tonnes of milk was purchased, an increase by 0.3 percent as compared with 2018. Meanwhile, the price of raw milk in 2019 increased by 1.2 percent from the year 2018.

15. Sales and Marketing

Sales by product segment, EUR thousand:

	2015	2016	2017	2018	2019
Cheese, cheese products and other	61,737	69,650	94,111	76,870	81,909
Fresh milk products	22,708	20,840	18,731	18,721	17,803
Dry milk products	0	0	1,097	7,571	14,869
Total revenue	**84,445**	**90,490**	**113,939**	**103,162**	**114,581**

In 2019, income from sales increased because of continuous work with current customers and active search of new ones. Compared to previous year, income from dry milk products doubled after attracting new customers from Europe, Asia, and Africa regions and signing contract with one of the biggest dry milk products buyers in Great Britain. Income grew as well due to growing sales of cheese and cheese products (6.6 percent up compared to 2018).

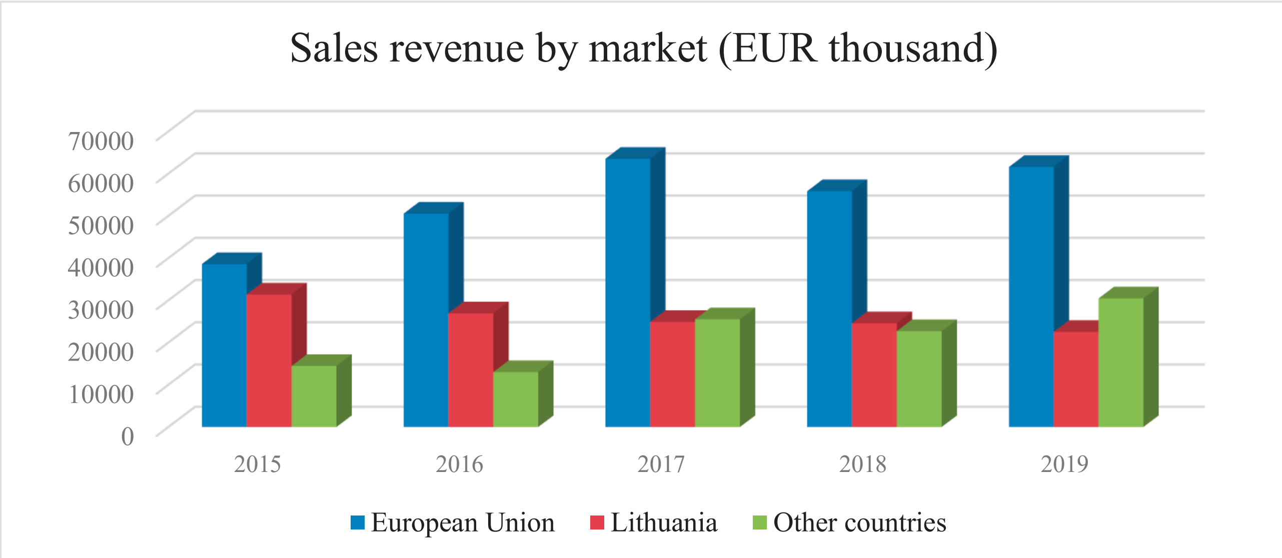
Sales income from export markets grew by 17.2 %, but sales in Lithuania contracted by 8.3 %. Exports share in Vilkyškių pieninė AB Group sales in 2019 was 80 % that is 4 per cent more than in 2018.

The largest share of sales was in the European Union countries. The volumes grew in Italy, Great Britain, Portugal, Slovakia, Croatia, Finland. The Group puts lots of effort in market diversification, we seek to establish sales in Asia, Africa, South and Central America. In 2019 we started selling in South Korea, Chile, Mexico, Egypt, Republic of South Africa and etc.

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

Sales revenue by geographical segments, EUR thousand:

	2015	2016	2017	2018	2019
European Union	38,593	50,545	63,531	55,865	61,591
Lithuania	31,391	26,934	24,891	24,585	22,526
Other countries	14,461	13,011	25,517	25,712	30,464
Total revenue	**84,445**	**90,490**	**113,939**	**103,162**	**114,581**



Vilkyškių pieninė AB strategy to invest in innovative exclusive products has enabled the Company to deliver on its brand promise and continue satisfy 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 .

In foreign markets the Company sells its production with *Vilvi* brand. Products with value added and original packaging have high potential in 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 Emirates.

In **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.

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

In **2015** Company participated in the exhibitions Food Ingredients Beijing 2015 took place in China and Food Ingredients Paris 2015. The Company introduced whey powder products (protein concentrate (WPC 80) and the permeate) in both exhibitions. 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 **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 **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 **2016** Vilkyškių Pieninė AB traditionally took part in the International exhibition of food industry SIAL 2016, held in Paris, there the yogurt drink Yoga and new flavours of coated cheeses Murr – mascarpone and pistachio won recognition for advanced recipes. Cheeses of Vilkyškių Pieninė AB won award for packaging – for its informative and educational nature.

In **2017** Dry milk products and GymON protein powder were presented at the international exhibitions in Germany, Frankfurt – FIBO and Food Ingredients.

In **2017** Vilkyškių pieninė AB participated in the largest Asian food exhibition SIAL China 2017 in Shanghai and in the largest food industry exhibition in North America – New York Summer Fancy Food Show. During the both exhibitions, Vilkyškių pieninė AB introduced cheeses.

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.

In **2019** Vilkyškių pieninė AB traditionally participated in the food exhibitions Gulfood 2019 in Dubai, United Arab Emirates and ANUGA 2019 in Cologne, Germany. In both exhibitions the Company presented cheese and dry milk products.

In **2019** Vilkyškių pieninė AB took part in Gulfood Manufacturing, in Dubai, The United Arab Emirates and Food Ingredients 2019 in Paris, France and presented its industrial products.

In November **2019** Vilkyškių pieninė AB participated in the exhibition FHC China 2019 in Shanghai in China. The mozzarella cheese and dry milk products were presented to Chinese market.

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. The main factors that may pose business risks for the Company are possible changes in the raw material and product markets, competition, as well as changes in the legal, political, technological and social environment that are directly or indirectly related to Vilkyškių pieninė AB business. These may negatively affect 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 position may be affected by negative changes in the cheese market demand and (or) pricing (market risks). Price pressure may originate from competition on the international and local cheese markets.

Matured cheese production is lengthy process that can take from one up to three months. Therefore, the Company cannot quickly react to changes in cheese market and that can negatively affect its cashflow and operating results.

AB Kelmės pieninė Kelmė Division specializes in production of fresh dairy products, and largely income originates from sale of curd, yoghurt and other fresh products. Therefore income, profit and overall financial position may be affected by negative changes in demand for fresh dairy products and (or) price (market risks).

Fresh dairy products market is very dynamic and sensitive to time aspect. Production must be carefully planned to deliver the products to supermarkets in time. The sale of goods risk arises due to too high or too low inventory level. If inventory levels are too high validity term of goods may shorten and they possibly have to be sold with discount. If inventory levels are too low fines may be imposed for late deliveries.

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 2019, 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 2019, the Company‘s debt-to-assets ratio was 0.60. The balance of outstanding loans on 31 December 2019 was 26,450 tEUR. Repayment is performed under the established schedule, without any delays.

18. Competition

Vilkyškių pieninė AB estimates that it has a 14 percent share of the Lithuanian market as measured by quantity of processed milk, 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 compensates it by offering a range of higher value-added cheese products.

Vilkyškių pieninė AB offers industrial products in dry dairy product segment, which are oriented to exports. In local market the Company has developed its own brand GymOn of whey protein powder concentrate for athletes that is offered to end-consumer. This product is distributed to supermarkets, sports shops, pharmacies and sold via own internet shop www.gymon.lt. It is also sold via Amazon online platform to reach Western European consumers, it is offered in German, Spanish, Italian and French Amazon platforms.

19. Key Events After Fiscal Year-End

Information regarding key events after the end of fiscal year is provided in the Vilkyškių pieninė AB financial statements for the year ended 31 December 2019, in Chapter 28.

20. Business Plans and Forecasts

In 2020, the main tasks of Vilkyškių pieninė AB Group is to perform analysis of the strategic operations of the Group and assess further alternative activities to create greater shareholder value; expand markets for dry milk products and shredded cheese, set strong market positions in China, Malaysia, Indonesia and Arabic countries; in all Companies of the Group strive for maximum production efficiency by automating and robotizing processes.

Kelmės pieninė AB main task – to increase volume of production and produce the products that have higher margins.

Modest AB main task is to increase capacity of mozzarella and shredded cheese.

The big focus of the Companies of the Group will be on developing innovative products, personnel management, wage policy, and ensuring safe and healthy working conditions.

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

Shareholders have these non-proprietary rights:

- 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.

Shareholders have the following proprietary rights:

- 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 2019 was 919. 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 Österrreich	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 2019 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 2019 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 2019 was 169. The major shareholder, who owns more than 5 percent of the Issuer‘s stock was 1:

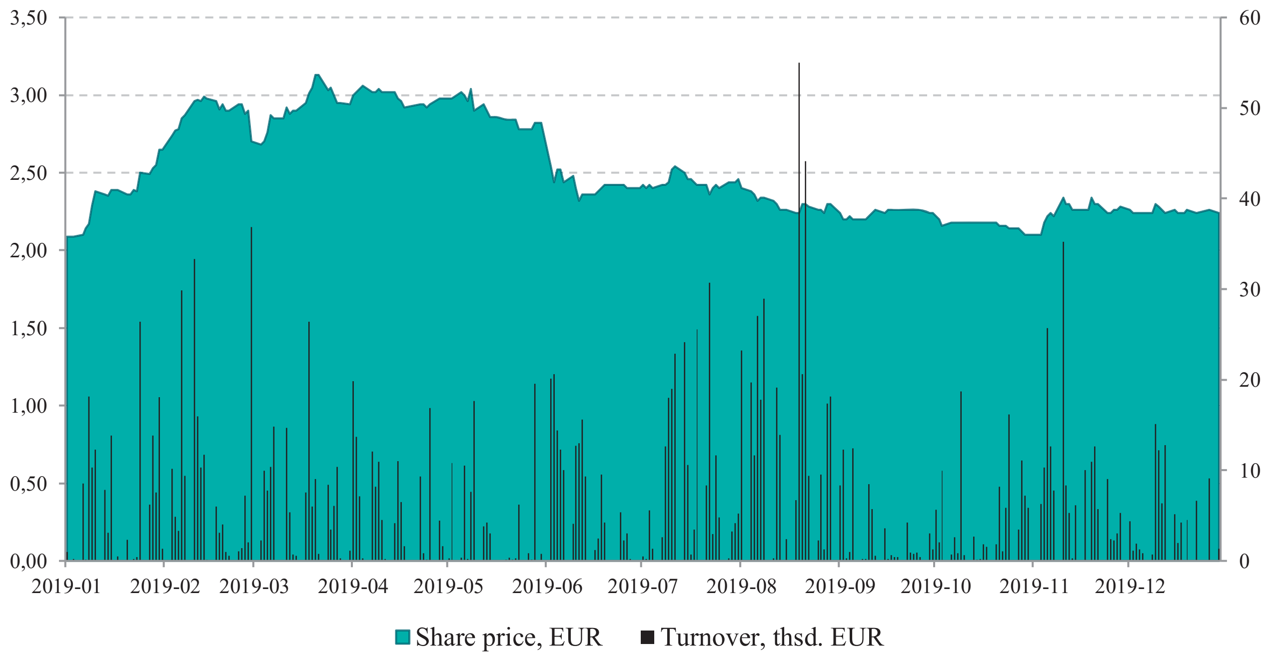
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Vilkyškių pieninė AB	218,781	58.9%	58.9%
Minority shareholders	152,552	41.1%	41.1%
Total stock	**371,333**	**100%**	**100%**

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

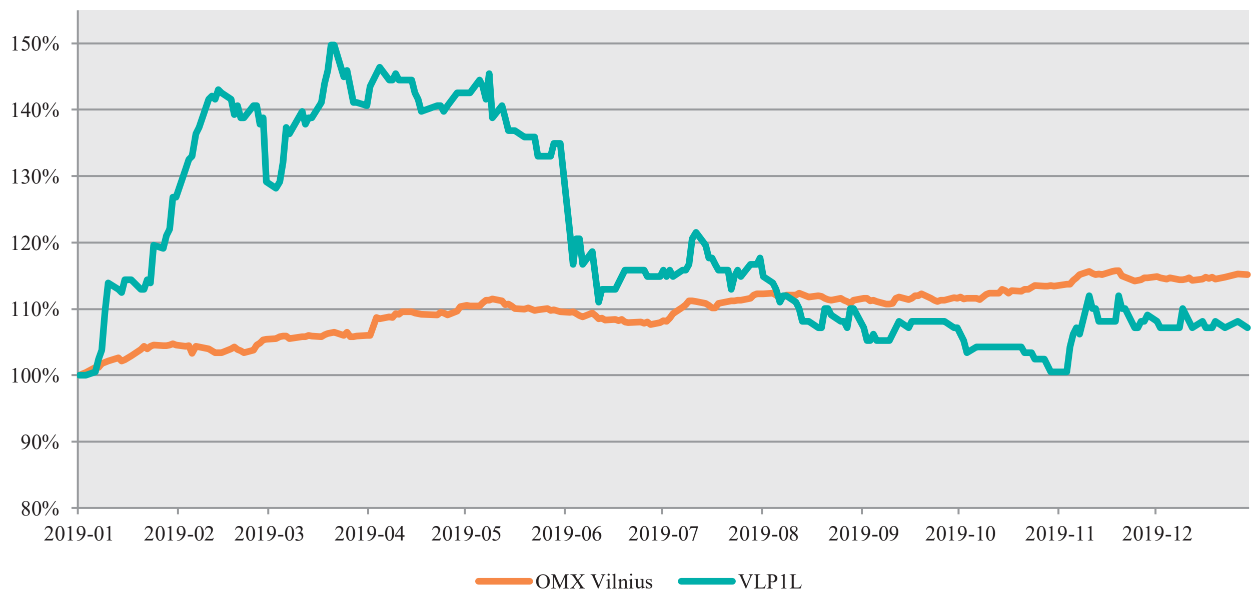
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

27. Trading in Issuer‘s Securities on Regulated Markets

The change of price of Vilkyškių pieninė AB shares and trade volume in 2019.



Comparison of Vilkyškių pieninė AB share price and Nasdaq OMX Vilnius Index, 2019.



Security trading history of Vilkyškių pieninė AB during 2015-2019:

Price	2015	2016	2017	2018	2019
Open	2,00	1,76	2,34	3,72	2,09
High	2,05	2,43	3,94	3,76	3,13
Low	1,65	1,35	2,25	1,95	2,07
Last	1,75	2,35	3,75	2,05	2,24
Traded volume	604.550	828.726	1.045.396	472.421	762 071
Turnover, million	1,13	1,43	3,26	1,46	1,88
Capitalisation, million	20,9	28,07	44,79	24,48	26,75

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	2015 (for 2014)	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)
Dividend (EUR)	836.010	-	1,433,000	1,672,020	-
Dividend per share (EUR)	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	2015 (for 2014)	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)
Dividend (EUR)	3,489,039	3,931,312	2,285,075	786,262	1,719,949
Dividend per share (EUR)	1.42	1.60	0.93	0.32	0,70
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 2019, there were 828 employees working at Vilkyškių pieninė AB Group.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	28	23	5	-	-	3,919
Specialists	298	105	86	101	6	1,258
Workers	502	14	156	294	38	872
	828	**142**	**247**	**395**	**44**	**1,107**

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**

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 – Appointment and Salaries Committee, and Audit 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 2019, Board meetings were held regularly according to the schedule, required quorum was present at each of them. The Board approved the 12-month financial statements for 2018, the 2019 three-month, six-month and nine-month interim financial statements, the 2018 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2018 profit (loss) for an ordinary meeting of shareholders.

In regular meetings the Board discussed business development opportunities, granting/extension of loans and other current issues.

Kelmės pieninė AB and Modest AB hold their board meetings regularly to discuss issues that are within their scope.

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: board chairman of *Modest* AB and Kelmės pieninė AB. On 31 December 2019 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 2019, 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 2019, he held 302,763 shares of Vilkyškių pieninė AB, 2.5 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 2019, she held 7,813 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights.

Linas Strėlis – a Board Member since 7 March 2008, re-elected for a four-year term on 27 April 2018. Has higher education. Membership in other companies' governing bodies: 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 *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.), a member of the supervisory board in SIA *Preses nams*. A member of EISME fund committee of *Lords LB Asset Management* UAB (CRN 301849625, address: Jogailos g. 4, LT-01116 Vilnius.). As of 31 December 2019, 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. Membership in other companies' governing bodies: CEO of *PEF GP1* UAB (CRN 302582709, address: Maironio g. 11, Vilnius), *PEF 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);board member of *Auga Group* AB (CRN 126264360, address: Konstitucijos pr. 21C, Quadrum North, LT-08130 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 2019, 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: board chairman of *Modest* AB and Kelmės pieninė AB. On 31 December 2019 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 Economics and Financial Officer, a Board Member, working at the Company since 2000. Has higher education in finance and credit. 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 2019, she held 7,813 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights.

Vaidotas Juškys – Executive Officer, working at the Company since 2010. Has a higher education in IT. As of 31 December 2019, he held 6,561 shares of Vilkyškių pieninė AB, 0.05 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 2019, 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 2019, held 302,763 shares of Vilkyškių pieninė AB, 2.5 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.

Rita Juodikienė – Management and quality director. Woking at the company since 2002. Has a master degree in buisiness management. Membership in other companies' governing bodies: a board member of Kelmės pieninė AB. As of 31 December 2019, did not have any shares in Vilkyškių pieninė AB.

The bonuses to the CEO and CFO totaled 119,3 tEUR, or 59,7 tEUR per person on average.

The salaries were paid out to Vilkyškių pieninė AB board members in 2019:

	Board members (4 members), EUR tho	Average size per month, EUR tho
salary	285,7	5,951

In 2019, 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, and *Modest* AB. Holds higher education degree in mechanical engineering. On 31 December 2019 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 Economics and 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 2019, held 7,813 shares in Vilkyškių pieninė AB, i.e. 0.07 percent of the stock and voting rights.

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. As of 31 December 2019, did not have any shares in Vilkyškių pieninė AB.

Jolita Valantinienė - CEO of Kelmės pieninė AB, working at the company since 2017. Has master degree in management and business administration. As of 31 December 2019, did not have any shares in Vilkyškių pieninė AB. Has no seats in other companies' governing bodies.

In 2019, 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. Holds higher education degree in mechanical engineering. Participation in the governing bodies of other companies: board chairman and CEO of AB Vilkyškių pieninė AB, a board chairman at Kelmės pieninė AB. On 31 December 2019 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 2019, 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 Economics and Financial Officer 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 2019, 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. As of 31 December 2019, did not have any shares in Vilkyškių pieninė AB. Has no seats in other companies' governing bodies.

In 2019, 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 (chief 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 2019, 5 meetings of the Audit Committee were held. The Audit Committee discussed and approved the following: the Company's 2018 financial statements, the draft 2018 annual report, the draft 2018 profit (loss) distribution report, the 2019 internal audit plan and the 2019 budget, reviewed the salaries of the company's employees and approved salary policy of the Vilkškių pieninė AB group. Also, they reviewed and approved the General Data Protection Regulation (GDPR) Rules 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

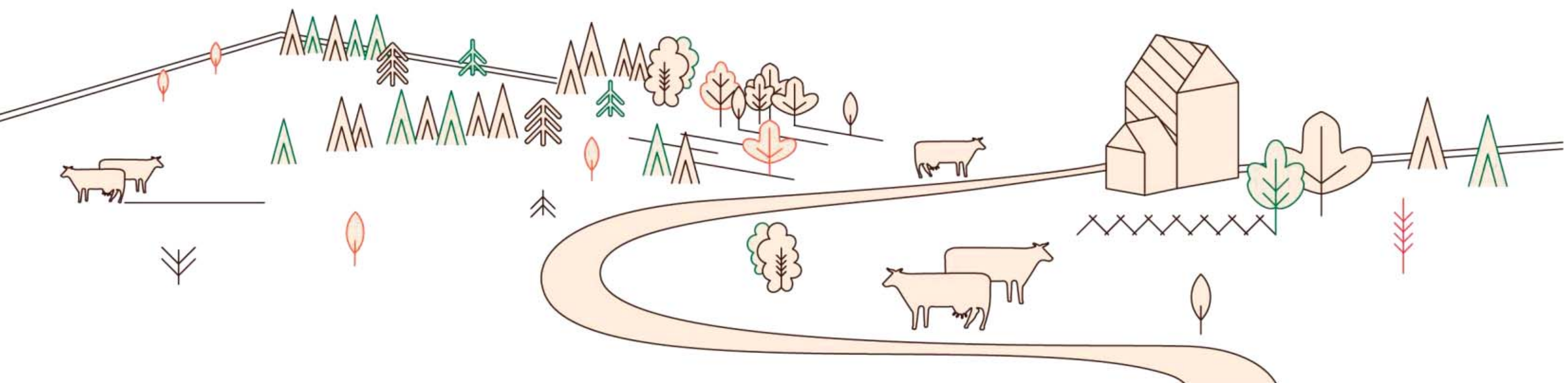
Information about transactions with parties that are related to the Company has been included in the Vilkyškių pieninė AB financial statements for the year ended 31 December 2019, in Chapter 26.

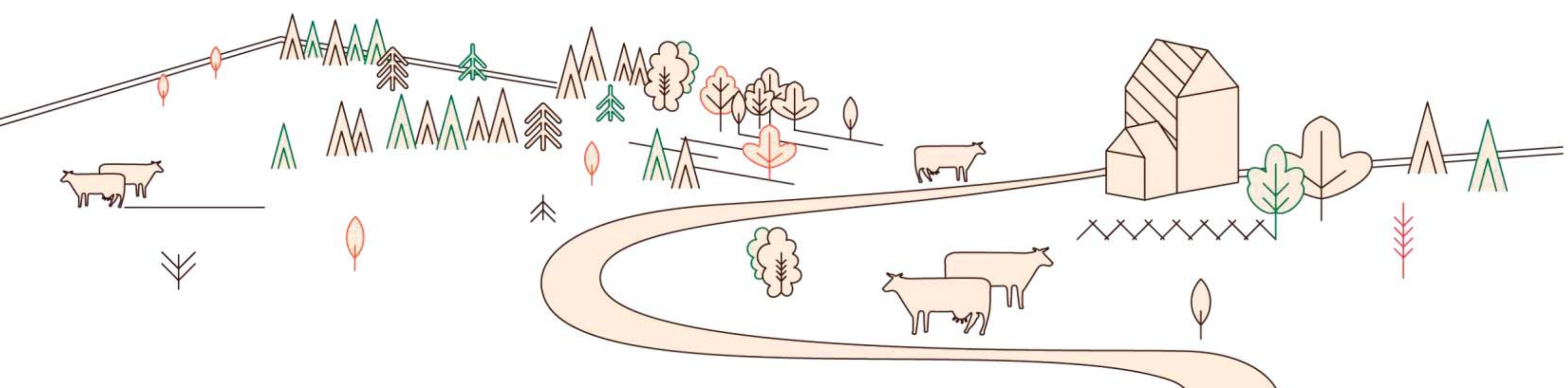
38. Information About Detrimental Acts Concluded by the Issuer that Could Affect Issuer's Operations

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

VILKYŠKIŲ PIENINĖ AB GROUP 2019 SOCIAL RESPONSIBILITY REPORT

TABLE OF CONTENT





STATEMENT FROM THE GENERAL MANAGER

Valdybos pirmininkas ir generalinis direktorius
Gintaras Bertašius

Our history lasting over three decades – our 26 years of experience has shown that consistent and responsible business operations ensure the creation of long-term value both internally and externally.

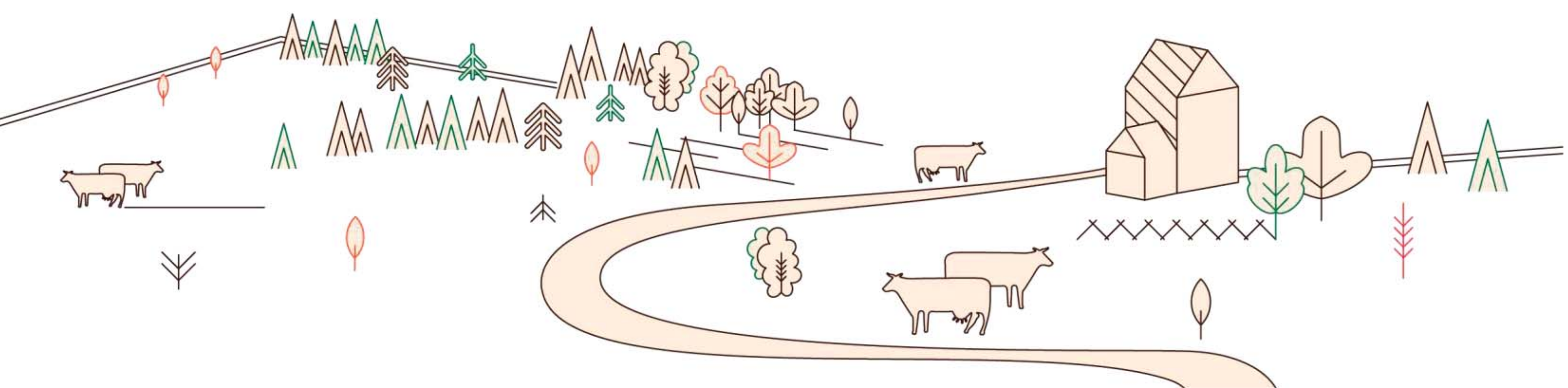
As the dairy industry faces more and more challenges, the principles of responsible business conduct remain the foundation for continuous improvement and development. The Vilkyškių Pieninė AB Group social responsibility is shaped with consideration of the main stakeholders: consumers, partners, shareholders, employees, local community, other market participants and the general public. In 2019, our products reached more than 350 business customers in 58 countries, and we are responding accordingly to the needs of an ever-expanding list of stakeholders.

We firmly stand by our promise to provide people around the world more opportunities to enjoy dairy products. In a rapidly changing world, we are focusing on investing in new technologies and developing new products. Our focus on the technological and infrastructural renewal of the Group is demonstrated particularly by the 2.4 million euros investment for this purpose in 2019. We also continued to develop new dairy products to further increase the availability and accessibility of higher quality dairy products.

The report presents our work in more detail in the areas of our work related to environmental, social and governance aspects. The Group's accountability for socially responsible activities is the starting point for continuous development of our operations and transparent cooperation with our stakeholders.

The activities presented in this report are the achievement of more than 800 employees, each of whom contributes daily to fulfilling our promise to the outside world.

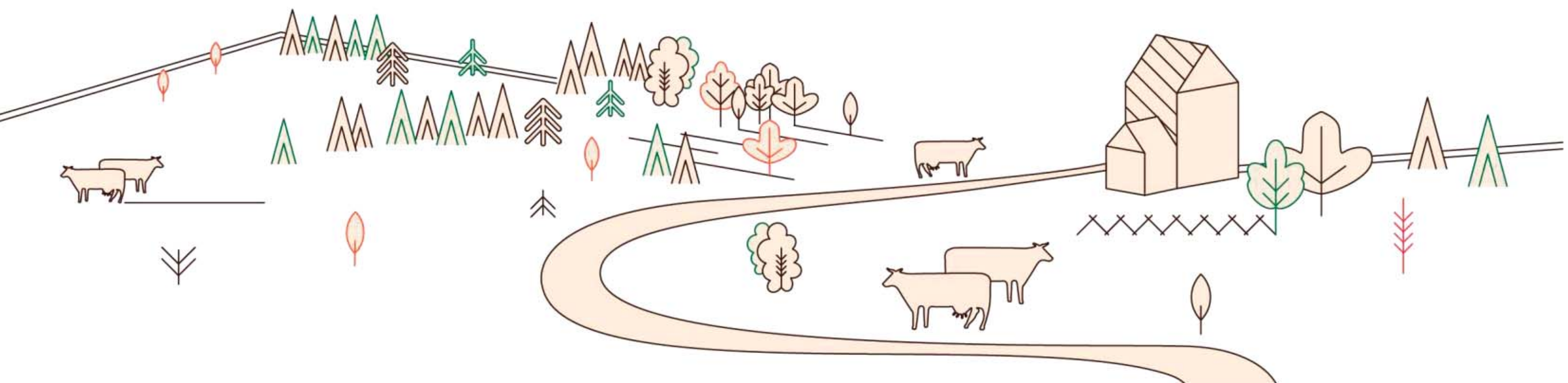
We invite you to read this report, which demonstrates how we continue our history of acting responsibly and contributing to the well-being of the environment, our employees, communities, and society at large.



ABOUT THE REPORT

The report provides an overview of the activities of the Vilkyškių Pieninė AB Group in the area of responsible business conduct in 2019. The third corporate social responsibility report illustrates how the responsible business approach and the principles of corporate governance are reflected in the day-to-day operations and plans of the Company. The report describes the Group’s strategic directions, actions and achievements of corporate social responsibility, and outlines the economic, social and environmental aspects of the Company's progress. We have prepared this report with reference to the 2019 NASDAQ environmental, social and governance (ESG) reporting guidelines, the United Nations Global Compact and the European Commission guidelines on non-financial reporting (2017/C215/01). The report is available in Lithuanian and English.

The report is published on the Company's website www.vilkyskiu.lt and on the website of the NASDAQ OMX Vilnius stock exchange www.nasdaqbaltic.com. The reporting period covers the period of January 1st – December 31, 2019. This report has not been independently audited. Please read this report together with the 2019 audited annual report of the Vilkyškių Pieninė AB consolidated and parent company.



PRINCIPLES AND PRIORITIES OF RESPONSIBLE BUSINESS

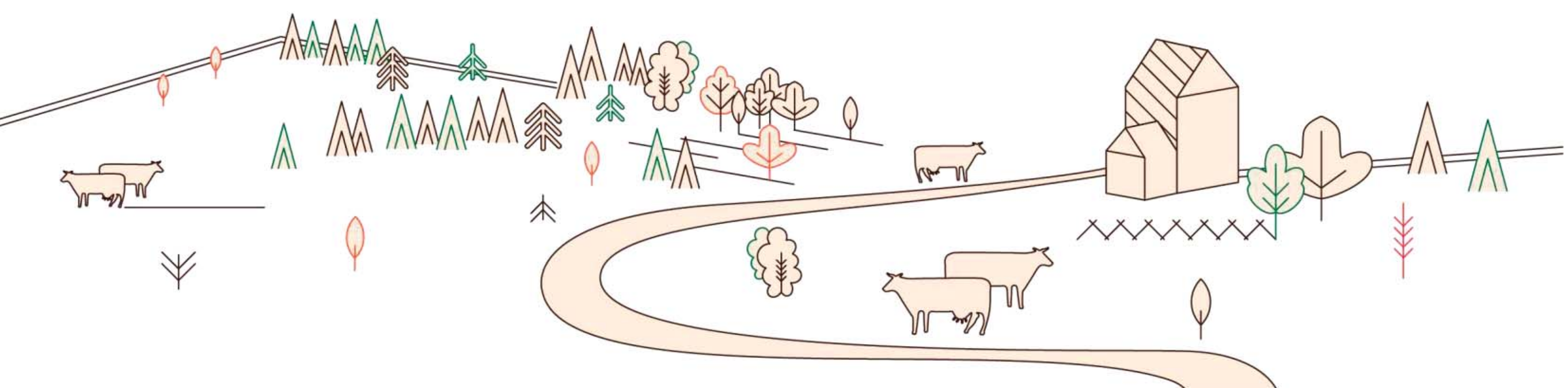
Vilkyškių Pieninė AB Group produces many delicious, original recipes of dairy products, many of which have received accolades at international exhibitions for their quality and taste. We are proud to continue our long and respectable history of cheese making, maintaining and sharing our traditions from a particularly scenic region of Lithuania. The lushness of the meadows watered by the Nemunas River inspires us to create and share what nature has so generously bestowed upon us.

What matters is not only what we create, but also how we do it. Therefore, in its activities, the Vilkyškių Pieninė AB Group follows the principles of the United Nations Global Compact. The 10 guiding principles define corporate responsibility in the areas of human rights, labor rights, environmental protection and anti-corruption. The Company also contributes to the United Nations Sustainable Development Goals. A social responsibility report is submitted on a regular basis to strengthen accountability, and it is made available together with the audited annual report of the Vilkyškių Pieninė AB consolidated and parent company.

Below are the long-term priorities of the Vilkyškių Pieninė AB Group related to economic, social and environmental aspects. In developing these activities, the Company seeks to meet stakeholder expectations and generate mutual benefits. The Group aims to improve its performance and to strengthen its positive impact both internally and externally, and its activities are regularly reviewed to set ever more ambitious goals.

Responsible business priorities

Economic dimension	Environmental dimension	Social dimension
❉ Creating value for shareholders; ❉ Ensuring fair remuneration for employees; ❉ Strengthening our brands; ❉ Satisfying customer needs; ❉ Improving production efficiency; ❉ Developing innovative products; ❉ Participating in the market transparently and ethically.	❉ Developing and implementing new, environmentally friendly technologies; ❉ Reducing manufacturing waste; ❉ Increasing reuse; ❉ Using natural resources sustainably; ❉ Ensuring a clean environment and high quality air, land and water.	❉ Ensuring human rights, gender equality and diversity; ❉ Ensuring safe working conditions and an environment conducive to good health and personal development; ❉ Developing an open dialogue and partnerships with key stakeholders; ❉ Strengthening communities.

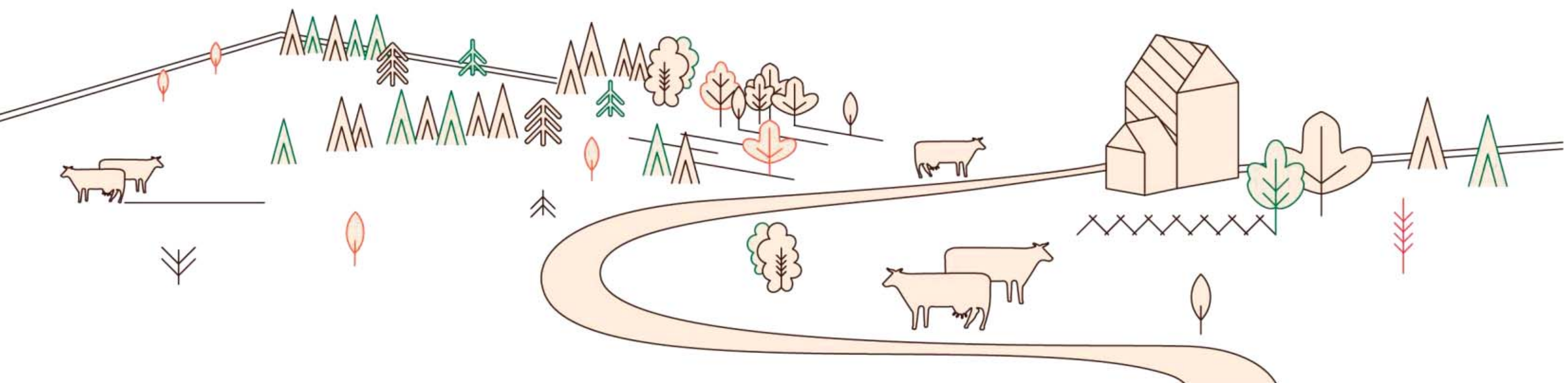


ABOUT THE VILKYŠKIŲ PIENINĖ AB GROUP

ACTIVITIES AND STRUCTURE OF THE VILKYŠKIŲ PIENINĖ AB GROUP

The main activities of the Vilkyškių Pieninė AB Group

- The manufacture of cheese, cheese products and other dairy products;
- The production of cream and whey products to effectively utilize the intermediate products produced during the manufacture of the main products;
- Production of fresh dairy products;
- Production of dry dairy products.



The structure of the Vilkyškių Pieninė AB Group

Vilkyškių pieninė AB

- Parent company. Established in 1993.
- Fermented cheese, cream, whey processing.

“Modest” AB

- Subsidiary. Established in 1992, since 2006 part of the Group.
- Mozzarella, blue cheese, smoked cheese, melted cheese.

Kelmės pieninė AB

- Subsidiary. Established in 1993, since 2008 part of the Group.
- Fresh dairy products.
- Dry products: milk and whey powder (at the Tauragė factory).

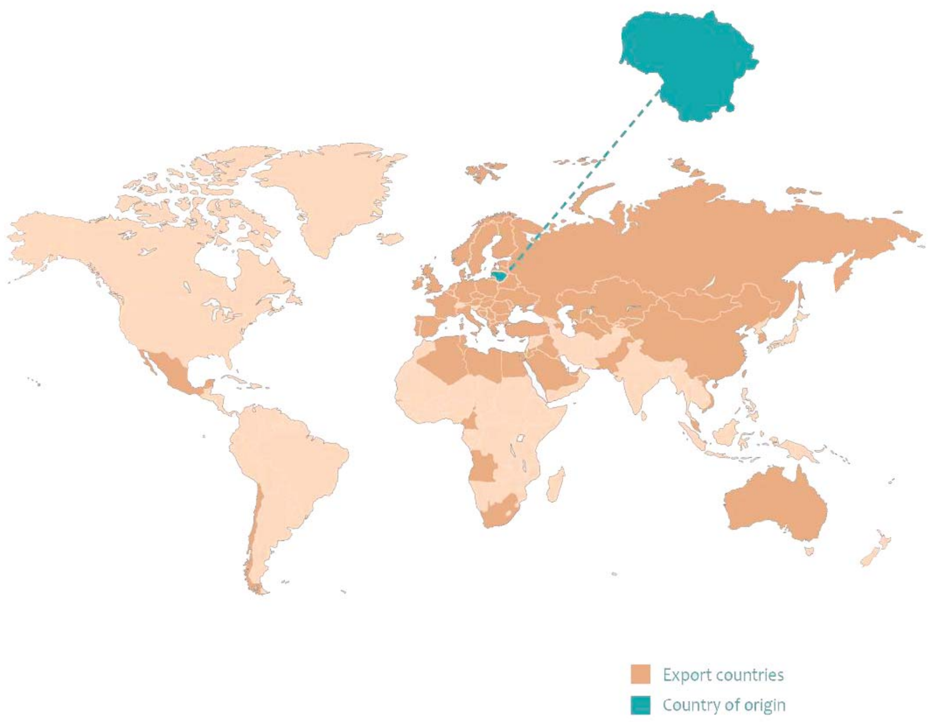
“Pieno logistika” AB

- Subsidiary. Established in 2013.
- Rental buildings.

A global company

Today, the Group accounts for about 16 percent of the milk processed in the Lithuanian market, taking the fourth place among manufacturers. The Vilkyškių Pieninė AB Group sells its products in 58 countries. For the export to foreign markets, the Company is advancing the VILVI brand.

Export countries

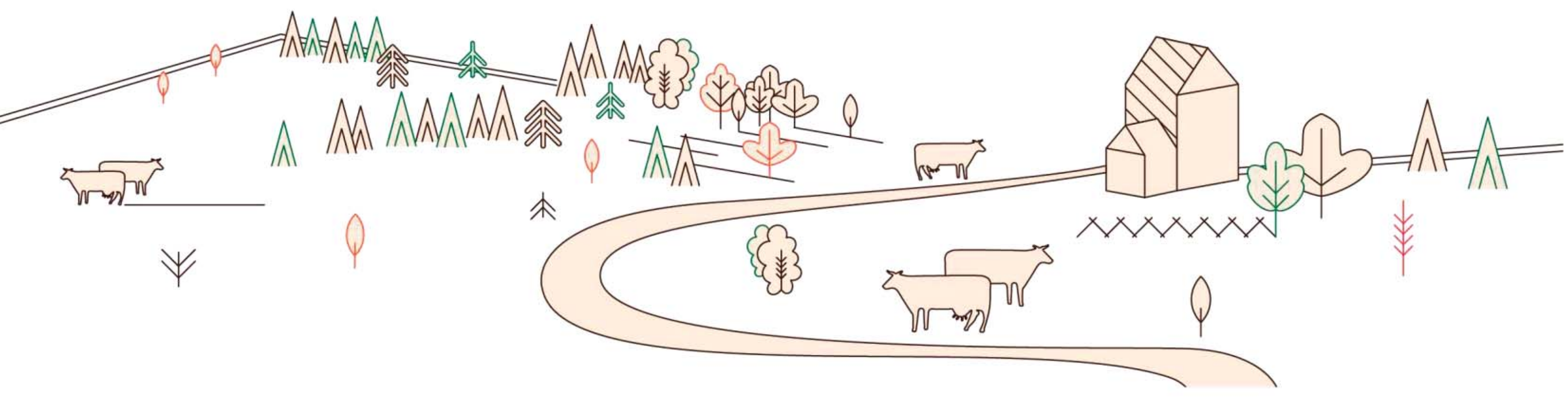


Albania	Denmark	Kosovo	Saudi Arabia
Angola	Estonia	Latvia	Singapore
Austria	Finland	Lebanon	Slovakia
Azerbaijan	France	Macedonia	South Africa
Belarus	Gambia	Malta	Taiwan
Belgium	Germany	Moldova	The Netherlands
Bosnia and Herzegovina	Great Britain	New Zealand	Ukraine
Bulgaria	Greece	Norway	United Arab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

MISSION AND VALUES

Our values help us deliver on our mission – to provide people across the whole world more opportunities to enjoy dairy products.

- **Quality** – we produce high-quality dairy products and adhere to the highest standards.
- **Innovations** – we delight our customers with new products and deliver opportunities for new taste experiences. We regularly invest in new technologies and expand our product portfolio. We are interested in creating and in sharing our creations – after all, that's how new traditions are born.
- **Competence** – the hands of our competent craftsmen turn dairy products into exclusive and original highest quality products.
- **Honesty** – we are open and reliable. We place high value on the trust and respect of our consumers. The basis of our operations are time-tested relationships with our business partners and the professionalism of our employees.



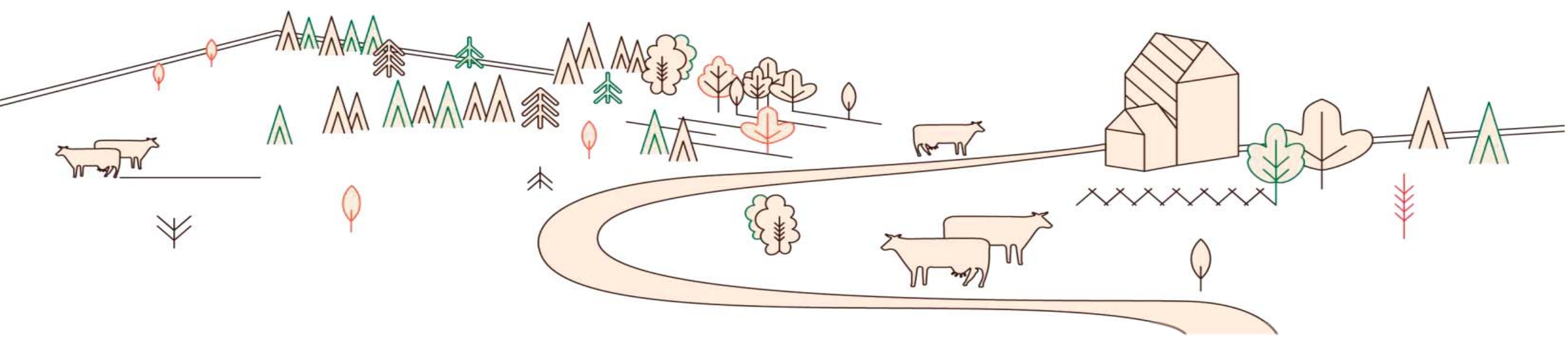
KEY NUMBERS OF 2019

26	years of experience
115	million euros consolidated turnover in 2019
>800	employees
2,4	million euros investment in the Group's infrastructural and technological renewal
>19	thousand m² administrative and industrial space
>269	thousand tonnes of milk bought
>350	business clients in the European Union and other countries
7,9	million euros national taxes paid
80	percent export

AWARDS IN 2019

The Lithuanian news outlet "Verslo Žinios" presented a new rating "Lithuanian business leaders 500" that highlights the biggest Lithuanian companies. Vilkyškių Pieninė AB entered the top 100 and was recognized as one of the leading Lithuanian businesses that creates social value, demonstrates sustainable business practices and operates effectively and transparently.

In 2019 the international market and consumer research company "Nielsen" granted the Company the title "Best New Launch 2018". For 10 years, already "Nielsen" has been selecting the most successful products in the Baltics. The competition is based on product sales and consumer surveys. In 2018 the semi-skimmed curd "Vilkyškių pusriebė varškė" (500 g) was the most successful new product in the dairy product category in Lithuania.



STAKEHOLDERS

The Group has a wide range of internal and external stakeholders. Stakeholders are natural and legal persons and organizations that may be positively or negatively affected by the activities of the Vilkyškių Pieninė AB Group as well as those who are interested in the Group's activities. The list is based on the Company's internal information.

Stakeholders	Main points of interest
Business clients	Partnership, rational price of products and services, responsibility in product delivery, accurate and relevant information, quality assurance of products and services
Consumers	Product variety and availability, wholesome nutrition, social responsibility: transparency, reduction of environmental footprint
Employees	Wages, social guarantees, employment and social inclusion, career and development prospects
Management	The Group's long-term value creation, product development opportunities
Shareholders	Achievement of the set financial goals, increase of operational efficiency and value of the Company
Service providers and contractors	Partnership, rational price of products and services, reliable service delivery and transaction settlement, accessible, precise and relevant information, quality assurance of products and services
Suppliers of main raw materials	Partnership, rational product price, responsibility in product delivery
Suppliers (fuel, electricity, waste management, water utility and other services)	Reliable service delivery and transaction settlement, effective cooperation
National regulatory authorities	Consistent regulatory compliance, performance monitoring, evaluation of reports, transparent dialogue
Local communities	Responsible employer and active member of communities, transparency, reduction of environmental footprint
The general public (organizations, associations, schools, universities and similar)	Joint projects, transparency, accountability, reduction of environmental footprint, career prospects
Research centers, consulting companies	Trainings, consultations, evaluation of indicators

GROUP MANAGEMENT

Vilkyškių Pieninė AB management bodies

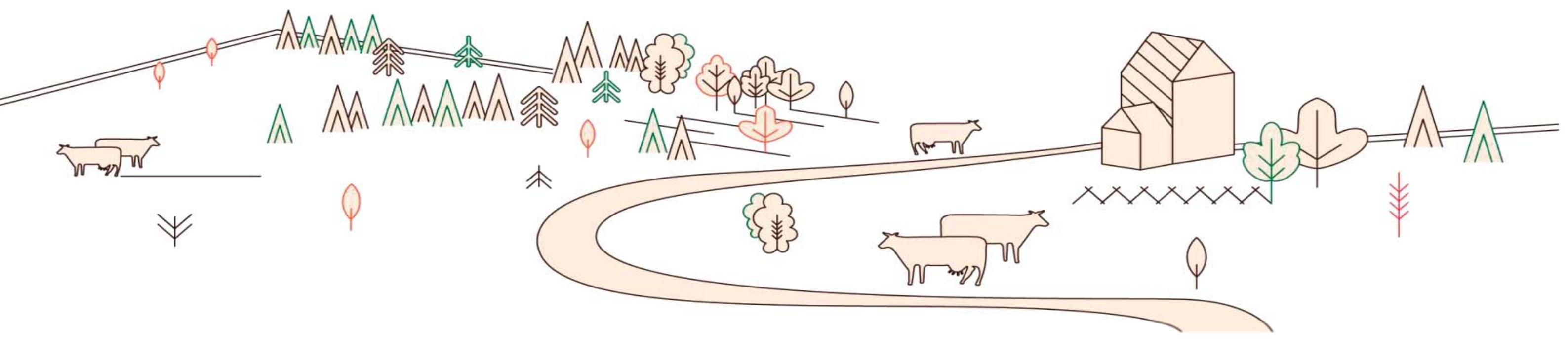
- General meeting of shareholders;
- Collegiate governing body – the Board;
- The sole governing body – the general director.

Kelmės Pieninė AB and "Modest" AB management bodies

- General meeting of shareholders;
- Collegiate governing body – the Board;
- The sole governing body – the director.

"Pieno logistika" AB management bodies

- General meeting of shareholders;
- The sole governing body – the director.



General meeting of shareholders

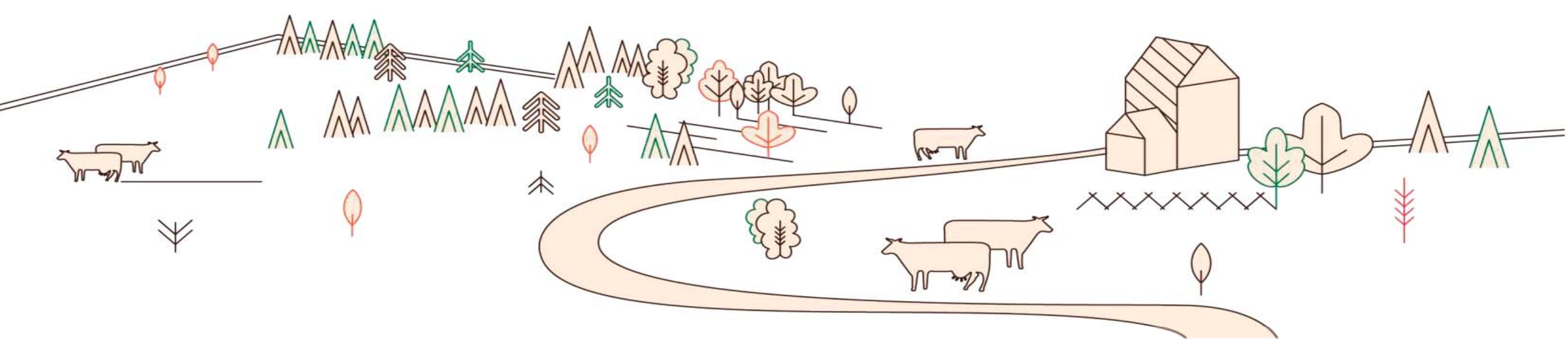
During the reporting period, the Group's shareholders had equal rights (property and non-property), as provided in the law, other legislation and the Company's Articles of Association. No shareholder had any special control rights; all shareholder rights are equal. The Company's management bodies provided 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. The members of the Board are elected for a four-year term by the general meeting of shareholders, pursuant to the Republic of Lithuania Law on Companies. The Board elects its chairman from among its members. *See the section on the management bodies of the Vilkyškių Pieninė AB Group in the 2019 audited annual report of the Vilkyškių Pieninė consolidated and parent company.* The Board forms two committees: Audit and Remuneration. Each committee consists of three members. *See the section on committees in the 2019 audited annual report of the Vilkyškių Pieninė consolidated and parent company.*

General director

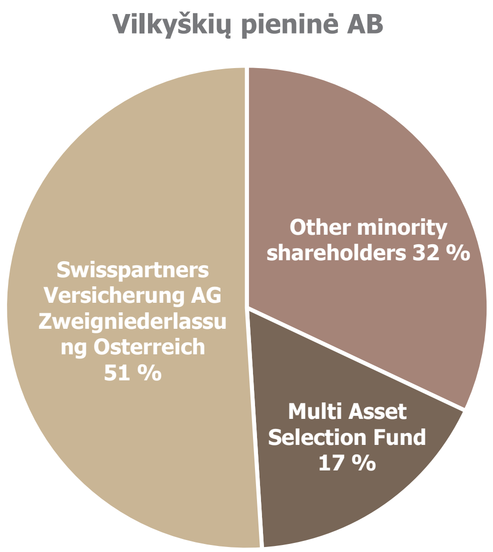
The competence of the general director, the procedure for his election and dismissal are established by the laws, other legislation and the Company's Articles of Association. The general director is elected, revoked and dismissed by the Board of the Company. The general director manages and organizes the activities of the Company, acts on behalf of the Company and concludes transactions at his own discretion, except in cases specified in the legislation and the Company's Articles of Association.

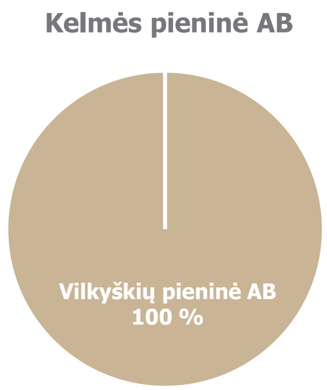


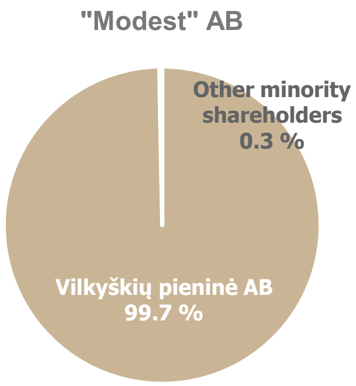
Shareholder structure

The shares of Vilkyškių Pieninė AB were listed on the NASDAQ QMX Vilnius stock exchange on May 17, 2006. The Company's shares are traded on the NASDAQ OMX Vilnius stock exchange only.

ISIN code LT0000127508. Security shorthand VLP1L.







Risk assessment

Risk management is an integral part of the activities of the Vilkyškių Pieninė AB Group. The Company identifies, analyzes and assesses risks by examining the Company's objectives, activities and external environment. The Board and the directors' meeting are responsible for establishing and overseeing the Group's overall risk management program.
Risk management policies and systems are systematically reviewed to reflect changes in market conditions and the performance of the Group. Through its training and management standards and procedures, the Group aims to create a disciplined and constructive environment of control, in which each employee has a clear role and responsibility.

The main identified risks are:

- Financial
- Credit
- Liquidity
- Market
- Operational

More about each risk is disclosed in the 2019 Vilkyškių Pieninė AB Consolidated and Separate Financial Statements.

Action against corruption and bribery

The Vilkyškių Pieninė AB Group does not tolerate any corruption and bribery and advocates for fair business and transparent cooperation with authorities and other stakeholders.
Transparent, honest and open business operations are some of the most important elements of an impeccable corporate reputation and success. The Vilkyškių Pieninė AB Group pays all taxes in a transparent manner, maintains responsible accounting practices and follows a transparent remuneration policy.
The Group ensures transparency in its procurement and requires potential and existing suppliers to operate in a transparent and fair manner. The Group trades its products on the basis of transparency and does not engage in any transactions that involve bribing or suggestions to act in non-transparent ways. The Group is open to observations and suggestions of the responsible authorities.
The Group is politically neutral and does not provide any financial support to political parties, groups or politicians.

ENVIRONMENTAL PROTECTION

PRIORITIES AND PRINCIPLES

The Vilkyškių Pieninė AB Group strives to protect the environment, use natural resources sustainably, and implement modern, efficient and environmentally safe technologies in its manufacturing practices. The Company is also implementing pollution prevention measures, improving energy efficiency as well as aiming to reduce production waste. The Board and management of the Company oversee and regularly include climate-related topics in their agendas. The Vilkyškių Pieninė AB Group periodically carries out environmental impact analysis and evaluation.

ACTIVITIES

Investing in more environmentally-friendly technologies

The Vilkyškių Pieninė AB Group uses gas, which is environmentally preferable to fuel oil or wood shavings. Vilkyškių Pieninė AB, "Modest" AB and Kelmės Pieninė AB use gas. In the second half of 2019, Kelmės Pieninė AB transitioned from using diesel to liquefied gas in the boiler room. The use of gas contributes to stabilizing the technological process and increasing the equipment load during the workday. It also saves well water, does not increase wastewater and efficiently uses energy resources.

At the end of 2016, a gas pipeline was extended to the town of Tauragė. Vilkyškių Pieninė AB, being the largest and main user of the gas pipeline, has significantly contributed to the introduction of gas as an energy source in Tauragė municipality. To date, over 60 households have been connected to the pipeline.

The Group has implemented the best available techniques (BAT), and the resource input and pollutant emission levels are consistent with those attained in the European Union.

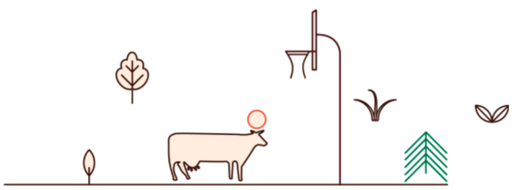
Vilkyškių Pieninė AB (since 2011), Kelmės Pieninė AB (since 2016) and "Modest" AB (since 2014) are equipped with modern, fully automated refrigeration compressors using the organic refrigerant ammonia.

Vilkyškių Pieninė AB is equipped with a regenerative heat energy exchange system, which enables the storage and usage of both heat and cooling energy.

The negative impact on the environment of the Vilkyškių Pieninė AB Group is also being reduced through the annual renewal of the vehicle fleet.

Energy use and sources

The energy management principles applied in the Vilkyškių Pieninė AB Group contribute to the more efficient usage of energy resources.



The Vilkyškių Pieninė AB Group uses green electricity. 100 % of the green electricity is sourced from renewable energy sources – wind, water and biomass. This way, the Company makes a significant contribution to reducing CO2 emissions in the country and globally.
The Tauragė branch of Kelmės Pieninė AB is equipped with milk and whey dryers that have energy recovery systems. Thanks to the energy recovery systems, significant savings in thermal energy are made and the consumption of gas and the amount of heat released into the environment are reduced. The hot air remaining after the drying process is returned to the system and heats the freshly drawn air. The air used in the incinerator is reused in the same manner. This allows for more efficient operations, the conservation of natural resources, and limits the contribution to the greenhouse effect. The products of natural gas combustion, used to generate heat in the dryers, are less harmful to the environment.

Vilkyškių pieninė AB	Kelmės pieninė AB	"Modest" AB	The Tauragė branch of Kelmės Pieninė AB
Industrial steam generated by own boiler 1.654,8 MWh	Industrial steam generated by own boiler 21.016 MWh	Natural gas 33.749 MWh	

Direct energy use, 2019

Indirect energy use, 2019

Vilkyškių pieninė AB	Kelmės pieninė AB	"Modest" AB	The Tauragė branch of Kelmės Pieninė AB
Electricity from renewable sources 12.526,8 MWh	Electricity from renewable sources 2.516,7 MWh	Electricity from renewable sources 8.556,3 MWh	

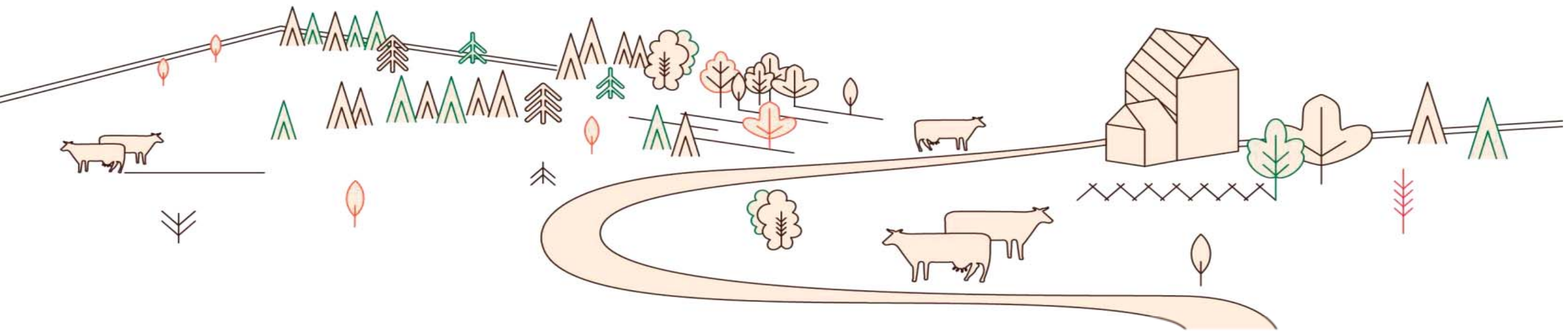
Energy sources – energy used by type, 2019

Vilkyškių pieninė AB	Kelmės pieninė AB	"Modest" AB	The Tauragė branch of Kelmės Pieninė AB
12 % liquefied petroleum gas; 88 % electricity from renewable sources	54 % diesel; 35 % natural gas; 11 % electricity from renewable sources	80 % natural gas; 20 % electricity from renewable sources	

Pollution prevention

In 2019 Vilkyškių Pieninė AB did not receive any complaints regarding the negative impact of its activities on the environment.

The Vilkyškių Pieninė AB Group has developed a program for monitoring the impact of the watering place on groundwater, and carries out observations, environmental impact assessments, data collection and analysis. The monitoring program is used to control the potential impact on groundwater by the petrol station in the parent company located in Vilkyškiai. It monitors air emissions, sources of pollution and wastewater.

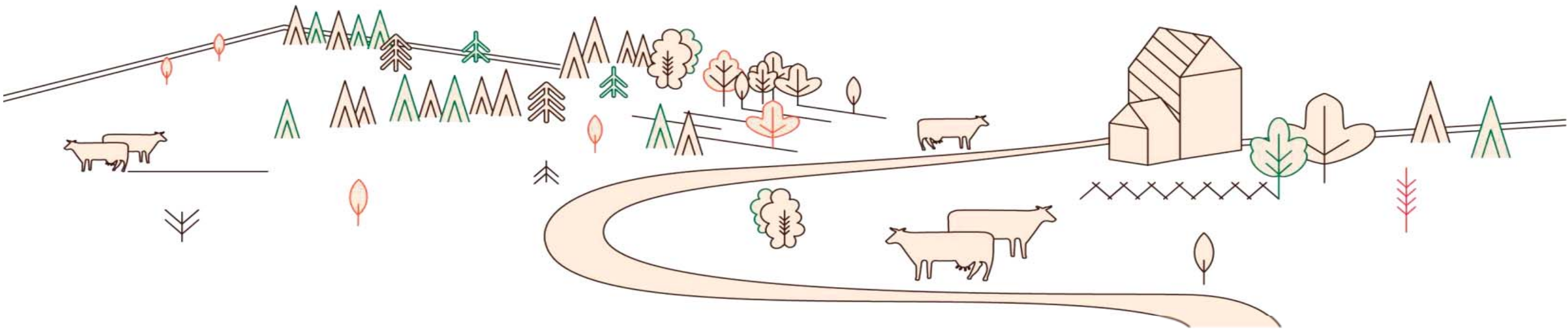


Pollution source or equipment	Pollutant	Medium of pollutant discharge	Fiscal period norm, in tonnes	Total amount discharged in 2019, in tonnes	Total amount discharged in 2018, in tonnes
Biological wastewater treatment equipment	Fat	Water bodies	3,2850	1,9173	2,8380
	Phosphorus	Water bodies	0,6570	0,3345	0,4658
	Ammonium nitrogen	Water bodies	2,1120	0,3833	0,2633
Surface wastewater	BOD	Water bodies	0,2436	0,0214	0,0216
	Suspended solids	Water bodies	0,2100	0,0194	0,0254
	Oil	Water bodies	0,0029	0,0009	0,0004
Boiler room I	Carbon monoxide (A) CO	Atmosphere	0,4178	0,4178	0,4178
	Nitrogen oxide (A) NOx	Atmosphere	0,5570	0,5570	0,5570

Environmental impact indicators for the parent company Vilkyškių Pieninė AB

Consumption of paper and plastic

32 % – almost 40 tonnes – reduction in 2019 in the amount of secondary cardboard packaging for the Kelmės Pieninė AB product lines that started to use reusable packaging. The total mass of the paper packaging put on the market by Kelmės Pieninė AB in 2019 amounted to about 499 tonnes.
100 % – 12 tonnes – of stationery paper used in 2019 was FSC and Ecolabel certified. This means that the cut-down trees are replanted and that the paper production process uses fewer resources.
In the second half of 2019, the Group started to intensively reduce its plastic consumption – replacing single-use plastic water bottles with glass jugs and swapping plastic plates and utensils for multiple use tableware.
75 % – from 200 000 down to 50 000 units – decrease in the usage of disposable cups in the second half of 2019 compared to the period before their elimination (2018.06.01 – 2019.06.01). Disposable tableware and bottles have been completely eliminated (previously, their usage amounted to 14 000 bottles per year).



Consumption of water

Water consumption, 2019

Vilkyškių pieninė AB	Kelmės pieninė AB	"Modest" AB	The Tauragė branch of Kelmės Pieninė AB
298 990 m3	109 512 m3	116 688 m3	106 241 m3

EMPLOYEES

PRIORITIES AND PRINCIPLES

We set ourselves ambitious goals in terms of our employees and personnel. One of the strategic goals of the Vilkyškių Pieninė AB Group is to become a leading employer in Tauragė county. Therefore, the employee policy is oriented towards forming and improving the employer identity, strengthening employee inclusion and collaboration. We integrate these principles in all the steps of an employee's path in the organization.
The Vilkyškių Pieninė Group has clearly defined procedures that define working conditions, equal opportunities, remuneration, employee promotion and development of collaboration.
We are focused on continuous development and growth of our employees and the formation of a common culture across the companies of the Group. We foster corporate culture to increase the employees' desire to come to work, develop a sense of belonging and optimism as well as to ensure the safety and comfort of the workplace.
The Vilkyškių Pieninė Group regularly monitors employee turnover, conducts research on employee motivation and engagement. In order to build a stable team, we strive to cultivate good relationships internally and to provide opportunities for improvement, growth, acquisition of new responsibilities and participation in decision-making.

ACTIVITIES

Attraction and integration of new employees

In order to keep improving conditions for the employees, the Company has put a system in place for recruiting new employees. The consistent process of onboarding new employees provides a smoother transition to the corporate culture, increases the efficiency of employee integration and learning, increases motivation to work in the organization, and gradually reduces the cost of recruiting new employees. There is also targeted action to attract new talent in close cooperation with regional, vocational and higher education institutions. Much emphasis is placed on the selection process and the positive experience of the candidate.
In 2019 the annual turnover rate was 24 percent. This is in line with market trends: according to an analysis conducted by "Korn Ferry Hay Group", average employee turnover in Lithuania in 2018 (latest available data) was about 23 percent.
Existing employees are encouraged to get involved in the recruitment of new employees via the approved „Bring a Friend" procedure, whereby employees can recommend individuals for work at Vilkyškių Pieninė AB and receive a cash bonus for doing so.

18 referrals in 2019 via the „Bring a Friend" system
14 employees hired in 2019 with the help of the „Bring a Friend" system

Traditions are an important part of fostering our culture. As a result, each workday begins with a joint 10-minute discussion between the employees over coffee. Employees are also congratulated on the occasion of their birthday, wedding, childbirth; we also organize celebrations of the Company's birthday and Christmas as well as educational tours and orienteering on bicycles.

Diversity at work: Kelmės Pieninė AB

Vilkyškių Pieninė AB Group advocates for equality and diversity and contributes significantly to the integration of people with disabilities into the labor market.
One of the companies of the Vilkyškių Pieninė AB Group – Kelmės Pieninė AB – is a social enterprise. The aim of Kelmės Pieninė AB is to promote the reintegration into the labor market of people belonging to target groups: persons who have lost their professional and general working capacity, those that cannot compete on equal terms and/or those that are economically inactive. Kelmės Pieninė AB is a member of the Association of Social Enterprises, participates in the activities of this Association and, as a social enterprise, receives State aid granted to social enterprises.

169 employees at Kelmės Pieninė AB in 2019
Around 40 % – 69 employees – belong to target groups (based on disability, level of working capacity and special needs)
Average age of employees – 46 years

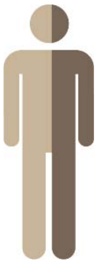
Employees are provided with working conditions that allow them to work according to their own potential. Employees are offered opportunities to attend meetings, lectures, outings, celebrations and other events related to employee awareness, education and motivation. According to official statistics, in Lithuania in 2018 the poverty risk for persons with disabilities was twice as high as for persons without disabilities. Therefore, the contribution of Kelmės Pieninė AB to the integration of persons with disabilities into the labor market contributes significantly to solving this acute issue.

Assurance of human rights and gender equality

Vilkyškių Pieninė AB Group does not tolerate human rights violations and discrimination.
Equality and non-discrimination are ensured by the Company's internal policy on equal opportunities, which provides each employee with opportunities in employment, professional development and career advancement regardless of gender, age, social status, or other factors unrelated to the professional characteristics of the employees.
The Group adheres to the laws governing overtime and working hours, respects the right of workers to rest and recuperate, does not tolerate any form of harassment or violence and opposes any form of discrimination as well as forced child labor. During weekly individual meetings with management or the HR department, all employees can express their views and complaints regarding unsatisfactory working conditions or relationships with colleagues or other topics.

In 2019, no discrimination or other incidents related to human rights violations were detected in the Vilkyškių Pieninė AB Group.
In order to ensure better conditions for employees with young children, with the help of European Union funds, in 2010 the Company established a childcare facility, referred to as the "kindergarten" by the residents of the town of Vilkyškiai. Since 2013, after the termination of the project funds, this kindergarten is being partially funded by Vilkyškių Pieninė AB. Therefore, while the employees are working, their offsprings are participating in pre-school education.

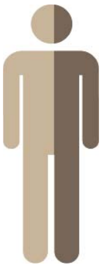
Employees of the Group by gender



55 % women

45 % men

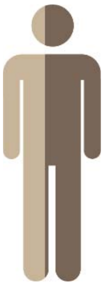
Middle-management of the Group by gender



52 % women

48 % men

Top management of the Group by gender

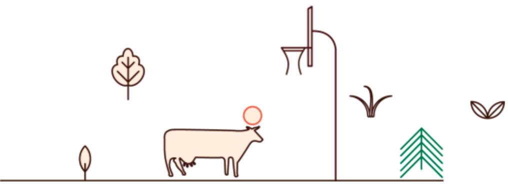


44 % women

56 % men

Gender diversity of the Board and supervisory bodies

33 % members of the Board are women	100 % committee chairs are women (2 committees: Audit and Remuneration)



Clear, justified and fair remuneration

Every employee contributes to the value creation of the Company, so in order to be a competitive employer, we advocate for clear, reasonable and equitable wages. Remuneration is based on the principles of gender equality, non-discrimination and fair pay as well as the legislation of the Republic of Lithuania and the approved renumeration system of the Vilkyškių Pieninė AB Group.

The remuneration system clearly indicates the categories of staff and the posts assigned to those categories. The remuneration arrangements contained within the system and its annexes are applied in such a way as to prevent any discrimination on gender or other grounds. Men and women receive equal pay for equal work or work of equal value.

We value transparent and clear remuneration; therefore, we have engaged the services of the "Korn Ferry Hay Group", the world's leading provider of accurate remuneration information and analysis. The research of the salary market by the "Korn Ferry Hay Group" enables the comparison between the remuneration system of the Vilkyškių Pieninė AB Group with the local market and helps to ensure the competitiveness and rationality of the salaries.

The content of the work carried out by the staff, the mandatory qualification requirements (if applicable to a specific post), the mandatory and voluntary professional development procedures are laid down in the staff regulations and/or employment contracts.

We pay special attention to the internal promotion and professional development of our employees. In the case of vacancies at higher levels, such vacancies are first offered to employees meeting the requirements. Employees may be awarded bonuses for their qualifications and/or bonuses for additional work or the completion of additional tasks or duties.

Various lump-sum benefits are also granted in the event of a marriage, the birth of a child or the death of a close family member.

Assurance of occupational safety and employee health

An important task of the employee policy of the Vilkyškių Pieninė AB Group is to ensure the safety, health and decent working conditions of its employees.

The designated occupational safety and health professional continuously monitors and ensures that workplaces comply with safety and health regulations.

There were 13 occupational accidents at the Vilkyškių Pieninė AB Group in 2019. All of them were minor and did not cause serious bodily injury or consequences for the workers.

In 2019 there were civil protection functional exercises to prepare for the event of a fire in the boiler room as well as a civil protection table exercise in the event of a hurricane threat. During the exercise, the safety steps undertaken by the designated employees were simulated in extreme conditions.

In 2019, 594 employees took part in required professional trainings. They participated in training programs devoted to the following topics:

- Work with hazardous explosives;
- Compulsory first aid;
- Informal training program in the workplaces where daily exposure to noise can exceed 85 dBA;
- Manual lifting of loads and others.

Each year, the Company's employees can obtain free health and vision check-ups and flu vaccinations. In 2019, 358 employees took advantage of such opportunities, whose value amounted to 25 000 euros.

69 employees underwent health check-ups

177 employees vaccinated

112 employees benefited from other health and wellness services

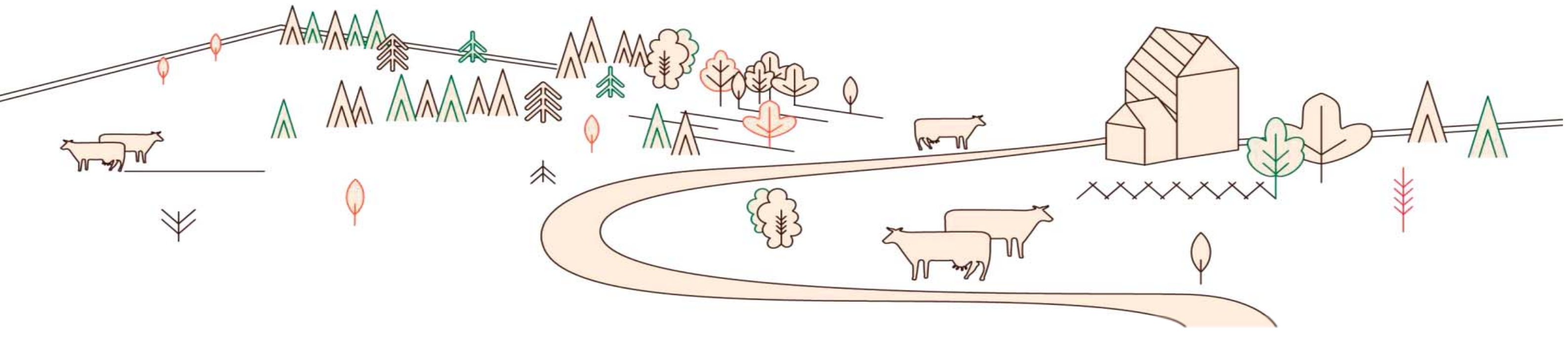
Professional development of the employees

The Vilkyškių Pieninė AB Group devotes significant attention to the development of employees' competencies. Each year, employee development plans are drawn up, taking into account the goals of the Group and the relevance of the employees' competencies. Particular attention is paid to the training of key professions to ensure efficient and high-quality work, customer service and job safety. The Company has a book library where employees can find professional, motivational and fiction books.

In 2019 we launched a Career Management System (CMS) project that includes more than 200 administrative employees. The aim of the project is to evaluate the viability of existing employees in their internal career promotion.

Employees partake in general in-house trainings as well as in conferences and seminars organized by external suppliers. In 2019 we extended the internal training program to promote peer-to-peer collaboration, improve internal communication, stress and change management, leadership development, and self-awareness.

Employee participation in trainings in 2019:
117 employees participated in general competence development trainings
64-hour long trainings for specialists
80-hour long trainings for managers



COMMUNITIES

PRIORITIES AND PRINCIPLES

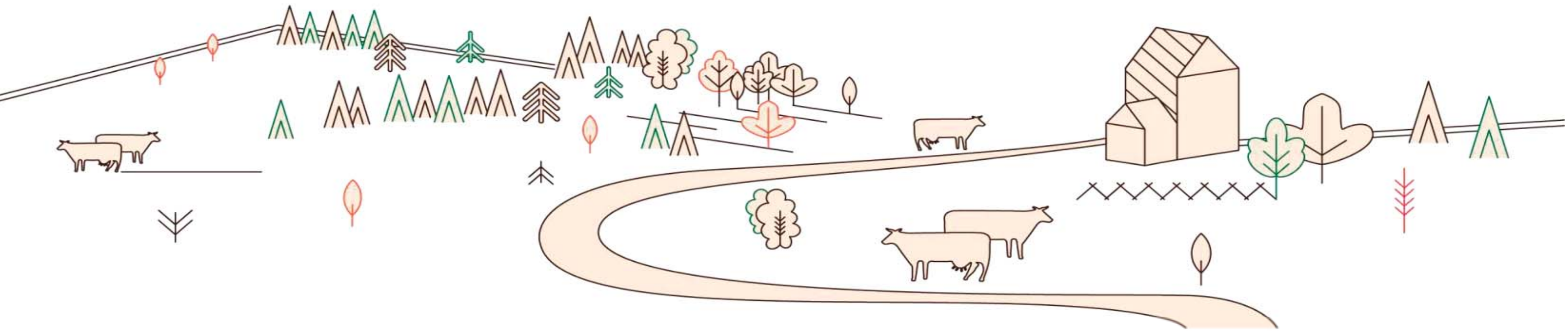
The Vilkyškių Pieninė AB Group is an active member of the community. Implementing the principles of responsible business in the social area, Vilkyškių Pieninė AB cooperates with local communities and the general public in order to ensure the protection of human rights, to strengthen relations between business and academia, and to contribute to youth employment and career development.
Support for community and various initiatives according to pre-established criteria is provided as a complementary social responsibility implementation tool that contributes to strengthening partnerships and implementing our priorities.

ACTIVITIES

Supporting youth career orientation

The Company willingly shares its competencies and resources. The factories welcome groups for educational visits and the Company organizes presentations about vocational preparedness and career planning. Particular attention is paid to representatives of the engineering field as their skills are in greatest demand.
The Company actively cooperates with educational institutions: it enables students of the institutions of higher education and vocational schools to apply theoretical knowledge and acquire practical skills over the course of a 2 to 3-month internship, thus improving youth employment opportunities. Familiarizing themselves with work in a manufacturing company also allows students and graduates to explore a new field and contributes to helping them make more informed career choices. In the long term, this allows the Company to shorten the process of recruitment and selection of candidates for positions that are the hardest to fill. Therefore, the implementation of the internship program is one of the Company's strategic directions.

- 130 persons from 9 educational and employment institutions visited the companies of the Vilkyškių Pieninė AB Group in 2019;
- 8 persons carried out internships in 2019 – 2 of them were employed on a permanent basis.



Strengthening and supporting communities

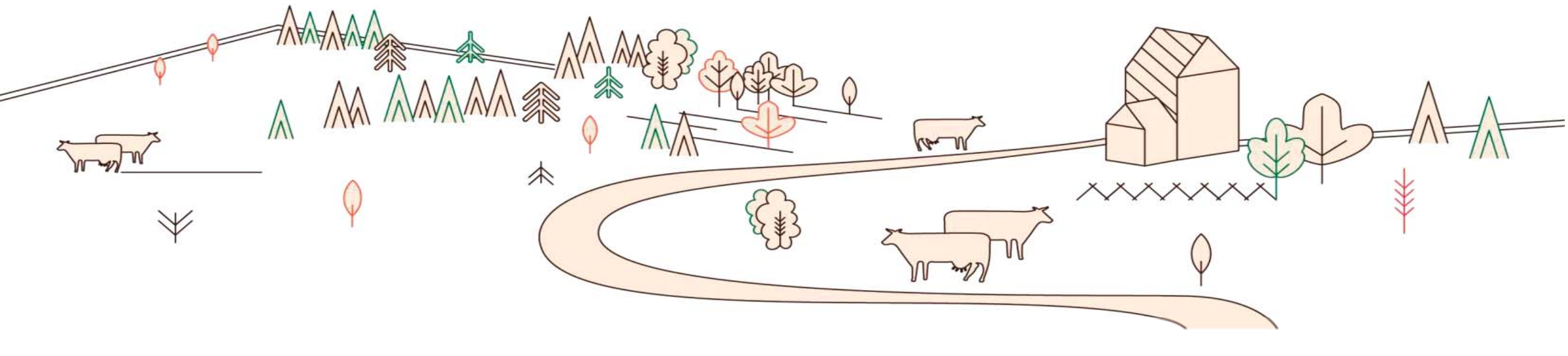
The Vilkyškių Pieninė AB Group promotes and develops community spirit – it supports and participates in cultural and educational events that provide entertainment and educational activities for both children and adults. In this way, we contribute to a more active social life in the county, strengthen mutual relations and cooperation.

In 2019, we provided 10 000 euros worth of financial and in-kind contributions towards childrens' wellbeing, education, culture, sports and local community-building

Through close cooperation, we have been supporting local communities financially and in-kind not only in the town of Vilkyškiai, but also in the towns of Pagėgiai, Tauragė and Kelmė. We support the Pagėgiai school, the festival of the Pagėgiai region, town festivals of Vilkyškiai and Pagėgiai, an international organ music festival, the international summer event "Jazz Days in Tauragė" and the Tytuvėnai active recreation festival "Tytuvelo". Every year, an international organ music festival takes place in Vilkyškiai, where we take part as sponsors and listeners. We also support various local sports clubs and the Lithuanian triathlon and running cups.

Cooperation with the basketball team "Žalgiris"

Promoting sports and reflecting Lithuanian traditions, since 2009 Vilkyškių Pieninė AB has been sponsoring the "Žalgiris" basketball team. The Company contributes to the organization of tournaments, and the employees cheer for the Žalgiris team at every match.



Vilkyškių pieninė AB

Address: Prano Lukošaičio str. 14, Vilkyškiai, Pagėgiai municipality, LT-99254, Lithuania

Phone: +370 441 55330
Fax: +370 441 55242
Email: info@vilvi.eu
Company code: 277160980
VAT payer code: LT771609811

HOTLINE: +370 800 20802

AB VILKYŠKIŲ PIENINĖ CORPORATE GOVERNANCE REPORT FORM FOR THE YEAR THAT ENDED ON 31 DECEMBER 2019

The public limited liability company ***AB"Vilkyškių pieninė"*** (hereinafter referred to as the "**Company**"), acting in compliance with Article 22 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

1. Summary of the Corporate Governance Report:

According to the Articles of Association of the Company, the bodies of the Company are the General Meeting of Shareholders, the Management Board, and the Manager of the Company. The Company does not have a Supervisory Board, but the supervisory functions, provided for in the Law on Companies of the Republic of Lithuania, are performed by the Management Board, which is not an executive body of the Company and consists of four representatives of the Company and two independent members. The Management Board elects and removes the Manager of the Company, determines his/her remuneration and other terms of the employment agreement. The company is managed by the Manager of the Company. The Company has two committees - Audit Committee and Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall perform the functions of the Remuneration and Nomination Committees. Internal control of the Company is performed by the internal auditor of the Company as well.

The Company does not currently comply with the requirement established by Paragraph 3.2.5. of the Corporate Governance Code, because the Chairman of the Management Board is the Manager of the Company. This recommendation will be taken into account during the election of the new chairman of the Management Board when the term of the Management Board will expire in 2022.

More information on the Company's Governance, shareholders' rights, activities of the Management Board and Committees, Management Board members, as well as systems of internal control and risk management is provided in the Company's Consolidated Annual Report for the year that ended on 31 December 2019.

2. Structured table for disclosure:

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	Shareholders are furnished with equal opportunity to access the and documents established in the legal acts, as well as to participate in the corporate decision-making process. The Company's documents and information established in the legal acts are publicly available on the Company's website and through the information disclosure system used by Nasdaq Vilnius in Lithuanian and English.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	The capital of the Company consists of ordinary registered shares, which grant their owners equal personal property and non-property rights. Each share grants one vote at the general meeting of shareholders.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association of the Company, which set out the rights conferred to the holders of Company's shares, are publicly available on the Company's website.
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	Yes	Transactions shall be approved in accordance with the procedure set forth in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company (where necessary, important transactions are subject to approval of the general meeting of shareholders).

1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	The Articles of Association of the Company provide that all persons, who on the day of the meeting are the shareholders of the Company, their authorized representatives, or persons with whom the voting rights transfer agreement has been concluded shall have the right to participate and vote in the general meeting of shareholders. A shareholder who has the right to vote and is familiar with the agenda may also inform the general meeting of shareholders in writing about his or her "for" or "against" choice with respect to each resolution individually. These notifications shall be credited to the quorum of the general meeting of shareholders as well as the voting results. Meetings of the Company's shareholders are held at the registered office of the respective company of the Company Group. Ordinary meetings of shareholders are held in the second half of April. The notice convening the general meeting of shareholders shall state that the proposed new draft resolutions must be submitted in writing at any time before the general meeting of shareholders.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	All documents and information related to the general meeting of shareholders, including notice of the meeting convened, draft resolutions, resolutions and minutes of the meeting, are announced publicly and at the same time in two languages - Lithuanian and English - through the Nasdaq regulated notice distribution system and on the Company's website

1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the Company may exercise the right to participate in the shareholders' meeting either in person or through a representative, if the person has a proper Power of Attorney or a voting rights transfer agreement has been concluded in accordance with the procedure established by legal acts. The Company shall also furnish the opportunity to shareholders to vote by filling out a general ballot as required by law.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	No	The Company does not comply with the provisions of this recommendation as the Company does not provide the possibility for the shareholders to participate and vote in the general meeting of shareholders by means of electronic communication.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	The Company informs about the educational background, work experience, and position of the candidates to the members of the collegial body during the general meeting of shareholders by submitting the curriculum vitae of the candidates in the material of the meeting. The name of the proposed audit firm shall be submitted to the general meeting in advance as a draft resolution. As of 2020, during the election a new member to the collegial body, the Company will publish the above information on each member in the draft resolutions of the general meeting.

1.10. Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders, as well as candidates proposed to members of the collegial body participate in the general meeting of shareholders.
Principle 2: Supervisory board **2.1. Functions and liability of the supervisory board** **The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.** **The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Not applicable	The Supervisory board is not formed in the Company. The functions of the Supervisory Board are performed by the Board of the Company.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Not applicable	

2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Not applicable	
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Not applicable	
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Not applicable	
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Not applicable	

2.2. Formation of the supervisory board

The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.

2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Not applicable	The Supervisory board is not formed in the Company.
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Not applicable	
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Not applicable	
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Not applicable	

2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Not applicable	
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Not applicable	
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Not applicable	
Principle 3: Management Board **3.1. Functions and liability of the management board** **The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	As the supervisory board is not formed in the Company, the Company's strategy is approved by the management board (essentially performing supervisory functions provided for in the Law on Companies of the Republic of Lithuania).

3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs *inter alia* the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	The functions specified in the recommendation are performed by the management board (except for AB Pieno logistika of the Company Group, where the management board is not formed), taking into account the needs of the Company, shareholders, employees, and other interest groups.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The management board ensures that the Company complies with laws and internal policies of the Company and, it also ensures the accountability of the management in accordance with the established internal measures of governance and control.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The management board ensures compliance with applicable laws, regulations, and standards.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	When appointing the manager of the company, the management board takes into account the candidate's qualifications, experience, and competence.

3.2. Formation of the management board

3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	The Company follows the recommendations of this paragraph. The members of the management board have the necessary variety of knowledge, opinions, and experience to perform their tasks properly. There is one woman on the management board of AB Vilkyškių pieninė and one on the management board of AB Modest of the Company Group; and two women on the management board of AB Kelmės pieninė of the Company Group.
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	The curriculum vitae of the candidates to become members of the management board and information on the candidates‘ participation in the activities of other companies is submitted at the shareholder meeting together with draft resolutions without violating the requirements of the legal acts regulating the handling of personal data.
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	After the election, all members of the management board shall be familiarized with their rights and obligations under the legal acts of the Republic of Lithuania and the Articles of Association of the Company. Members of the management board are regularly informed at the Board meetings and individually, as required or per own request of the members, about the Company's activities and its changes, material changes in the legal acts regulating the Company's activities, and other

		circumstances affecting the Company's activities.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	According to the Articles of Association of the Company, the members of the management board are elected for a term of four years, without limiting the number of their terms. The Articles of Association of the Company provide for the possibility of re-election of the entire management board or its individual member.
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	No	AB Vilkyškių pieninė does not comply with the recommendation of Paragraph 3.2.5. as the chairman of its management board is the manager of the company. The impartiality of supervision is ensured by other five members of the management board.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	Yes	In 2019, the management board members attended the management board meetings (a quorum was present during all meetings), with each member devoting sufficient time to perform the duties of the management board member. There were no management board members who attended less than half of the management board meetings during fiscal year of 2019.

3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[4], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	The management board has 2 independent members. Independent members shall be announced in draft decisions.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	Yes	Members of the management board of AB Vilkyškių pieninė, AB Modest, and AB Kelmės pieninė may be compensated for their work in the management board with tantiemes approved by the general meeting of shareholders. No tantiemes were paid to management board members in 2019.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	According to the information available to the Company, the members of the management board act in good faith with respect to the Company, following the interests of the Company and not their own or those of third parties, adhering to the principles of honesty, reasonableness, confidentiality, and responsibility, trying to remain independent during the decision-making.

3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	No	The Company has no practice of the assessment of the management board activity and public disclosure, but at the end of each year, the management board members review the management board's annual performance goals and evaluate their achievement.

Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Not applicable	The Supervisory board is not formed in the Company.

4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	Management board meetings are held once a month at the end of the month.

4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	The members of the management board shall be provided in advance with the information of the meeting convened, the agenda of the meeting, and any material related to the issues to be discussed at the meeting. Each member of the governing body shall have access to the materials of the meeting before the date of the meeting. As a general rule, the published agenda of a meeting shall not be changed, unless otherwise decided at a meeting where all the members of the management board of the Company are present, and the material submitted for the meeting shall be sufficient for the additional issue to reach a decision on the issue that is not announced in the agenda.

4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Not applicable	The recommendations of paragraph 4.4. cannot be applicable in the Company as no supervisory board is formed.

Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[5].	Yes	AB Vilkyškių pieninė has 2 committees: Nomination and Remuneration Committee and Audit Committee. Nomination and Remuneration Committee is formed by the management board. The members of the Audit Committee and the Regulations of the Committee is approved by the general meeting of shareholders on the recommendation of the management board. AB Modest, AB Kelmės pieninė, and Pieno logistika have no committees.

5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Yes	The functions of the Nomination and Remuneration Committee shall be carried out by a formed single Nomination and Remuneration Committee.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	Each committee of AB Vilkyškių pieninė is composed of 3 members. All members of the Audit Committee have financial education, and 2 of them are independent members. All members of the Nomination and Remuneration Committee shall have managerial experience and one of them shall be an independent member.

5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	The activities of the Nomination and Remuneration Committee of AB Vilkyškių pieninė are regulated by the Regulations approved by the management board. Regulations of the Audit Committee of AB Vilkyškių pieninė are approved by the general meeting of shareholders. Both committees regularly inform the collegial body about their activities and results. Information on Committee activities and attendance of Committee meetings is presented in the consolidated annual report of 2019.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	The members of the collegial body, who are not members of the Committee, shall participate in the meetings of the committees, if necessary, at the invitation of the respective Committee. If necessary, the Committee may invite relevant Company personnel, responsible for the matters discussed in the Committee, to attend the meeting. The chairman of the committee is also provided with the possibility to communicate with the shareholders as necessary.

5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration	Yes	The functions of the Nomination Committee specified in this recommendation are essentially performed by the Nomination and Remuneration Committee of AB Vilkyškių pieninė.

and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.		
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	

5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for	Yes	The functions of the Remuneration Committee specified in this recommendation are essentially performed by the Nomination and Remuneration Committee of AB Vilkyškių pieninė. The Nomination and Remuneration Committee submits proposals to the collegial body on the remuneration policy, reviews it regularly, and monitors its implementation.

members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.		
5.4. Audit committee 5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6]. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes Yes	The members of the Committee shall be provided with all the detailed information necessary for the performance of its functions.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	After the members of the Audit Committee decide who must attend the meeting of the Committee, these persons shall be invited, ensuring that the members of the managerial bodies would not be present at the same meeting.

5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	Internal and external auditors shall regularly present their activity plans and reports to the Audit Committee.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	The Audit Committee shall have the opportunity to periodically verify whether employees have the possibility to lodge a complaint or report anonymously any suspected violations by the Company.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	Reports of the Audit Committee are presented at management board meetings twice a year.

Principle 6: Prevention and disclosure of conflicts of interest

The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.

The Corporate Governance Framework should recognize the rights of the stakeholders as established by law and promote active cooperation between the company and its stakeholders in the creation of the well-being, jobs, and financial stability of the Company. Within the context of this principle, the term "stakeholders" includes investors, employees, creditors, suppliers, customers, the local community, and other persons with interests in a particular company.

Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	Management board members avoid situations where their personal interests may be in conflict with the company's interests.
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	The remuneration policy approved by the management board is published in the consolidated annual report of the Company of 2019 and available on the Company's website.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	

7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	No	The Company's Remuneration Policy does not provide for termination payments. The Company adheres to the requirements of applicable laws regarding termination payments.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	The Company has no system of employee incentivisation or remuneration with Company shares.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	No	The Company discloses the information on the total payroll of employees and the total amount of salaries paid to the key management of the Company during the year in its consolidated annual report.

7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	Yes	In the event of a material change in the remuneration policy, such change shall be included in the agenda of the general meeting of shareholders. The Company does not employ schemes under which the remuneration is provided in shares or share options, or other rights to purchase shares or receive remuneration based on the changes in the share price.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "*stakeholders*" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	All stakeholders are provided with the possibility to participate in corporate governance and access to the necessary information.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	Yes	All stakeholders are provided with the possibility to participate in corporate governance in the manner prescribed by law
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The stakeholders involved in the corporate governance process shall be granted access to the necessary information, without prejudice to the interests of the Company and other related parties.

8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	The Company provides the possibility to confidentially report any illegal or unethical practices to the collegial body performing the supervisory function.
Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.**		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	Yes	

9.1.1. operating and financial results of the company;	Yes	On a quarterly basis, the Company reports its operating and financial results on the Company's website and through the information disclosure system used by Nasdaq Vilnius.
9.1.2. objectives and non-financial information of the company;	Yes	Information on the Company's activities, objectives and corporate governance is disclosed through press releases and notifications on material events, as well as on the Company's website, and the information disclosure system used by Nasdaq Vilnius.
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Yes	Information is provided on the Company's website and in its interim and annual reports.
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes	Information is provided on the Company's website and in its interim and annual reports.
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	Yes	Information on the composition of committees and the number of meetings is provided in the annual reports.
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	The information is provided in interim and annual reports
9.1.7. the company's transactions with related parties;	Yes	Information is provided on the Company's website and in its interim and annual reports.
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	The information is provided in interim and annual reports.
9.1.9. structure and strategy of corporate governance;	Yes	Information is provided on the Company's website and in its interim and annual reports.
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.	Yes	Information is provided in interim and annual reports, notifications on material events, on the Company's website, and in the Company's social report.

This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.		
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, the company which is a parent company in respect of other companies discloses information about the consolidated results of the whole group of companies in the interim and annual reports.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The Company discloses in its consolidated annual report information on the total amount of annual remuneration and other income paid to the Company's key management and members of the managerial bodies, as well as education, qualifications and participation in the activities and capital of other companies.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	AB Vilkyškių pieninė submits information via the information disclosure system used by Nasdaq Vilnius in Lithuanian and English at the same time, thus ensuring simultaneous disclosure of information to everyone. The Company seeks to publish the information before or after the Nasdaq Vilnius trading session and simultaneously submit it to all markets where the Company's securities are traded, and also makes it publicly available on the website.
Principle 10: Selection of the company's audit firm **The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.**		

10.1.With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	The Company adheres to this recommendation because the Company's annual consolidated financial information is audited by an independent audit firm.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	The management board of the Company (manager in AB Pieno logistika of the Company Group) submits the candidacy of the audit company to the meeting of shareholders. The Audit Company shall be approved by the general meeting of shareholders of the Company.
10.3.In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	Information about non-audit services rendered by the audit company to the Company is provided to the management board of the Company.