AB Vilkyškių Pieninė

Consolidated financial statements for the year ended 31 December 2013

Content

Company details

AB Vilkyškių Pieninė

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Board of Directors

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

Management

Gintaras Bertašius, General Director
Vaidotas Juškys, Chief Operation Officer
Sigitas Trijonis, Technical Director
Rimantas Jancevičius, Stock Director
Arvydas Zaranka, Production Director
Vilija Milaševičiutė, Finance Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas
Swedbank, AB
DnB Nord Bankas
Nordea Bank Finland Plc
AB Šiaulių Bankas

Management's statement on consolidated financial statements

The Management has today discussed and authorized for issue the consolidated annual financial statements (hereinafter „the consolidated financial statements").

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

We recommend the consolidated annual financial statements to be approved by the annual General Meeting.

Vilkyškiai, 28 March 2014

Management:

Gintaras Bertašius
General Director

Vilija Milaševičiutė
Finance Director

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Independent auditor‘s report

To the shareholders of AB Vilkyškių Pieninė

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AB VILKYŠKIŲ PIENINĖ ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, set out on pages 5-56.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of AB VILKYŠKIŲ PIENINĖ for the year ended 31 December 2013, set out on pages 57-76 of the consolidated financial statements, and have not identified any material inconsistencies between the consolidated financial information included in the annual report and the consolidated financial statements of AB VILKYŠKIŲ PIENINĖ for the year ended 31 December 2013.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Klaipėda, the Republic of Lithuania

03 April 2014

Consolidated statement of financial position

Thousand Litas	Note	31 December 2013	31 December 2012
Assets			
Property, plant and equipment	10	97,493	93,927
Intangible assets	11	23,922	23,879
Non-current receivables	12	1,678	1,395
Non-current assets		123,093	119,201
Inventories	13	30,179	23,969
Trade and other receivables	14	25,513	16,724
Prepayments	15	2,265	1,406
Cash and cash equivalents	16	241	880
Current assets		58,198	42,979
Total assets		181,291	162,180
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		11,816	11,389
Retained earnings		35,742	25,132
Total equity attributable to the shareholders of the Group	17	70,897	59,860
Non-controlling interest		183	141
Total equity	17	71,080	60,001
Liabilities			
Interest-bearing loans and finance lease liabilities	18	28,684	35,755
Derivative financial instruments	22	1,207	1,707
Government grants	19	11,204	12,564
Deferred tax liabilities	20	3,058	1,862
Non-current liabilities		44,153	51,888
Interest-bearing loans and finance lease liabilities	18	25,826	17,950
Current tax liabilities		-	-
Derivative financial instruments	22	358	436
Trade and other payables	21	39,874	31,905
Current liabilities		66,058	50,291
Total liabilities		110,211	102,179
Total equity and liabilities		181,291	162,180

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December

Thousand Litas	Note	2013	2012
Revenue	1	364,432	295,759
Cost of sales	2	-323,793	-265,705
Gross profit		40,639	30,054
Other operating income	3	1,441	1,095
Distribution expenses	5	-17,309	-12,799
Administrative expenses	6	-8,205	-8,793
Other operating costs	4	-257	-341
Result from operating activities		16,309	9,216
Finance income		100	110
Finance costs		-2,202	-2,423
Net finance expense	7	-2,102	-2,313
Profit before tax		14,207	6,903
Income tax expense	8	-1,198	772
Profit for the year		13,009	7,675
Attributable to:			
Shareholders of the Company		12,949	7,564
Non-controlling interest		60	111
Profit for the year		13,009	7,675
Basic earnings per share (Litas)	9	1.08	0.63
Diluted earnings per share (Litas)	9	1.08	0.63

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

Thousand Litas	Note	2013	2012
Profit for the year		**13,009**	**7,675**
Other comprehensive income			
Change in fair value of hedging instruments		578	-746
Items that will never be reclassified to income statement		-	-
Items that are or can be reclassified to income statement		-	-
Other comprehensive income for the year, net of income tax		**578**	**-746**
Total comprehensive income		13,587	6,929
Attributable to:			
Shareholders of the Company		13,527	6,818
Non-controlling interest		60	111
Total comprehensive income		13,587	6,929

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

		Equity attributable to shareholders of the Group									
Thousand Litas	Note	Share capital	Share premium	Revalu-ation reserve	Hedging reserve	For acquisition of own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2012		11,943	11,396	6,929	-1,397	5,768	1,194	20,195	56,028	104	56,132
Comprehensive income for the period											
Net profit		-	-	-	-	-	-	7,564	7,564	111	7,675
Other comprehensive income											
Allocated from reserves		-	-	-359	-	-	-	359	-	-	-
Increase of revaluation reserve due to income tax effect		-	-	-	-	-	-	-	-	-	-
Formation of reserve for derivative financial instruments		-	-	-	-746	-	-	-	-746	-	-746
Total other comprehensive income		-	-	-359	-746	-	-	359	-746	-	-6,929
Total comprehensive income for the period		-	-	-359	-746	-	-	7,923	6,818	111	6,929
Contributions by and distributions to owners:											
Allocated to legal reserve		-	-	-	-	-	-	-	-	-	-
Allocated to reserve for acquiring own shares		-	-	-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-2,986	-2,986	-74	-3,060
Total contributions by and distributions to owners		-	-	-	-	-	-	-2,986	-2,866	-74	-3,060
Changes in the Group without losing control											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-2,986	-2,986	-74	-3,060
At 31 December 2012	17	11,943	11,396	6,570	-2,143	5,768	1,194	25,132	59,860	141	60,001

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (cont'd)

		Equity attributable to shareholders of the Group									
Thousand Litas	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	For acquisition of own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2013		11,943	11,396	6,570	-2,143	5,768	1,194	25,132	59,860	141	60,001
Comprehensive income for the period											
Net profit		-	-	-	-	-	-	12,949	12,949	60	13,009
Other comprehensive income											
Allocated from reserves		-	-	-354	-	-	-	354	-	-	-
Formation of reserve for derivative financial instruments		-	-	-	578	-	-	-	578	-	578
Total other comprehensive income		-	-	-354	578	-	-	354	578	-	13,587
Total comprehensive income for the period		-	-	-354	578	-	-	13,303	13,527	60	13,587
Contributions by and distributions to owners:											
Allocated to legal reserve		-	-	-	-	-	-	-	-	-	-
Allocated to reserve for acquiring own shares		-	-	-	-	203	-	-203	-	-	-
Dividends		-	-	-	-	-	-	-2,508	-2,508	-	-2,508
Total contributions by and distributions to owners		-	-	-	-	203	-	-2,711	-2,508		-2,508
Changes in the Group without losing control											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	18	18	-18	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-2,693	-2,490	-18	-2,508
At 31 December 2013	17	11,943	11,396	6,216	-1,565	5,971	1,194	35,742	70,897	183	71,080

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

Thousand Litas	Note	2013	2012
Cash flows from operating activities			
Profit for the year		13,009	7,675
Adjustments:			
Depreciation of property, plant and equipment	10	9,140	7,783
Amortization of intangible assets	11	6	138
Amortization and write down of grants	19	-1,360	-1,132
Loss (profit) on disposal of property, plant and equipment		-39	-64
Income tax expense		1,198	-772
Net financing expenses		2,102	2,313
		24,056	**15,941**
Change in inventories		-6,210	-710
Change in non-current receivables		-283	164
Change in trade and other receivables and prepayments		-9,686	2,358
Change in trade and other payables		8,098	2,180
		15,975	**19,933**
Income tax paid		-	-
Interest paid		-1,805	-1,629
Net cash from operating activities		**14,170**	**18,304**
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	-12,797	-29,573
Acquisition of intangible assets	11	-49	-7
Proceeds from sale of property, plant and equipment		689	246
Acquisition of the subsidiary‘s shares		-	-
Loans granted		-	-648
Loans repaid		-	999
Interest received		-	2
Net cash flows used in investing activities		**-12,157**	**-28,981**

Consolidated statement of cash flows (cont'd)

For the year ended 31 December

Thousand Litas	Note	2013	2012
Cash flows from financing activities			
Loans received		11,618	30,585
Repayment of borrowings		-11,762	-22,233
Dividends paid		-2,508	-2,986
Government grants received	19	-	5,854
Net cash from financing activities		**-2,652**	**11,220**
Increase (decrease) in cash and cash equivalents		-639	543
Cash and cash equivalents at 1 January		880	337
Cash and cash equivalents at 31 December	16	241	880

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Background information

The Group consists of the following companies (hereinafter – the Group)

- AB Vilkyškių Pieninė, the parent Company (hereinafter – the Parent Company or the Company)
- AB Modest, a subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, a subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė).
- AB Pieno Logistika, a subsidiary (hereinafter – the subsidiary AB Pieno Logistika).

AB Vilkyškių Pieninė was established in 1993. The Parent Company does not have any branches or representative offices.

AB Vilkyškių Pieninė is a Lithuanian Company listed on the Vilnius Stock Exchange. As at 31 December 2013 the Company‘s shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in Litas	Total value in Litas
Gintaras Bertašius	6,067,206	1	6,067,206
Linas Strėlis	1,918,215	1	1,918,215
Other minor shareholders	3,957,579	1	3,957,579
Total	**11,943,000**	**1**	**11,943,000**

Gintaras Bertašius and persons related to him are ultimate controlling parties of the Company.

The main activity of the Company is production and sale of different types of cheese.

The Company also produces and sells whey, raw milk and cream.

Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region. The Parent Company also has a milk purchase and processing centre in Eržvilkas, Jurbarkas region.

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. As at 31 December 2013 the Company holds 99.7% voting rights of the subsidiary (at 31 December 2012 – 99.7%). AB Modest specializes in production of cheese mozzarella, blue cheese and other cheese products.

The Parent Company has a subsidiary AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. As at 31 December 2013 the Company holds 100% voting rights of AB Kelmės Pieninė (at 31 December 2012 – 99.25%). AB Kelmės Pieninė specializes in production of fresh dairy products.

As of December 2013, the Group includes a subsidiary AB Pieno Logistika. The authorized capital of the mentioned company amounts to 371 thousand LTL; the main activity is lease of buildings. AB Vilkyškių Pieninė holds 50.8% shares of AB Pieno Logistika.

As at 31 December 2013 the Group had 936 employees (at 31 December 2012 - 925).

Notes to the consolidated financial statements
Basis for preparation

Statement of compliance

These are the consolidated financial statements (hereinafter - financial statements or consolidated financial statements) of AB Vilkyškių Pieninė Group, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The management of the Parent Company is authorized to issue the consolidated financial statements of the Group after approval by the general shareholders meeting, which must be convened by 30 April of the coming year as prescribed by the Companies Law of the Republic of Lithuania.

Basis of measurement

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

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

Functional and presentation currency

The financial statements are presented in thousands Litas (thousand LTL). Litas (LTL) is the legal currency of Lithuania and considered to be the functional currency of the Parent Company and each of its subsidiaries.

Foreign currency transactions

Transactions in foreign currencies are translated into Litas at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into Litas at the exchange rate ruling at that date. All transactions made in Euro have been translated to Litas at the exchange rate of 1 Euro=3.4528 Litas as fixed by the Central Bank of Lithuania.

Foreign currency exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost or fair value in a foreign currency are translated using the exchange rate at the date of the transaction or valuation.

Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable (due to financial instruments potentially convertible into shares) are taken into account. The financial statements of subsidiaries are included in the Group consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements
Basis of preparation (cont‘d)

Basis of consolidation (cont‘d)

The accounting policies, set out below, have been consistently applied by the Group 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”.

Significant accounting policies

Property, plant and equipment

Items of property, plant and equipment, including assets under finance lease terms, but excluding buildings, are stated at cost less accumulated depreciation and impairment losses. The cost includes costs incurred when acquiring the asset. Cost of assets, internally created by the Group, includes the cost of materials, direct labour costs and an appropriate proportion of production overheads.

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

The Group includes the cost of a replacing part in the carrying amount of an item of property, plant and equipment, if it is probable that the future economic benefits embodied with the item will flow to the Group and the costs of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

Buildings are recognized at restated amounts, being the estimated fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the statement of financial position date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful economic lives of assets. The revaluation reserve for buildings is being reduced in proportion to depreciation of revalued buildings.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded through other comprehensive income into the revaluation reserve of property, plant and equipment under equity. Depreciation is calculated on the amount which is equal to the acquisition cost/restated amount net of residual value of the asset.

In the event of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the change in value is recognized is deducted from the previous revaluation increases recognized in the revaluation reserve, to the extent it does not exceed the amount of such increases, and thereafter as an loss in the profit and loss account.

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Property, plant and equipment (cont‘d)

Depreciation is recognized in profit and 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:

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

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

Intangible assets

Intangible assets with a finite useful life that are acquired by the Group are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of 3 years.

The Group does not have any intangible assets, except for goodwill, with an unlimited useful lifetime.

Goodwill

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

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Subsequently, goodwill is measured at cost less accumulated impairment losses.

After initial recognition, goodwill is stated at acquisition cost, less any accumulated impairment losses (tested on annual basis). For the purposes of impairment estimation, from the date of acquisition the goodwill, acquired in a business combination, is allocated to the Group’s cash generating units that are expected to benefit from the business combination, irrespective of whether other acquired assets or liabilities are assigned to these units.

Where goodwill forms part of a cash-generating unit, containing part of operation which is being disposed, the goodwill associated with the operation disposed is included in its carrying amount when determining the gain or loss on disposal of the operation. In this case, goodwill is measured based on the relative value of the disposed operation, compared to the rest 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. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

Notes to the consolidated financial statements

Summary of significant accounting policies (cont'd)

Inventories

Inventories comprise products, work in progress, merchandise and materials.

Inventories are measured initially at production cost. Production costs include direct labour, materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

Inventories at the end of the reporting period are measured at the lower of cost or net realizable value, after deducting any write-downs. Net realizable value is the estimated selling price in the basic course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is based on the first-in first-out principle.

Non-derivative financial assets and liabilities

Non-derivative financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date, except loans, receivables and deposits which are recognized at the date they are originated. When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Related gains or losses on revaluation are charged directly to the income statement. Interest income and expense and dividends on such investments are recognized as interest income and dividend income or interest expenses, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method, less any impairment losses. The effective interest method is a method, used for calculation of amortised cost of a financial asset or liability and for allocation of interest income or costs over a relevant period. The effective interest rate is the rate, which allows an accurate discounting of future cash payments over the expected period of the financial liability or, where possible, over a shorter period.

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 amortized cost using the effective interest rate method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses, except impairment losses, being recognized through other comprehensive income as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Non-derivative financial assets and liabilities (cont’d)

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised within different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If 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, 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 recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

As at 31 December 2013, the fair values of assets and liabilities stated in the statement of financial position do not significantly differ from their carrying amounts

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, plus attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest rate method.

Borrowing costs

Borrowing costs on loans used for acquisition of qualifying property, plant and equipment are recognized as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment.

Trade and other payables

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

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Derivative financial instruments

Derivatives are recognized initially at fair value: attributable transaction costs are recognized in profit and loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative, and the combined instrument is not measured at fair value though profit and loss.

Hedging from cash flow risk

Changes in fair value of the derivatives that are designated as hedging against cash flow risks are recognised directly in equity through other comprehensive income to the extent this hedging is effective. When the hedging is not effective, the fair value changes are recognised in profit or loss.

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

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Cash and cash equivalents

Cash includes cash on hand and cash with banks. 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 purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

Impairment

Financial assets

Financial assets not carried at fair value through profit or losses are reviewed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates 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 that asset that can be estimated reliably.

For financial assets carried at amortized cost, whenever it is probable that the Parent Company and subsidiaries will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement.

In relation to trade and other receivables impairment loss is recognized when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Parent Company and subsidiaries will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

Calculation of recoverable amount

The recoverable amount of the Group’s receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Reversal of impairment losses

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss has been recognized.

Non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed for possible indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate possible impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to 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 asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”).

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Impairment (cont'd)

Non-financial assets (cont'd)

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee benefits

Short-term employee benefits are recognized as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no long-term employee benefits.

Finance and operating leases

The Group determines whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date.

The Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant period rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.
Operating lease payments are recognized as expenses in profit or loss on a straight line basis over the lease term.

Acquisition of own shares

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

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Dividends

Dividends are recognized as a liability for the period in which they are declared.

Government grants

Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement in the period in which they were incurred.

Grants that compensate the Group for the cost of an asset are amortized over the same period as the asset for which the grant has been received. Amortization costs are included in production cost or administrative costs as well as in depreciation of property, plant and equipment for which the grant has been received.

Revenue

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

Cost of sales

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs are recognised based on accrual and matching principles.

Distribution and administrative expenses

Selling and administrative expenses comprise expenses of transportation, administrative staff, management, office expenses, etc. including depreciation and amortization.

Operating costs are recognised based on accrual principle.

Other operating income and costs

Other operating income and charges comprise gain or loss from disposal of non-current assets, gain or loss from intercompany transactions as well as other income and costs not related to the primary activity.

Financial income and expenses

Financial income and expenses comprise interest receivable and payable, realized and unrealized exchange gains and losses regarding debtors and creditors denominated in foreign currencies.

Interest income is recognized in the income statement using the effective interest method. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)
Income tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Standard profit tax rate applied to the companies registered in the Republic of Lithuania is 15%. Tax losses can be carried forward for an indefinite period if the Company does not change its activities due to which these losses incurred, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. The amendment to the Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the amount of tax losses to be carried forward shall not be larger than 70% of income for the taxable period, which is calculated by deducting non-taxable income, allowed and restricted deductions, except for losses of the previous taxable periods.

The procedure of carrying forward the loss incurred as a result of disposal of securities and/or derivative financial instruments has not changed; therefore, it can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated on temporary differences arising on initial recognition of assets and liabilities, if these differences do not affect the tax provided in the financial statements nor the taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the enacted tax rates known at the statement of financial position date.

Deferred tax assets have been recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized

Earnings per share

The Group provides information on basic earnings per share and diluted earnings per share. Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by adjusting the net profit attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding during the year by all potential ordinary shares.

Segments

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 with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the chief executive body of the Parent Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

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

Except for the changes below, the Group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted). In respect of IAS 1, the Group has adjusted presentation of items in the statement of other comprehensive income for the purpose of separation of the items that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The comparative information is presented accordingly.

IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

The following amendments to standards with effective date of 1 January 2013 did not have any impact on these consolidated financial statements:

- Amendment to IFRS 7 – Offsetting of Financial Assets and Liabilities;
- Amendment to IAS 19 (2011) – Employee Benefits;
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets.

Approved but not yet effective standards and interpretations

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Group as well as management’s judgments regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Group does not plan to adopt these amendments, standards and interpretations early.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements,

IFRS 12 Disclosure of Interests in Other Entities (2011)

- IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group’s control over its investees.

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group’s control over its investees.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Approved but not yet effective standards and interpretations (cont‘d)

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest is a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

- IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The Group does not expect the new Standard will have a material impact on the financial statements.

These standards are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

- *IAS 27 (2011) Separate Financial Statements (*effective for annual periods beginning on or after 1 January 2014. Early application is permitted, if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early).

  IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the presentation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*.

  The Group does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the entity's accounting policy.

- *IAS 28 (2011) Investments in Associates and Joint Ventures (*effective for annual periods beginning on or after 1 January 2014. Early application is permitted, if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early). There are limited amendments to IAS 28 (2008):

  - *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture

  - *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Approved but not yet effective standards and interpretations (cont‘d)

The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

- *Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2014). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities (effective for annual periods beginning on or after 1 January 2014*)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, as well as investments in associates and joint ventures at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity.

The Group does not expect the new standard to have any impact on the financial statements, since the Group does not qualify as an investment entity.

- *Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014*).

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal.

The Group does not expect the new Standard will have a material impact on the financial statements.

- *Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014*)

The Amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when certain criteria are met.

The Group does not expect the new standard to have any impact on the financial statements, since the Group does not apply hedge accounting.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Contingencies

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

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

Subsequent events

Subsequent events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes 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 risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Fair value of derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Determination of an effective hedge

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Use of judgements and estimates (cont’d)

Determining whether an arrangement contains a lease

At inception of an arrangement the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

1) The fulfilment of the arrangement is dependent on the use of the specific asset or assets and,
2) The arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group’s incremental borrowing rate.

Impairment losses on goodwill and property, plant and equipment

The carrying amounts of the Group's goodwill and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value.

Valuation of buildings

Information about assumptions and estimation uncertainties related to valuation of buildings is included in Note 10 “Property, plant and equipment”.

Impairment losses on receivables

The Parent Company and subsidiaries review receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Parent Company and subsidiaries makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. 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 that influence the Parent Company and subsidiaries of the receivables.

The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit 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.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Use of judgements and estimates (cont’d)

Useful lives for property, plant and equipment

Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilization and physical condition of the assets concerned

Financial risk management

The Group have exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk.

The note 26 “Financial instruments and risk management” presents quantitative information about the Group’s exposure to each of the risks and the Group’s management of capital. Further quantitative disclosures are also included throughout these annual financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Within its trading activity the Group sells products and services with deferred payment terms, which may result in the risk that customers will not pay for the Group’s receivables from sales of products and services. In order to minimize credit risk the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types such as:

- Limit,
- insurance,
- guarantees,
- credit insurance.

In 2013 the Parent Company insured the foreign customers by credit insurance in the company Eurler Hermes.

For each client making settlement not in cash, the credit risk is assessed on an individual basis. Trade receivables are regularly reviewed by the Finance Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation..

The Group’s policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Group is satisfactory.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 26 Financial instruments and risk management.

The Group’s income and operating cash flows are in general independent of changes in market interest rates. The Group does not have significant interest-bearing assets. The Group use derivative instruments to hedge the interest rate risk (refer to Note 22).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Financial risk management (cont'd)

Operational risk (cont'd)

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Notes to the consolidated financial statements

1 Segment reporting

The Company has several reportable segments, as prescribed below.

Reportable segments are different product groups, which are managed separately because they require different technology and marketing strategies. For each of the product groups, the General Director reviews internal management reports on at least monthly basis.

The following summary describes the products in each of the Groups reportable segments:

- *Cheese and cheese products.* Includes cheese and cheese products produced by the parent Company and its subsidiaries;
- *Fresh dairy products.* Includes fresh dairy products produced by the subsidiaries (milk, sour milk, yoghurt, curd)
- *Other dairy products*. Includes other dairy products.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit, as included in the internal management reports that are reviewed by the General Director. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results.

Segments results for the year ended 31 December 2013 are as follows:

Thousand Litas	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	171,982	97,648	94,802	364,432
Cost of sales	-161,531	-85,452	-76,810	-323,793
Gross profit	10,451	12,196	17,992	40,639

Segments results for the year ended 31 December 2012 are as follows:

Thousand Litas	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	145,617	89,933	60,209	295,759
Cost of sales	-139,336	-70,249	-56,120	-265,705
Gross profit	6,281	19,684	4,089	30,054

Information on assets, liabilities, interest income and expenses, amortisation and depreciation, result before tax, tax expenses and other non monetary captions attributable to each of the separate segments is not provided to the General Director. The opinion of the management is that it is not reasonable to allocate these captions to separate reportable segments.

Notes to the consolidated financial statements

1 Segment reporting (cont'd)

The Group has also 4 distinguishable segments established on the basis of legal entities: AB Vilkyškių Pieninė (parent Company), AB Kelmės Pieninė (a subsidiary), AB Modest (a subsidiary) and AB Pieno Logistika, which joined at the end of December 2013. The activity of each company (segment) is related to production of dairy products, except for AB Pieno Logistika, which is engaged in lease of buildings. The companies produce different dairy products; therefore, use different technologies and apply different marketing strategies. The General Director reviews internal management reports of the segments on a monthly basis.

The largest segment of the Group is AB Vilkyškių Pieninė. More detailed information about segments of the separate Group AB Vilkyškių Pieninė is presented in the separate financial statements.

When presenting information as to geographical location, segment income is recognised according to the clients' geographical location. Segment assets are allocated according to their geographical location.

Segment information for 2013:

Thousand Litas	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika	Adjustment	Total
Revenue	409,282	96,468	26,527	2	-167,847	364,432
Interest income	33	156	79		-235	33
Interest expenses	-1,639	-246	141		235	-1,791
Depreciation and amortisation	5,696	1,496	722		-	7,914
Result before taxation	22,275	8,103	-1,430	1	-14,742	14,207
Income tax expense	-1,198	-	-	-	-	-1,198
Net profit for the year	21,077	8,103	-1,430	1	-14,742	13,009
Other material non-cash items						
Segment assets	163,252	27,894	10,806	650	-21,311	181,291
Acquisition of non-current assets	10,128	2,731	674	-	-	13,533
Segment liabilities	92,696	16,339	9,136	277	-8,237	110,211

Adjustments are related to elimination of inter-Group transactions and balances.

Segment information for 2013 per geographical zones::

Thousand Litas	**Revenue**	**Assets**
Lithuania	107,444	168,551
European Union, except Lithuania	113,495	11,569
Russia	126,075	182
Other	17,418	989
	364,432	181,291

Notes to the consolidated financial statements

1 Segment reporting (cont'd)

Segment information for 2012:

Thousand Litas	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	329,860	93,305	45,571	-172,976	295,759
Interest income	46	156	34	-156	80
Interest expenses	-1,750	-339	-79	156	-2,012
Depreciation and amortisation	4,789	1,334	746	-	6,869
Result before taxation	4,403	14,843	-2,326	-10,017	6,903
Income tax expense	772	-	-	-	772
Net profit for the year	5,175	14,843	-2,326	-10,017	7,675
Other material non-cash items	-	-	-	-	-
Segment assets	143,229	39,437	14,150	-34,636	162,180
Acquisition of non-current assets	26,141	3,126	306	-	29,573
Segment liabilities	91,820	20,869	11,050	-21,560	102,179

Adjustments are related to elimination of inter-Group transactions and balances.

Segment information for 2012 per geographical zones

Thousand Litas	**Revenue**	**Assets**
Lithuania	109,260	156,183
European Union, except Lithuania	87,734	4,229
Russia	87,054	537
Other	11,711	1,231
	295,759	162,180

Information about major clients

The Group has one client in Russia, sales to which account for more than 10% of total sales.

2 Cost of sales

Thousand Litas	**2013**	**2012**
Raw materials	-242,718	-198,897
Staff costs	-20,778	-19,182
Depreciation and grants amortisation	-6,874	-5,566
Gas, electricity	-9,301	-11,413
Other costs	-44,122	-30,647
	-323,793	-265,705

Notes to the consolidated financial statements

Thousand Litas		2013	2012
3	**Other operating income**		
	Income from sales of materials	79	91
	Other	1,362	1,004
		1,441	1,095
4	**Other operating expenses**		
	Cost of sold materials	-226	-61
	Other	-31	-280
		-257	-341
5	**Distribution expenses**		
	Logistics and transportation	-8,473	-5,669
	Marketing and advertising	-4,946	-4,189
	Staff costs	-1,812	-1,747
	Depreciation	-222	-184
	Other sales expenses	-1,856	-1,010
		-17,309	-12,799
6	**Administrative expenses**		
	Staff costs (including vacation reserve)	-3,677	-4,020
	Depreciation and amortization	-404	-515
	Security	-371	-326
	Veterinary services	-359	-350
	Taxes except for income tax	-248	-121
	Bank charges	-185	-150
	Fuel	-173	-86
	Penalties	-159	-259
	Bonuses to Board members	-150	-150
	Repair	-140	-55
	Security commission services	-87	-87
	Membership fee	-79	-73
	Insurance	-45	-64
	Consultations	-28	-164
	Part of production overheads during temporary shut-down	-	-576
	Other	-2,100	-1,797
		-8,205	-8,793

Notes to the consolidated financial statements

Thousand Litas	2013	2012
7 Net financing costs		
Financing income		
Interest	33	80
Penalties and fines	66	30
Other	1	0
Total financing income	100	110
Financing costs		
Interest	-1,804	-2,012
Loss from foreign exchange	-264	-241
Other	-134	-170
Total financing costs	-2,202	-2,423
	-2,102	-2,313

8 Income tax expense

Thousand Litas	2013	2012
Recognized in the income statement		
Current income tax expense		
Current period	-	-
Deferred tax		
Change in deferred tax	-1,198	772
	-1,198	772

Thousand Litas

Reconciliation of effective tax rate

Thousand Litas		2013		2012
Profit for the year		13,009		7,675
Total income tax expense		1,198		-772
Profit before income tax		14,207		6,903
Income tax applying the effective tax rate	15.00%	2,131	15.00%	1,035
Non-taxable result of subsidiary AB Kelmės Pieninė due to the social company status	*-8,55%*	-1,215	*-32.28%*	-2,228
Permanent differences	*1,98%*	282	*6.1%*	421
Income tax expense	8,43%	1,198	-11.18%	-772

Notes to the consolidated financial statements

9 Earnings per share

	2013	2012
Number of issued shares calculated based on weighted average method, in thousand units	11,943	11,943
Net profit, attributable to ordinary shareholders of the Parent Company, in thousand Litas	12,949	7,564
Basic earnings per share, in Litas	1.08	0.63

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

10 Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2012	31,086	63,021	13,669	4,033	111,809
Acquisitions	389	8,055	285	20,903	29,632
Disposals	-	-3,333	-448	-	-3,781
Reclassification	2,689	20,908	-4,352	-19,245	-
Balance as at 31 December 2012	34,164	88,651	9,154	5,691	137,660
Balance as at 1 January 2013	34,164	88,651	9,154	5,691	137,660
Acquisitions	655	2,584	580	9,665	13,484
Disposals	-7	-2,470	-215	-	-2,692
Reclassification	830	2,258	202	-3,290	-
Balance as at 31 December 2013	35,642	91,023	9,721	12,066	148,452
Depreciation and impairment					
Balance as at 1 January 2012	7,083	24,199	8,183	-	39,465
Depreciation for the year	1,183	5,901	699	-	7,783
Disposals	-	-3,074	-441	-	-3,515
Reclassification	1,059	1,636	-2,695	-	-
Balance as at 31 December 2012	9,325	28,662	5,746	-	43,733
Balance as at 1 January 2013	9,325	28,662	5,746	-	43,733
Depreciation for the year	1,137	7,275	728	-	9,140
Disposals	-7	-1,758	-149	-	-1,914
Reclassification	-	-	-	-	-
Balance as at 31 December 2013	10,455	34,179	6,325	-	50,959
Carrying amounts					
1 January 2012	24,003	38,822	5,486	4,033	72,344
31 December 2012	24,839	59,989	3,408	5,691	93,927
31 December 2013	25,187	56,844	3,396	12,066	97,493

Prepayments for property, plant and equipment are classified as acquisitions of property, plant and equipment.

Notes to the consolidated financial statements

10 Property, plant and equipment (cont'd)

Pledges

To secure the bank loans, the Group has pledged its property, plant and equipment with a book value of 58,194 thousand LTL as at 31 December 2013 (2012: 49,982 thousand LTL) (note 18).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 18,472 thousand LTL as at 31 December 2013 (2012:14,158 thousand LTL).

Vehicles under finance lease contracts

The Group has acquired several transport vehicles, plant and equipment under finance lease arrangements. The carrying amount of the leased assets amounted to 2,918 thousand LTL as at 31 December 2013 (2012: 3,165 thousand LTL).

Depreciation

Depreciation is provided for in the following items:

Thousand Litas	**2013**	**2012**
Cost of finished goods	8,513	7,218
Other operating costs	-	-
Distribution and administrative expenses	627	565
	9,140	7,783

Valuation of buildings

Buildings are recognized at revalued amounts, less accumulated depreciation and impairment losses. The last external valuation of the buildings was performed in December 2010.

The fair value of the buildings is attributed to level 3 according to the fair value hierarchy. The valuation method used by an independent valuer - a comparative value and replacement method and their combination.

As to the management, during 2010-2013 there were no significant changes in the real estate market and the management is of the opinion that there was no need to perform an evaluation of the buildings at the end of 2013 and to make any adjustments to the value of the buildings presented in the consolidated financial statements for 2013.

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2013 would be 10,106 thousand LTL (the restated value – 17,419 thousand LTL) (at 31 December 2012: 9,770 thousand LTL, the restated value – 17,500 thousand LTL).

The revaluation reserve is decreased by an amount of deferred tax and the net value of the mentioned reserve as at 31 December 2013 amounts to 6,216 thousand LTL (at 31 December 2012 :6,570 thousand LTL).

Notes to the consolidated financial statements

11 Intangible assets

Thousand Litas	Goodwill	Software	Total
Cost			
Balance as at 1 January 2012	23,875	1,626	25,501
Acquisitions	-	7	7
Disposals	-	-	-
Balance as at 31 December 2012	23,875	1,633	25,508
Balance as at 1 January 2013	23,875	1,633	25,508
Acquisitions	-	49	49
Disposals	-	-	-
Balance as at 31 December 2013	23,875	1,682	25,557
Amortization and impairment			
Balance as at 1 January 2012	-	1,491	1,491
Amortization for the year	-	138	138
Disposals	-	-	-
Balance as at 31 December 2012	-	1,629	1,629
Balance as at 1 January 2013	-	1,629	1,629
Amortization for the year	-	6	6
Disposals	-	-	-
Balance as at 31 December 2013	-	1,635	1,635
Carrying amounts			
1 January 2012	23,875	135	24,010
31 December 2012	23,875	4	23,879
31 December 2013	23,875	47	23,922

Amortization charge for the year is included in administrative expenses.

Recoverable amount of cash generating units to which goodwill is assigned

Goodwill resulting from business combination is attributable mainly to synergy, which was reached after integration of the acquisitions in the Group‘s activity of dairy goods production.

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

Thousand Litas	**31-12-2013**	**31-12-2012**
AB Kelmės Pieninė	22,842	22,842
AB Modest	1,033	1,033
	23,875	23,875

An impairment test of these cash generating units was performed when calculating their recoverable value. For assessment of the value in use, the estimated future cash flows were discounted to their present value applying the pre-tax rate of the average weighted cost of capital in the industry which

Notes to the consolidated financial statements

11 Intangible assets (cont'd)

Recoverable amount of cash generating units to which goodwill is assigned **(cont'd)**

equalled to 9.34% (2012: 8.89%). If not stated otherwise, the same estimation of the value in use in 2013 was done for 2012. The main assumptions used for the calculation are as follows::

- The future cash flows have been calculated based on historical experience and the business plan for 5 years. The cash flows expected during the remaining useful life of the machinery and equipment have been calculated by extrapolating the cash flow of the 5th year with a 5 percent growth rate.
- The Group's management is planning to strengthen marketing and increase export sales;
- The Group's management expects that the prices for raw milk will not differ significantly from the prices in 2013;

Value in use calculated based on these assumptions was higher than the carrying amount of related assets. Therefore, no impairment loss was recognised in the financial statements.

12 Non-current receivables

Thousand Litas	Note	**31-12-2013**	**31-12-2012**
Prepayments to related parties	25	842	842
Loans granted to related parties	25	426	522
Non-current receivables from farmers		355	29
Other		55	2
		1,678	1,395

A prepayment (842 thousand LTL) is made to a related company ŪKB Šilgaliai. I The prepayment must be fully covered by 31 December 2015. The outstanding balance of the prepayment is subject to administration fee.

The loan (351 thousand LTL) issued to a related party ŪKB Šilgaliai, matures on 31 December 2017. The outstanding balance of the loan bears a fixed interest rate (6%).

The loan (75 thousand LTL) was issued on 27 March 2012 to a related party ŪKB Šilgaliai, and matures on 30 May 2015. The outstanding balance of the loan is subject to fixed interest(5%).

Non-current receivables from farmers include prepayments to farmers for milk. The outstanding balance of the prepayments bears an administrative fee.

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

Notes to the consolidated financial statements

13 Inventories

Thousand Litas	31-12-2013	31-12-2012
Finished production	22,536	17,358
	22,536	17,358
Raw materials	182	178
Other auxiliary materials	6,709	5,935
Production in progress	749	466
Goods for re-sale	3	32
	30,179	23,969

Raw materials include milk and other materials used in production.

As at 31 December 2013, revaluation of inventories (tare) to net realisable value amounts to 33 thousand LTL (at 31 December 2012 : 43 thousand LTL). Write-off to net realisable value and reversal of the revaluation is accounted in administrative costs.

As at 31 December 2013 the inventories with the carrying amount of up to 19,1 million LTL (2012 : up to 14 million LTL) have been pledged to financial institutions (note 18).

14 Trade and other receivables

Thousand Litas	Note	31-12-2013	31-12-2012
Trade receivables		21,603	13,936
Loans issued to related parties, including calculated interest	25	513	531
Other receivable		184	155
Financial assets		22,300	14,622
Taxes receivable (excluding income tax)		3,213	2,102
Other receivable		3,213	2,102
Total trade and other receivables		25,513	16,724

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

Taxes receivable mainly include receivable VAT.

Trade and other receivable amounts are interest free and their settlement term is up to 30 days.

The receivable with the carrying amount of not less than 280 thousand LTL due from the trade network of UAB Rimi Lietuva, has been pledged to Nordea Bank (as at 31 December 2013 the pledged amount is 457 thousand LTL).

The receivable of 513 thousand LTL is due from the related party ŪKB Šilgaliai. The amount includes a loan (repayment deadline – 31 December 2014) which bears a fixed interest rate, the calculated amount of receivable interest and an administrative fee for prepayments.

Notes to the consolidated financial statements

15 Prepayments

Thousand Litas	Note	31-12-2013	31-12-2012
Prepayments	a)	1,780	861
Prepayments to related parties	25	485	545
		2,265	1,406

a) Prepayments include amounts prepaid to suppliers for goods and services and to farmers for raw milk.

16 Cash and cash equivalents

Thousand Litas	31-12-2013	31-12-2012
Cash at bank	92	742
Cash on hand	149	138
	241	880

All account balances as at 31 December 2013 have been pledged to secure the bank loans (note 18). Furthermore, cash inflows in the bank accounts are pledged to secure the bank loans (note 18).

The interest rate risk of the Group, related to cash and cash equivalents, is disclosed in note 26.

17 Capital and reserves

Authorized capital of the Parent Company as at 31 December 2013 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

According to the Law on Companies, holders of ordinary shares have at the shareholders meeting one voting right for one share and the right to dividends, which are declared from time to time, and to participate in capital on a winding up.

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. According to law, the reserve can be used only to cover the retained losses.

Share premium

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

Revaluation reserve

Revaluation reserve is related to revaluation of buildings and is stated net of deferred tax. The reserve is decreased annually for the depreciation in respect to revalued buildings and disposal of revalued assets. The decrease is recognized directly in equity.

Notes to the consolidated financial statements

17 Capital and reserves (cont'd)

Revaluation reserve (cont'd)

When depreciating the revalued buildings, a transfer is made from the revaluation reserve to retained earnings. The amount for transfer is determined as a difference between depreciation, calculated from the restated value, and depreciation, calculated from the initial cost of the buildings.

The revaluation reserve can be used for an increase of authorized capital.

Hedging reserve

As at 31 December 2013 the hedging reserve comprises the effective part of the fair value of the derivative financial instrument in relation to hedging against interest rate fluctuations.

Reserve for acquiring own shares

The extraordinary shareholders meeting, dated 5 November 2011, decided to acquire up to 10 % of own shares. Based on this decision, a reserve for acquiring of own shares amounting to 5,768 was established. In 2013 the reserve was increased by 203 thousand LTL.

According to the Lithuanian legislation, the reserve will be retained for as long as the Group acquires own shares.

In the years 2013 and 2012 the Group did not acquire own shares.

18 Interest bearing loans and finance lease liabilities

The Group's interest bearing loans and finance lease liabilities are as follows:

Credit institution	Ref.	Currency	Contracted amount, tLTL	Balance at 31-12-2013	Balance at 31-12-2012
Bank loan	a)	EUR	6,284	2,629	3,257
Bank loan	b)	EUR	3,459	1,730	2,162
Bank loan	c)	EUR	5,870	3,749	-
Bank loan	d)	EUR	6,300	1,978	2,797
Bank loan	e)	EUR	9,205	6,928	1,250
Bank credit facility	f)	EUR	6,906	4,170	616
Bank loan	g)	EUR	11,999	-	6,940
Bank credit facility	h)	LTL	3,000	2,894	2,480
Bank loan	i)	EUR	6,319	1,362	1,925
Bank loan	j)	EUR	12,603	7,508	9,176
Bank loan	k)	LTL	3,000	1,673	-
Bank loan	l)	EUR	10,773	7,146	7,555
Bank loan	m)	EUR	3,588	2,675	3,498
Bank	n)	LTL	6,450	3,000	3,449
Factoring	o)	EUR		666	358
Bank loan	p)	LTL	2,969	2,271	2,969
Bank loan	r)	EUR	6,008	3,182	4,595
Financial lease liabilities	s)	EUR		949	678
Total liabilities				54,510	53,705
Less: current part				-25,826	-17,950
Payable after one year				28,684	35,755

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

a) The loan (1,820 thousand EUR) was granted on 28 April 2008 to AB Vilkyškių Pienine for acquisition of AB Kelmės Pieninė. Repayment started on 30 June 2008, and is performed in equal quarterly instalments, the final settlement term being 27 April 2015. The determined interest rate is related to 6 months EURIBOR + margin.

b) The loan (1,002 thousand EUR) was granted to the Group on 21 April 2008 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan started as of 31 March 2010, in equal quarterly instalments and ends on 31 April 2015. The loan is secured by pledging the buildings and equipment with a subsequent pledge, and the acquired equipment with the original pledge. The contractual interest rate is 6 months EURLIBOR + margin.

c) The loan (1,700 thousand EUR) was granted to AB Vilkyškių Pienine on 15 March 2013 to finance the investments during 2013-2014. The repayments will start from March 2014 and will be performed on a monthly basis, except January and February, in equal instalments until 15 March 2018. The loan is secured by pledging the buildings and equipment with a subsequent pledge, and the acquired equipment with the original pledge, current and future inflows in the bank account. The determined interest rate is 3 months EURIBOR + margin.

d) The loan was granted to AB Vilkyškių Pienine (1,825 thousand EUR) on 28 April 2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan started as of 30 September 2008 in equal annual instalments until 31 May 2016. The loan is secured by pledging inventories, equipment, current and future cash inflows to bank account, as well as 50 per cent of the shares of AB Kelmės Pieninė. The contractual interest rate is 6 months EURIBOR + margin.

e) On 8 August 2012 AB Kelmės Pienine received a loan (1,160 thousand EUR) for financing of investments. During the current year, the loan was increased to (2,666 thousand EUR) because of the consolidation with loan (g) . The repayment started as of February 2013 and will end in August 2015 making quarterly instalments. The loan is secured by pledging the buildings, equipment and inventories. The determined interest rate is related to 6 months EURIBOR + margin.

f) On 12 September 2012 AB Vilkyškių Pienine was granted a credit limit of 2,000 thousand EUR for working capital needs. The credit limit matures on 22 May 2014 and is secured by pledging not movable assets and property, plant and equipment by secondary pledge. The determined interest rate is related to 1 month EURLIBOR + margin.

g) A loan (3,475 thousand EUR) has been issued to AB Kelmės Pieninė for working capital needs. The repayment in quarterly instalments started in October 2009 and ends in December 2015. The loan is secured by pledging the buildings, equipment, current and future cash balances and inventories. The contractual interest rate is 6 months LIBOR + margin. During the current year the loan was merged with another loan of AB Kelmės Pieninė (refer to point „e").

h) On 8 June 2012 AB Kelmės Pienine was granted an overdraft of 3,000 thousand LTL for working capital needs. The loan matures on 8 October 2014. The annual interest rate is related to 3 months VILIBOR + margin. The loan is secured by pledging non-current assets, the right of land lease, account balances and inventories.

i) On 10 May 2011 AB Vilkyškių Pienine was granted a loan (1,830 thousand EUR) for financing investments. The repayment is performed by monthly instalments from May 2012 and will end on May 2016. The loan is secured by pledging the buildings and equipment with subsequent pledge and the acquired equipment with original pledge, as well as by pledging the current and the future cash inflows in all currencies. The contractual interest rate relates to 1 month EURLIBOR + margin

j) On 21 June 2011 AB Vilkyškių Pienine was granted a loan (3,650 thousand LTL) for financing investments. The repayment will start as of June 2012 making equal monthly instalments until June 2018. The loan is secured by pledging the buildings and equipment with subsequent pledge and the

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

acquired equipment with original pledge, as well as by pledging the current and the future cash inflows in all currencies. The contractual interest rate relates to 1 month EURLIBOR + margin.

k) On 14 June 2011 AB Vilkyškių Pienine was granted an overdraft of 3,000 thousand LTL for working capital needs. The credit facility is to be repaid by 30 April 2014. The loan is secured by pledging current and future inflows in bank accounts in all currencies. The contractual interest rate relates to one day VILIBOR + margin.

l) On 4 July 2012 AB Vilkyškių Pienine received a loan (3,120 thousand EUR) for financing of investments. The loan is to be repaid from June 2013 to July 2017 on a monthly basis, except for the months January and February). The loan is secured by pledging buildings and equipment with subsequent pledge and the acquired equipment with original pledge, as well as by pledging the current and the future cash inflows in all currencies. The contractual interest rate relates to 3 months EURLIBOR + margin.

m) On 23 February 2012 AB Vilkyškių Pienine was granted a loan (1,039 thousand EUR) for re-financing of loan from the bank Snoras. The repayment is to start from February 2013 and until February 2017 making monthly instalments. The loan is secured by pledged equipment and current and future cash inflows in all currencies. The determined interest rate is 1 month EURIBOR + margin.

n) On 17 April 2012 an overdraft of 6,450 thousand LTL was granted to AB Vilkyškių Pienine for working capital needs. The repayment deadline is 31 March 2014. The outstanding balance bears annual interest rate of 1 week VILIBOR + margin. The loan is secured by pledging receivables, the current and future cash inflows in all currencies.

o) On 14 May 2012 AB Vilkyškių Pienine was granted a factoring limit of 300 thousand EUR. The determined interest rate is 1 week EURIBOR + margin.

p) A loan (860 thousand EUR) received by AB Modest from the bankrupt AB Bankas Snoras was refinanced on 23 February 2012. The repayment started from February 2013 by making equal quarterly instalments, and will end on 23 February 2017. The loan is secured by pledged equipment and current and future cash inflows in all currencies. The determined interest rate is 1 month EURIBOR + margin.

r) On 20 January 2011 AB Modest received a loan (1,740 thousand EUR) for working capital needs. The repayment started from 20 January 2012 and will end on 20 January 2016. The loan is being repaid making equal quarterly instalments. The loan is secured by pledged buildings as well as current and future cash inflows on accounts. The determined interest rate is 1 month EURIBOR + margin.

s) Finance lease agreements are signed with finance lease companies. The last agreement matures in November 2017.

According to loan agreements signed with banks, the Group is committed to maintain certain ratios of financial debt and EBITDA, loan coverage, equity and other financial ratios. The mentioned ratios are calculated based on the data presented in consolidated financial statements.

As at 31 December 2013, the Group did not comply with the current credit ratio as prescribed in the loan agreement with a bank. On 13 March 2014 the Group received a bank letter stating that no sanctions will be imposed nor early repayment of the loan will be required for the mentioned violation. According to the letter, the Group complies with the loan covenants. However, if the Group followed the classification criteria as to IAS 1, the outstanding loan balance of 13,774 thousand LTL as at 31 December 2013 would be attributed to current liabilities.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

Loan repayment schedules, except for finance lease liabilities:

Thousand Litas	2013	2012
Within one year	25,431	17,561
From 1 to 5 years	28,130	34,632
After 5 years		834
	53,561	53,027

Finance lease liabilities

The finance lease is paid as follows:

Within 1 year	395	389
From 1 to 5 years	554	289
	949	678

The financial lease agreements do not anticipate any contingent lease payments.

Interest rate on leasing liabilities is variable and relates to EUR LIBOR (6 or 12 months) + margin.

19 Government grants

Thousand Litas	31-12-2013	31-12-2012
Carrying amount at the beginning of the period	12,564	7,842
Grants received	-	5,854
Amortization recognized in the income statement	-1,232	-1,052
Retirement of grants due to disposal of assets	-128	-80
Carrying amount at the end of the period	11,204	12,564

The Group has received support from the EU Structural funds under the Lithuanian Rural Development Programme for 2004-2006 and from the National Settlement Agency under the Ministry of Agriculture for Rural Development Programme for 2007-2013. The support was received for acquisition of property, plant and equipment. The support is amortised in proportion to depreciation of the assets concerned.

In 2013 a new agreement was signed with the National Settlement Agency under the Ministry of Agriculture on support of the project "Modernisation of the milk processing company" by an amount of 400 thousand LTL. The planned acquisitions include cheese cutting equipment and containers of dairy products. The project will be implemented in 2014.

Notes to the consolidated financial statements

20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate as at 31 December 2013 (31 December 2012: 15%), are attributed to the following items:

	Assets		**Liabilities**		**Net value**	
Thousand Litas	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Property, plant and equipment		-	4,176	3,767	4,176	3,767
Vacation reserve	-206	-210	-	-	-206	-210
Inventories	-2	-4	-	-	-2	-4
Government grants	-516	-429	-	-	-516	-429
Tax losses to be carried forward	-394	-1,262	-	-	-394	-1,262
Deferred tax (asset) / liabilities	-1,118	-1,905	4,176	3,767	3,058	1,862

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carry forward is lost if the Company changes its activities due to which these losses were incurred, except for cases, when activities are terminated due to reasons which do not depend on the Company itself. The Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the amount of tax losses to be carried forward shall not be larger than 70% of income for the taxable period, calculated by deducting non-taxable income, allowed deductions and limited allowed deductions, except for losses of the previous taxable periods.

An increase in the deferred tax liability of 1,198 thousand LTL was recognized in the income statement.

21 Trade and other payable amounts

Thousand Litas	Note	**31-12-2013**	**31-12-2012**
Trade payables	26	34,759	26,721
Employment related liabilities		4,053	4,025
Prepayments received		368	372
Payable dividends		268	268
Other payable amounts and accrued expenses		426	519
		39,874	31,905

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 26.

22 Derivative financial instruments

Thousand Litas	**31-12-2013**	**31-12-2012**
Interest rate swap transaction to hedge against cash flow fluctuations (non-current part)	1,207	1,707
Interest rate swap transaction to hedge against cash flow fluctuations (current part)	358	436
	1,565	**2,143**

Notes to the consolidated financial statements

22 Derivative financial instruments (cont'd)

Derivatives are stated at fair value. As at 31 December 2013 the Company had three interest rate swap transactions with a bank relating to loans amounting to 1,830 thousand EUR, 3,900 thousand EUR and 2,317 thousand EUR. The loans are subject to variable interest rates related to 3 or 6 months EURIBOR+ margin. The Company expects some volatility of cash flows related to future interest payments, based on 3 and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with a bank where fixed interest on loans has been swapped for the variable interest:

- The Company pays fixed interest on the loan of 1,830 thousand EUR and receives a variable interest rate equal to 3 months EURIBOR.
- The Company pays fixed interest on the loan of 3,900 thousand EUR and receives a variable interest rate equal to 6 months EURIBOR.
- The Company pays fixed interest on the loan of 2,317 thousand EUR and receives a variable interest rate of 3 months EURIBOR.

The above hedging instruments were evaluated as being effective.

The liquidity risk related to derivative financial instruments is disclosed in note 26.

23 Contingencies and commitments

Material contractual liabilities as at 31 December 2013 were as follows:

Thousand Litas	**2013**	**2012**
Acquisition of property, plant and equipment	2,006	2,350
Purchase of raw materials	13,874	10,595
	15,880	12,945

Assets pledged as at 31 December 2013 to secure the bank loans (note 18):

- Current and future cash inflows in the accounts at different banks;
- Property, plant and equipment with the carrying amount of 58,191 thousand LTL;
- Inventories with the market value of 19,1 million LTL.
- Receivable from the trading network "Rimi".
- Sub-lease right of the state land.

24 Staff costs

Thousand Litas	**2013**	**2012**
Staff costs are included in the following items:		
Cost of sales/inventories	22,072	19,886
Distribution and administrative costs	5,618	5,732
	27,690	25,618

Cost of inventories is accounted for in the cost of sales when inventories are sold.

Notes to the consolidated financial statements

24 Staff costs (cont'd)

Staff costs include social security tax 30.98% calculated from the nominal salaries, paid by the Group.

During the year 2013, the staff costs were subsidised by 1,311 thousand LTL.

Staff costs include remuneration to the Group's management of 1,399 thousand LTL, including social security contributions (2012: 1,258 thousand LTL).

25 Transactions with related parties

Thousand Litas	Note	**2013**	**2012**
Receivable amounts			
Prepayments			
ŪKB Šilgaliai (non-current assets)	12	842	842
ŪKB Šilgaliai (current assets)	15	485	351
		1,327	1,193
Loans granted, including interest			
ŪKB Šilgaliai	12, 14	939	1,231
Current loan to the management	14	-	280
		939	1,511
		2,266	**2,704**
Interest income			
ŪKB Šilgaliai		33	31
		33	**31**
Sale of raw materials, goods and services			
ŪKB Šilgaliai		1	1
		1	**1**
Purchase of raw materials, goods and services			
ŪKB Šilgaliai		2,489	1,068
		2,489	**1,068**

ŪKB Šilgaliai is a supplier of raw milk. The major shareholder of the Company and persons related to him are participants of ŪKB Šilgaliai.

Notes to the consolidated financial statements

26 Financial instruments and risk management

Credit risk

The carrying amounts of financial assets show the maximum credit risk, which at the reporting date was as follows:

Thousand Litas	Note	Carrying amount 31-12-2013	31-12-2012
Non-current receivable amounts	12	1,678	1,395
Trade and other receivables (excl. taxes)	14	22,300	14,622
Cash and cash equivalents	16	241	880
		24,219	16,897

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

Thousand Litas	Carrying amount 31-12-2013	31-12-2012
Lithuania	8,863	8,356
Latvia	4,644	2,658
Poland	3,288	966
Germany	2,012	113
Portugal	1,234	-
Estonia	391	605
Russia	182	537
Other	989	701
	21,603	13,936

As at 31 December 2013 a significant credit risk concentration is related to three customers, the receivables from which account for 39% of all trade receivables.

Impairment losses

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Impairment losses (cont'd)

Ageing of trade and other receivables, prepayments and non-current receivables as at the reporting date can be specified as follows:

Thousand Litas	Gross 31 December 2013	Impairment 31 December 2013	Gross 31 December 2012	Impairment 31 December 2012
Related parties:				
Not past due	2,162	-	2,199	-
Past due 0-30 days	2	-	3	-
Past due 31-60 days	3	-	3	-
More than 60 days	99	-	235	-
	2,266	-	2,440	-
Other parties:				
Not past due	21,256	-	15,566	-
Past due 0-30 days	5,555	-	1,286	-
Past due 31-60 days	162	-	80	-
More than 60 days	495	-278	431	-278
	27,468	-278	17,363	-278
	29,734	**-278**	**19,803**	**-278**

The impairment losses in relation to trade and other receivable amounts as at 31 December 2013 amount to 278 thousand LTL (2012: 278 thousand LTL).

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Thousand Litas	Carrying amount 2013	2012
Balance as at 1 January	-278	-338
Impairment loss recognized	-	-
Write down of doubtful receivable	-	60
Recovered impairment losses	-	-
Balance as at 31 December	-278	-278

There was no movement in the impairment and recovery of impairment losses during 2013.

Based on payment history and extensive analysis of customers' solvency, the Management of the Group believes that the amounts which past due more than 30 days are not impaired.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities, including the estimated interest payments:

31 December 2013

Thousand Litas	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank loans	52,895	(56,992)	(15,814)	(10,652)	(17,202)	(13,324)
Finance lease liabilities	949	(1,010)	(260)	(161)	(272)	(317)
Factoring	666	(687)	(687)			
Derivatives	1,565	(1,565)	(215)	(215)	(359)	(776)
Trade payables	34,759	(34,759)	(34,759)	-	-	-
	90,834	(94,003)	(51,735)	(11,028)	(17,833)	(14,417)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. In 2014 the Group is planning to negotiate with the banks on new maturity dates for the overdrafts and credit lines. The Company also expects to earn a sufficient cash flow from ordinary activity to cover the current liabilities.

31 December 2012

Thousand Litas	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank loans	52,669	(57,559)	(11,995)	(6,978)	(12,947)	(25,639)
Finance lease liabilities	678	(712)	(248)	(159)	(184)	(121)
Factoring	358	(365)	(365)			
Derivatives	2,143	(2,143)	(261)	(261)	(436)	(1,185)
Trade payables	34,759	(34,759)	(34,759)	-	-	-
	(90,607)	(95,538)	(47,628)	(7,398)	(13,567)	(26,945)

The following interest rates were applied to discount the estimated cash flows:

	2013	**2012**
Loans and finance lease liabilities	1.7% - 3.5%	1.5% - 3.5%

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Currency risk

The Company's currency risk (in thousand Litas), applying the exchange rates as at 31 December 2013, was as follows:

	31 December 2013				31 December 2012			
	LTL	EUR	LVL	RUB	LTL	EUR	LVL	RUB
Long-term receivables	1,678	-	-	-	1,395	-	-	-
Trade and other receivables (excl. taxes)	9,136	13,164	-	-	7,204	6,357	1,061	-
Cash and cash equivalents	223	18	-	-	691	189	-	-
Loans and finance lease liabilities	(7,567)	(46,943)	-	-	(5,929)	(47,776)		
Derivative financial instrument	-	(1,565)	-	-	-	(2,143)		
Trade payables	(24,499)	(10,260)	-	-	(30,011)	(4,716)	(12)	(20)
Net exposure	(21,029)	(45,586)	-	-	(26,650)	(48,089)	1,049	(20)

During the year the following exchange rates against Litas were applied:

	Average	
	2013	2012
EUR	3.4528	3.4528
LVL	4.9228	4.9518

The following exchange rates were applied as at 31 December:

	2013	2012
EUR	3.4528	3.4528
LVL	4.9184	4.9520

Sensitivity analysis

The functional currency of the Group is Litas (LTL). As the exchange rate of LTL to EUR is fixed at 3.4528 LTL / EUR, the Group a faces foreign currency risk on purchases and sales that are denominated in currencies other than EUR. The main part of the Group's transactions in 2013 year are denominated in LTL and EUR, therefore the Group did not expose to significant foreign currency exchange risk.

Interest rate risk

The Group's borrowings bear variable interest rates related to EURIBOR/LIBOR + margin.

The Group has entered into three interest rate swap agreements with a bank, by which it partially hedges its exposure to interest rate fluctuations. The fair value of the interest rate swap agreements, amounting to 1,565 thousand LTL (2012: 2,143 thousand LTL) is included in derivative financial instruments.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Interest rate risk (cont'd)

As at 31 December the interest rate profile of the Group's interest-bearing financial instruments was as follows:

Thousand Litas	Carrying amount 31-12-2013	Carrying amount 31-12-2012
Fixed rate financial instruments		
Non-current part of loans granted	43	144
Current part of loans granted	426	522
	469	**666**

Thousand Litas	Carrying amount 31-12-2013	Carrying amount 31-12-2012
Variable rate financial instruments		
Bank loans	(53,561)	(53,027)
Financial lease liabilities	(949)	(678)
	(54,510)	(53,705)
	54,041	**53,039**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

Effect in thousand Litas	Profit (loss) 100 bp increase	Profit (loss) 100 bp decrease
31 December 2013		
Variable rate instruments	(540)	540
31 December 2012		
Variable rate instruments	(530)	530

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. Data directly observed in the market reflect the market information gathered from external sources; the data not directly observed in the market reflect the market valuation by the Group's management. These two types of data determine the following fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level valuation is used for listed equity securities quoted on stock exchange (e.g. National Stock Exchange, Stock Exchange of London, Stock Exchange of Frankfurt).
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Lever 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group valuates its assets and liabilities based on the fair value hierarchy principles prescribed in Level 3, where the expected discounted cash flow is determined. The effective discount rate is based on financing costs of investments into these companies.

As at 31 December 2013
Thousand Litas

	Level 1	Level 2	Level 3	Total
Non-current receivables	-	-	-	-
Trade and other receivables	-	-	-	-
Cash and cash equivalents	-	-	-	-
Loans and financial lease liabilities	-	-	-	-
Derivative financial instruments		(1,565)	-	(1,565)
Trade and other payables	-	-	-	-
	-	(1,565)	-	(1,565)

As at 31 December 2012
Thousand Litas

	Level 1	Level 2	Level 3	Total
Non-current receivables	-	-	-	-
Trade and other receivables	-	-	-	-
Cash and cash equivalents	-	-	-	-
Loans and financial lease liabilities	-	-	-	-
Derivative financial instruments	-	(2,143)	-	(2,143)
Trade and other payables	-	-	-	-
	-	(2,143)	-	(2,143)

Price risk

Prices of milk and dairy products vary depending on a situation in the market. The Group seeks to minimize an impact of such price fluctuations by diversifying production and striving for scale economy.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Capital management

The Board's policy is to maintain a strong capital base, in comparison with the borrowed means, so as to maintain investor, creditor and market confidence, to sustain future development of the business and to comply with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

The Group is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

The Group is obligated to keep to capital requirements set externally by banks. The requirement is that the ratio (equity– revaluation reserve) / (total assets) is not lower than 0.3. The management controls that the Group complies with the requirements.

27 Fair value of financial instruments

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.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level valuation is used for listed equity securities quoted on stock exchange (e.g. National Stock Exchange, Stock Exchange of London, Stock Exchange of Frankfurt).
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Lever 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group valuates its assets and liabilities based on the fair value hierarchy principles prescribed in Level 3, where the expected discounted cash flow is determined. The effective discount rate is based on financing costs of investments into these companies.

When determining the fair value of the financial instruments, the Group uses the following methods and assumptions:

Cash

Cash are funds that are valued at fair value.

Receivable amounts and term deposits

The fair value of trade and other receivables and term deposits is estimated at the present value of future cash flows, discounted at the market interest rate at the reporting date. Fair value of trade and other receivables of a shorter than six months duration with no stated interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant. Fair value is determined for disclosure purposes.

Notes to the consolidated financial statements

27 Fair value of financial instruments(cont'd)

Financial liabilities

Fair value, determined for disclosure purposes, is calculated based on the present value of the future principal and interest rate cash flows, discounted applying the market interest rate at the reporting date. The market interest rate on financial loan is determined based on the similar loan agreements.

Fair value of financial liabilities with shorter duration and no determined interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant.

The Group has no financial assets and financial liabilities accounted at fair value.

Financial instruments not stated at fair value

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

Financial instruments stated at fair value

Financial instruments stated at fair value as at 31 December 2013 include derivative financial instruments

28 Subsequent events

In April 2013, AB Nordea Bank granted an overdraft of 6,450 thousand LTL to AB Vilkyškių Pieninė for working capital needs. The deadline of the credit facility is 31 March 2014. As at the reporting date, the Company has agreed with the bank on extension of the repayment deadline till 31 March 2015. The agreement was signed on 31 March 2014.

There have been no other significant events subsequent to the end of the reporting period that could materially affect the consolidated financial statements as at and for the year ended 31 December 2013.

AB Vilkyškių Pieninė Consolidated annual report for 2013

I. Letter of the Director General G. Bertašius of Vilkyškių Pieninė AB to the Investors

Summing up the year 2013, I would like to note three most challenging factors that have affected the activities of the Company: raw materials (rising prices, tension among the farmers), pressure in the local and Baltic sales markets of dairy products and embargo for export to the Russian market. Fortunately, the embargo was not enforced on all the products. However, the tension due to such restrictions is being felt to this day. One can only speculate on how much time and how many investments will be needed in order to win back the customers' loyalty in Russia.

Implementation of the projects this year played a very important role. Vilkyškiai finished robotization of the cheese coating equipment, which guarantees a reliable plastic coating of cheese and has significantly increased efficiency. It is also worth mentioning the completion of the project related to expansion of the whey processing – now we are able to process in Vilkyškiai the production delivered by our colleagues from Kelme and Taurage. By the end of the year we finished also the second project related to whey processing – ultra filtration of whey, which is a quite new technology dividing the whey into ingredients. The result of the process is new and profitable products which increase the competitiveness of our company in the market. In the beginning of the year, we started operation of a new building in Vilkyškiai - an automated wash-house of vehicles. Automation ensures a higher sanitary level. In Taurage, we acquired the warehouses of the former ice-cream manufacturer „Baltoji snaigė", renovated them as to requirements and now use the premises for storing of finished goods. Also, we completed modernisation of the workshop for production of blue cheese in AB Modest. We have changed the shape of this cheese (from hexagonal into round), acquired various facilities for quality improvement of the products. All this enabled to increase the production volumes by 30 per cent. In Kelmės Pieninė we have introduced a new dispensing system Tetra Top, allowing to supply production not only in ordinary but also in 0.2 l or 0.33 l packs. The new Tetra Top packs allow the liquid dairy products retain their valuable properties and remain fresh for a longer time, and most importantly – they are very convenient for the user. Now the package is with a stopper and looks modern; the consumption opportunities have expanded – now the yogurt „Vilkyškių" is handy to drink not only at home, but also in a car, on the way to work, school or at work, etc. This modern and handy package has reached the user already in the beginning of the year.

A number of works have been realised that are important for the whole group. One of them, and perhaps the most important, is – production of hard cheese „Jubiliejinis1934". Preparations for the production started before three years. At that time the idea was that it was high time to start preparing for the company's anniversary (Vilkyškių Pieninė was established in 1934; and in 2014 we will celebrate the 80th anniversary). Besides, the company needed a type of cheese that would give a sense to Lithuanian Minor for cheese experience and history, for handicraft of the specialists of Vilkyškių Pieninė. We all came to a consensus that such a cheese had to be hard and long-aged, the characteristics of which would resemble quality Italian cheeses such as *Parmigiano Reggiano*ar *Gran Padano*. Our „Jubiliejinis1934" ripens for at least one year. Thus, the production of the cheese „Jubiliejinio 1934" started more than two years ago. It was introduced in the market at the end of November 2013.

It is a matter of time whether one more step of the dairy will be justified – opening of own brand store. We hope, that the only store of the company has great potential. We needed the new store not only for a trading place, but also as a place where one can evaluate new products and gain unique experience (we call it "a world of milky pleasures"). Customers of namely this store have the opportunity to try new products, and we – a unique opportunity to communicate directly with the user, to gather feedback and suggestions.

A huge achievement of AB Vilkyškių Pienine was the fact that we have been recognised as "The brand of the year". Such recognition requires voting of the commission which constitutes of different specialists. The competition was organised by „Verslo Žinios" together with the market research company „Nielsen". The award proves once more that the Vilkyškių Pieninė group is really a bright and non-standard market player having won both the consumer sympathy and the professional recognition. This rating lets us to feel even more confident and that we are on the right track.

At the end of July, Vilkyškių Pieninė celebrated its 20th anniversary. The company continues a tradition of being an active member of the community of Vilkyškiai and a sponsor. A beautiful and meaningful gift for the jubilee was the funds collected by the guests of the celebration for St. Anne's Church in Vilkyškiai. We proposed an idea to our Lithuanian and foreign guests – to collect money for furniture of the renovated church. The result of such a nice initiative - 40 thousand Litas!

So, Vilkyškių Pieninė, established on 18 May 1993 together with several like-minded persons, over 20 years have become a competitive, one of the most interesting and perspective dairy companies in the country. Today Vilkyškių Pieninė, together with its subsidiaries AB Modest and AB Kelmės Pieninė, sell only 1/3 of production in Lithuania, and the major part is exported. The products of Vilkyškių Pieninė and the brand name are well known in the Baltic and Scandinavian countries, Russia, Ukraine, Germany, Poland, Great Britain, the Balkans, the Czech Republic, Israel, Arabic countries, the USA and even in Singapore.

Sincerely,

Gintaras Bertašius

II. GENERAL INFORMATION ABOUT THE ISSUER

Accounting period for which the annual report has been prepared

The report has been prepared for the year 2013.

Acquaintance with statement and other documents

Acquaintance with statement and other documents, which have been used for the preparation of the statement, is possible at Vilkyskių Pieninė AB, the address of which is Vilkyskiai, Pagegiu municipality, on weekdays from 8.00 to 16.30, and on the internet site of Vilkyskiu pienine AB, the address of which is: http://www.vilkyskiu.lt/investuotojams.

Mass communication: daily newspaper "Lietuvos Žinios" (*The News of Lithuania*).

Persons responsible for information presented in this financial statement:

General Director of Vilkyškių Pieninė AB - Gintaras Bertašius, tel. (8 441) 55330, fax (8 441) 55242.
Finance Director of Vilkyškių Pieninė AB - Vilija Milaševičiutė, tel. (8 441) 55102, fax (8 441) 55242.

Key data about the Issuer

AB Vilkyškių Pieninė

Name of the Issue	Public Limited Liability Company Vilkyskiu pienine (hereinafter referred as to the Company or Issuer)
Authorized capital	11,943,000 LTL
Registered office	Vilkyškiai, Pagegiai municipality
Telephone number	8-441 55330
Fax number	8-441 55242
E-mail address	info@vilkyskiu.lt
Legal – organizational form	public limited company
Date and place of registration	The 10th of May 1993
Date and place of re-registration	The 30th of December 2005, Taurage Subsidiary of State Enterprise Center of Registers
Registration No.	060018
Code in the Register of Enterprises	277160980
Internet address	http://www.vilkyskiu.lt

AB Modest

Name of the subsidiary	Public limited company Modest (hereinafter –Modest AB)
Authorized capital	5,617,118 LTL
Registered office	Gaurės 23, Tauragė
Telephone number	8-446 72693
Fax number	8-446 72734
E-mail address	modest@vilkyskiu.lt
Legal – organizational form	Public Limited Liability Company
Date and place of registration	25 March 1992
Date and place of re-registration	31 December 2009, Taurage Subsidiary of State Enterprise Center of Registers
Registration No.	017745
Code in the Register of Enterprises	121313693
Internet address	http://www.vilkyskiu.lt

AB Kelmės Pieninė

Name of the subsidiary	Public Limited Liability Company (hereinafter – Kelmės pieninė AB)
Authorized capital	2 494 808 LTL
Registered office	Raseinių g. 2, LT-86160 Kelmė
Telephone number	8-427 61246
Fax number	8-427 61235
E-mail address	kelmespienine@vilkyskiu.lt
Legal – organizational form	Public limited company
Date and place of registration	3 August 1993, Siauliai Subsidiary of State Enterprise Center of Registers
Date and place of re-registration	2007-07-04 (issue of new registration certificate)
Registration No.	110109
Code in the Register of Enterprises	162403450
Internet address	http://www.vilkyskiu.lt

AB Pieno Logistika

Name of the subsidiary	Public Limited Liability Company Pieno Logistika (hereinafter – Pieno Logistika AB)
Authorized capital	371 333 Litas
Registered office	Pagojo g. 1, Pagojo km., Kelmė region
Telephone number	8-427 61246
Fax number	8-427 61235
E-mail address	stasys@cheese.lt
Legal – organizational form	Public limited company
Date and place of registration	10 December 2013 , Siauliai Subsidiary of State Enterprise Center of Registers
Code in the Register of Enterprises	303203457
Internet address	http://www.vilkyskiu.lt

Nature of the Issuer's core business

Core business of Vilkyskiu pienine AB is production of dairy products.

The Group of Companies also produces fermented cheese, melted cheese, curd, butter, sour cream, scalded cream and other fresh dairy products. The Company also processes whey.

Contracts with intermediaries of the public circulation of securities

Vilkyskiu pienine AB has entered into the contract of service with Financial Broker Company Orion Securities UAB (address: A. Tumeno street. 4, B corp., LT-01109, Vilnius) on the record of shareholders of Vilkyskiu pienine AB, Modest AB and Kelmes pienine AB. Record of the shareholders of AB Pieno logistika is carried out by AB FMĮ Finasta.

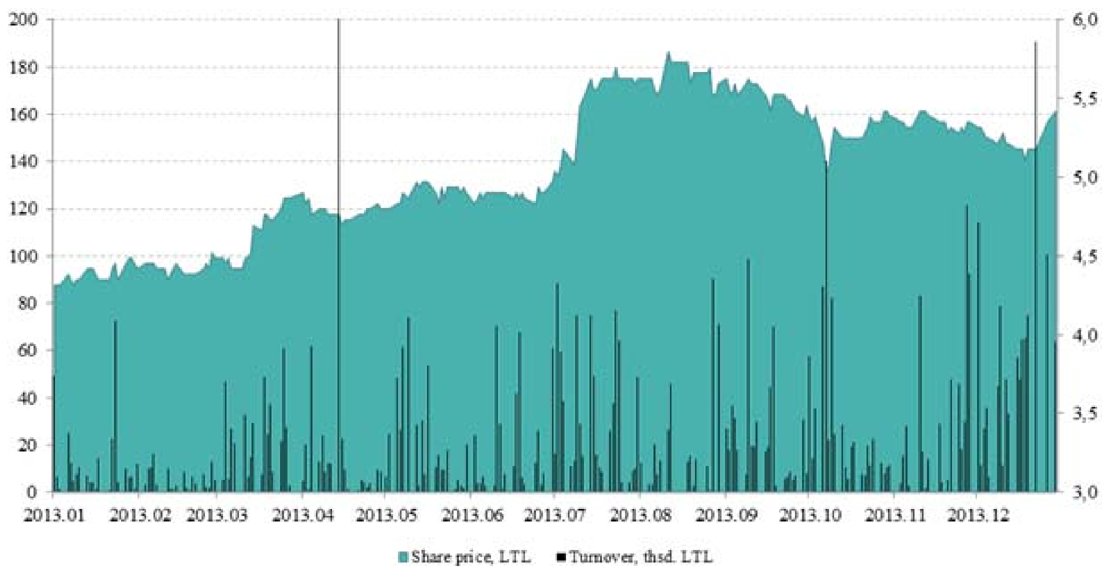
On the 15th of October 2007 Vilkyskiu pienine AB entered into the contract with Financial Broker Company Orion Securities UAB on the market making.

Trading in the Issuer's securities on the regulated markets

Trading in ordinary registered shares of Vilkyskiu pienine AB on Vilnius Stock Exchange:

Period		Price, Lt			Circulation, thous. Lt			Total circulation		Capitalisation, thous. Lt
From	To	Max	Min	Last	Max	Min	Last	units	thous. Lt.	
2006 05 17	2007 04 20	5.82	4.60	5.65	648	0	0	531	2,821	52,844
2007 01 01	2007 03 31	5.82	5.20	5.70	126	0	0	57	312	53,312
2007 04 01	2007 06 30	5.70	5.01	5.20	381	0	20	168	931	48,636
2007 07 01	2007 09 30	6.50	4.80	5.90	3,621	0	26	1,648	9,164	55,183
2007 10 01	2007 12 31	6.70	5.75	6.20	638	0	2	455	2,762	57,989
2008.01.01	2008.03.31	6.40	5.00	5.30	1,507	0	12	694	3,848	49,571
2008.04.01	2008.06.30	5.52	4.51	4.70	238	0	16	245	1,210	56,132

2008.07.01	2008.09.30	4.75	2.05	2.26	325	0	3	246	913	26,991
2008.10.01	2008.12.31	2.50	0.52	0.60	70	0	0	731	696	7,166
2009.01.01	2009.03.31	0.79	0.52	0.63	242	0	1	1,040	660	7,524
2009.04.01	2009.06.30	1.69	0.60	1.35	83	0	3	531	567	16,123
2009.07.01	2009.09.30	2.86	1.25	2.32	558	0	0	1,024	1,954	27,708
2009.10.01	2009.12.31	2.75	2.27	2.40	66	0	5	197	486	28,663
2010.01.01	2010.03.31	3.70	2.32	3.52	233	0	51	560	1,775	41,084
2010.04.01	2010.06.30	3.67	2.95	3.21	74	0	2	305	1,030	37,620
2010.07.01	2010.09.30	3.78	3.12	3.68	106	0	11	256	909	44,906
2010.10.01	2010.12.31	5.94	3.87	5.87	536	0	44	561	2,667	70,929
2011.01.01	2011.03.31	6.22	5.20	5.64	150	0	14	262	1,503	66,761
2011.04.01	2011.06.30	5.64	4.98	5.46	299	0	180	374	2,027	65,149
2011.07.01	2011.09.30	5.67	4.04	4.20	828	1	7	486	2,349	49,480
2011.10.01	2011.12.31	4.59	4.04	4.14	181	2	9	331	1,430	49,480
2012.01.01	2012.03.31	5.27	4.14	4.64	131	0	13	337	1,605	55,463
2012.04.01	2012.06.30	4.74	4.14	4.35	118	1	5	253	1,141	51,964
2012.07.01	2012.09.30	4.35	4.04	4.11	816	0	0	894	4,003	49,074
2012.10.01	2012.12.31	4.32	4.07	4.25	116	0	23	145	620	50,722
2013.01.01	2013.03.31	4.87	4.32	4.87	72	0	3	182	826	58,139
2013.04.01	2013.06.30	4.97	4.70	4.90	3,279	0	8	913	4,297	58,557
2013.07.01	2013.09.30	5.80	4.97	5.39	99	0	31	316	1,725	64,325
2013.10.01	2013.12.31	5.46	5.04	5.42	191	0	64	438	2,307	64,743



Securities that do not signify the participation in the authorized capital

Securities, which do not signify the participation in the authorized capital but the circulation of which is regulated by the Law on the Market of Securities of the Republic of Lithuania, have not been issued.

Secondary circulation of securities of the Issuer

Securities issued by the company have been included into the Current Trade List of Vilnius Stock Exchange since the 17th of May 2006. ISIN code of securities is LT0000127508.

Since the 1st of January 2008 shares of Vilkyskiu pienine AB have been quoted in the Official List of Vilnius Stock Exchange.

The name of securities: Ordinary Registered Shares of Vilkyskiu pienine AB. The number of securities - 11,943,000 units. Nominal value of one share is 1.00 LTL.

III. INFORMATION ABOUT THE ISSUER‘S ACTIVITIES

Legal basis for the Issuer‘s activities

In conducting its business Vilkyskiu pienine AB follows the legislation of the Republic of Lithuania, government's resolutions and regulatory enactments, which regulates the activity of companies, Law on Securities Market of the Republic of Lithuania, and Articles of Association.

Brief description of the Issuer‘s history

The history of Vilkyskiai dairy was renewed on the 10th of May 1993 when Vilkyskiu pienine UAB was established in the dairy premise, which was built in 1934. The old dairy had implemented its production till 1985. During the period of dairy's closure all equipment were disassembled. The buildings were privatised and the owners of the dairy brought the first machinery from Eastern Germany where the restructuring of milk industry took place at that time.

The company had no initial capital. The company started operating as the owners of the company purchased the buildings. The company borrowed funds from the banks to finance the working capital needs.

Significant events in the history of the Issuer

In 1993 – **1995** the water tower, boiler-house and separation workshop were rebuilt. Since then the company started separating milk and cheese workshop started operating. The company started producing fat-low fermented cheese *Peptatas*. Butter production workshop was launched.

Afterwards the development of the company has accelerated. In 1997 the cheese workshop of the company started producing *Tilsit* type fermented cheese and in February 1998 *Gouda* type fermented cheese.

In **1997** LTL 2.87 million were invested into the company, LTL 0.5 million of which were used for the repair of the company. The company built the following: a modern boiler-house of Danish company BWE, a modern freezing chamber of Dutch company, where 400 tons of production can be stocked and warehoused, and a substation. The company also installed a computer network.

In **1998** nearly LTL 1.5 million were invested into motor transport, buildings, milk refrigerators, production equipment, new cheese workshop and other non-current assets.

In 1999 - 2000 LTL 3.84 million were invested into the construction of new workshops, into transport , the major repairs and 8.5 million were invested into implementation of the project of new cheese production workshop ("Tetra Pak Tebel"). The company finished installing new fully computerised and automated technological line of cheese production, the installation of which provided the company with the possibility to produce western standards corresponding production and to export it to the European Union. In the same year the company received Export Licence to the European Union;

In June **2001** the company acquired Taurage workshop from Mazeikiai subsidiary of Pieno zvaigzdes AB. This workshop was built in 1965 as a creamery and it corresponds with all raised requirements.

In **2003 -2004** the company additional invested in the infrastructure of milk production. The company built new stations of milk purchase and bought modern transport for milk transportation. In 2003 the company reconstructed freezing chamber. In 2004 the company carried out roof reconstruction and repair of buildings.

In **2004** a new modern water treatment plant was built by Dutch company "New Water Technology", which corresponds with the EU requirements. In the same year the company invested in the equipment of cheese packing and wrapping.

In **2005** the company reconstructed the boiler-house of Taurage workshop by changing the type of fuel.

In **2006** Vilkyškių Pienine AB received a financial support of up to LTL 3.45 million from the EU structural funds for realisation of the project „Realisation of the EU requirements and modernisation of production".

The first stage of the project – modernisation of the cheese production technologies – was completed in 2006. During the process of modernisation, which lasted for more than half of the year, the workshop of AB Vilkyškių Pienine underwent significant development works: installation of two new cheese production facilities, three new pressing lines and buffer capacity, a new technological line washing station. Furthermore, the company automated the cheese salting workshop as well as the cheese loading/unloading process. Upon completion of the mentioned modernisation, the maximum production capacities of the Company increased from 10 to 14 thousand tons of cheese per year.

The second stage of the project - in June 2007 the whey processing workshop of Vilkyskiu pienine AB started operating. The total value of the mentioned workshop of Vilkyskiu pienine AB is more than LTL 8 million. Investments provided the company with possibility to increase far better the effectiveness of production and production quality control, moreover, it allowed effective reduction of waste.

As of **17 May 2006** 9,353,000 ordinary shares of Vilkyskiu pieninė AB are listed in the Current Trading List on the Vilnius Stock Exchange. As of 1 January 2008 the shares are listed on the Official List of the Vilnius Stock Exchange.

In January **2006** the Issuer acquired 80.25 percent of Modest AB shares. According to the decision No. 1S-3 made by the Competition Board on 12/01/2006, the Issuer has a right to acquire up to 100 percent of Modest AB shares. Now Vilkyskiu pienine AB holds 99.7% voting rights of the subsidiary.

2007 – Modest AB, which is controlled by Vilkyskiu pienine AB, received a financial support of up to LTL 2.1 million from the EU structural funds. Modest AB renewed vehicle fleet for special milk and milk products transportation, modernized production capabilities - installed new milk processing technology and modern cheese production - packaging line of the main product of the company "Mozzarella". The financial support received from the EU structural funds amounted 44 percent of the total Modest AB project value.

In April **2008** Vilkyskiu pienine AB finally finished the transaction of the acquisition of Kelmes pienine AB and took an ownership to 99.09 percent of company's shares. Now AB Vilkyskiu pienine holds 99.25% voting rights of the subsidiary.

„Finasta Asset Management", SEB Funds and private investor Linas Strėlis purchased the new issue of shares and became shareholders of Vilkyskiu pienine AB. Total value of the issue of shares was LTL 14 million (nominal value of one share was 5.4 LTL). After that, Vilkyskiu pienine AB increased its share capital to LTL 11,943 million.

In **2009** Modest AB, the subsidiary of Vilkyskiu pienine AB increased its share capital from 128,408 LTL to 617,118 LTL and in 2010 increased its share capital by addition cash contributions by Vilkyskiu pienine AB. The share capital has been increased from 617,118 LTL till 5,617,118 LTL.

2009 – the grant agreement was signed with the National Paying Agency under the Ministry of Agriculture in respect of the first area of activities "Processing and marketing of agricultural products" of the facility "Processing of agricultural products and increase of added value" of the Lithuania's Rural Development Programme for the year 2007-2013. Total value of the investment project - LTL 33 million. During 2010-2011 period the company has used grants in amount LTL 14.6 million. In 2010 grant amount was LTL 6.6 million, actually received grant - LTL 0.8 million.

2010 – AB Vilkyskiu pienine established the marketing and quality departments.

Major investments were made in the refrigeration Equipment, cheese cutting and packaging line, and the project of warehouse management system implementation was launched.

In **2011** LTL 1.8 million was invested to a new cold - storage facilities, LTL 0.8 million to the water and washing facilities expansion.

In **2012** a new cheese production line was installed, that allowed to increase the capacity of cheese production by 30 percent (value LTL 16 million). Cheese packaging and treatment line installation allows to produce higher value-added cheese (value LTL 9.5 million).

In **2012** investment project 2007-2013 "Improving the competitiveness of dairy processing" was completed. Project value 33 million LTL, 6.6 million LTL of them was support from the EU Structural Funds. During the year 2012, the Group received 5.4 million LTL support.

On 19 April 2012 AB Modest signed an agreement with the national Settlements Agency under the Ministry of Agriculture regarding the financial 1.6 million LTL support for realisation of the project „Modernisation of a milk processing company”. The funds will be used for acquisition of equipment for production of blue cheese and equipment for whey processing.

In **2013** investments in the wash-house of milk trucks, garage, warehouse, workshops with general and auxiliary premises, administration offices, engineering net, sites and entries to the building amounted to 3.6 million LTL. Besides, expansion works were carried out in the whey processing workshop. After the investment, amounting to approximately 5.3 million LTL, the production capacities increased up to 600 tons per day. In the beginning of the year, the whey ultra filtration project was completed. This is new technology that breaks the whey into ingredients. The result of the process is new profitable products that increase competitiveness of the Company in the market.

In 2013 AB Vilkyškių Pieninė signed an agreement with the national Settlements Agency under the Ministry of Agriculture regarding the financial 400 thousand LTL support for realisation of the project „Modernisation of a milk processing company”. The funds will be dedicated for acquisition of the cheese cutting equipment and containers of milk and dairy products.

In 2013 AB Kelmės Pieninė signed an agreement with the national Settlements Agency under the Ministry of Agriculture regarding the financial 400 thousand LTL support for realisation of the project „Investments into milk processing activities“. An intention is to purchase the yogurt packaging equipment.

AB Kelmės Pieninė has introduced equipment for packaging liquid dairy products using Tetra top packs. This type of tare is modern and environmentally friendly. A reliable cardboard packaging protects the product from environmental impact – light, air, harmful microorganisms and is comfortable to use.

After the modernisation of the blue cheese workshop in AB Modest, the production of this unique product with the blue mould in Lithuania has increased by 30%.

Exhibitions and awards

In the exhibition „ProdExpo 2013“ (in February) the following products were granted an exquisite product acknowledgement:

- Processed cheese „Memel Blue“ with blue mould and sun-dried tomatoes won a gold medal in the Best Product of the Year category;
- Processed cheese „Memel Blue“ with blue mould and „Bruschetta“ spices was awarded as an innovative product.

"Verslo žinios" together with the market research company "Nielsen" elected the trade mark of Vilkyškių Pieninė/Vilkyškių as the most successful trade mark and awarded the title "Metų prekės ženklas 2013". Such a result was determined by the successful positioning and communication content proving that all dairy products are different. A researched performed by DDB Brand Capital revealed that "Vilkyškių" brand – is the brand that has obtained the largest breakthrough and a substantial amount of new loyal consumers in Lithuania.

The activity of the Issuer

The main activity of the Issuer is the production of dairy products.

Vilkyskiu pienine AB specialises in production of fermented cheese, and also produces scalded cream and processes whey. Modest AB produces mould cheese, melted cheese, smoked cheese, cheese Mozzarella, Riccota, Brinza. Kelmes pienine AB produces fresh dairy products – different types of curd products, sour cream, butter, kefir, yogurt, covered curd cheese.

The whole assortment of goods of the Group comprises even 21 types of cheese having 84 different names of products, also 14 types of butter and butter mixtures, 5 types of sour cream and 26 types of curd products

The Group of companies may process 530 tons of milk within 24 hours. The utilization of the maximum capacity was limited by raw milk shortage in winter season (in winter, less milk is purchased than in summer), but recently the raw material is purchased outside Lithuania, in the European Union.

Tables bellow summarizes key consolidated indicators of production, trade and finance volumes of the Issuer.

Within the period of last five years key financial indicators of AB Vilkyškių Pieninė were as follows:

Thousand LTL	2009	2010	2011	2012	2013
Revenue	159,318	244,273	290,133	295,759	364,432
EBITDA	17,059	19,964	18,566	16,093	24,095
EBITDA margin	10.7%	8.2%	6.4%	5.4%	6.6%
Amortisation and depreciation	6,008	5,928	6,200	6,868	7,786
Net profit	6,723	11,842	10,641	7,684	13,009
Profit margin	4.2%	4.8%	3.7%	2.6%	3.6%
Profit (loss) per share (LTL)	0.56	0.99	0.88	0.63	1.08
Net financial debt	55,256	40,700	45,261	53,705	54,510

Within the period of last five years the quantities of milk purchased by AB Vilkyškių Pieninė were as follows:

Purchased raw milk (recalculated into base fatness)	2009	2010	2011	2012	2013
Purchased milk, in tons	151,150	181,643	197,536	204,898	208,380
Purchased milk, in thousand LTL	77,705	153,784	174,039	164,811	206,739
Price of purchased milk, in LTL/t	514.1	846.6	881.0	804.4	992.1

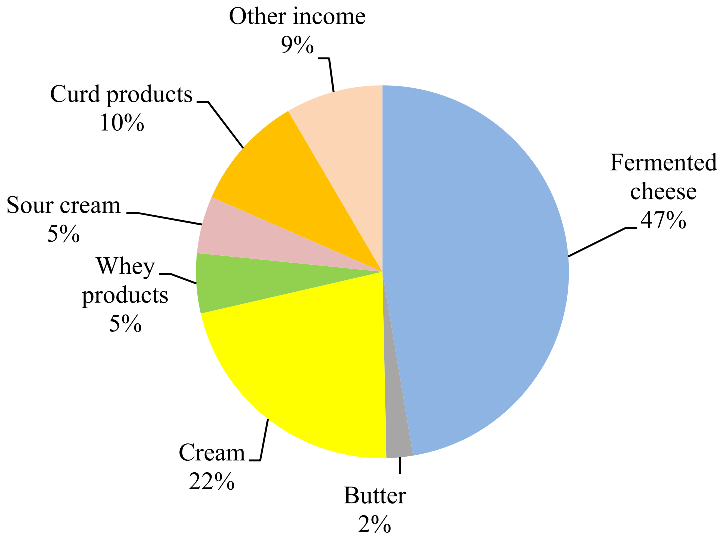
Within the period of last five years the breakdown of production of Vilkyskiu pienine AB according to product type was as follows:

Amount of produced products, expressed in tons	2009	2010	2011	2012	2013
Fermented cheese	9,279	11,979	12,747	12,857	13,796
Butter	1,151	1,230	1,170	1,595	1,126
Cream	6,479	10,684	10,794	9,595	12,514
Whey concentrate	27,163	38,255	41,476	39,376	42,446
Sour cream	3,702	3,030	3,905	4,546	3,928
Curd products	3,770	3,247	3,848	4,697	4,360

Within the period of last five years revenue of AB Vilkyškių Pieninė from sale of production as per type of product, is as follows:

Revenue from main products, thousand LTL	2009	2010	2011	2012	2013
Types of fermented cheese	78,543	105,167	136,778	144,030	172,653
Butter	8,467	9,230	8,202	13,381	8,317
Cream	23,387	55,428	68,792	43,176	79,263
Whey products	4,306	10,107	13,127	13,690	18,924
Sour cream	13,864	12,998	17,343	20,162	18,067
Curd products	22,631	22,375	28,629	36,827	36,429
Other income	8,120	28,968	17,262	24,493	30,779
Total	**159,318**	**244,273**	**290,133**	**295,759**	**364,432**

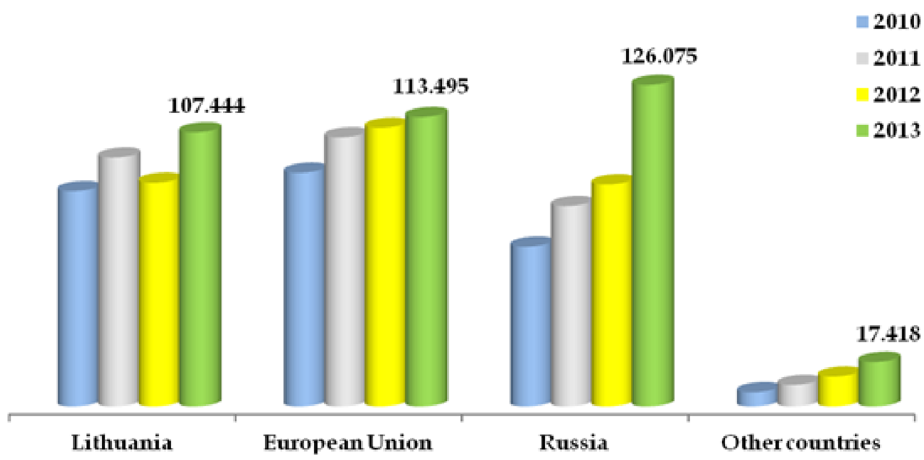
Breakdown of revenue for 2013 per product types (in percentage) (refer to picture)



Sales markets

Within the period of last five years distribution of the revenue of AB Vilkyškių Pieninės as per geographical segments is as follows:

Market	2009	2010	2011	2012	2013
European Union	67,763	84,431	97,594	87,734	113,495
Lithuania	74,067	91,626	105,526	109,260	107,444
Russia	15,775	62,661	78,594	87,054	126,075
Other countries	1,713	5,555	8,419	11,711	17,418
Total	**159,318**	**244,273**	**290,133**	**295,759**	**364,432**



Sales of Vilkyskiu pienine AB in the Russian market are carried out based on long-term sales agreements. Sales in the EU countries are performed based mainly on short-term agreements, and in the Lithuanian market – based on the agreements the duration of which varies from 1 year.

Supply

The main raw material used for the production of products of Vilkyskiu Pienine AB is raw cow milk. The major suppliers of milk are small and big farmers, agricultural companies and other companies of milk purchase. Vilkyskiu Pienine AB purchases milk on the milk purchase contracts. Contacts with milk suppliers are concluded for a period of one year or for a longer period.

Other raw materials are purchased mostly in Lithuania, the amount of raw material purchased from foreign countries is small and relates mainly to equipment. Contracts usually are concluded for a period of one year. However, accidental transactions also happen.

Real estate and other non-current assets

The statement of changes in non-current assets of Vilkyskiu Pienine AB is presented in the annual financial statements of Vilkyskiu Pienine AB.

Risk factors related to the activity of the Issuer

Risk factors related to Company's business

- The main Company's activity is milk processing. The main factors creating business risk are possible changes in the raw material and product markets, as well as legal, political, technological and social changes, which are directly or indirectly related to the business of Vilkyskiu Pienine AB and which are likely to affect Company's cash flows and operating results.
- The Company is specializing in the production of cheese. The largest part of its income is received from the sale of cheese and cheese products. Due to this reason company's income and profit is sensitive to negatives changes in demand and (or) in cheese prices in the market (market risk). The price of cheese can also be negatively affected by the competition in the international and in local cheese market.
- Production of fermented cheese is a time consuming process which can take from 1 to 3 months. Such production particularity does not allow reacting quickly to rapid changes in the cheese market and this can negatively affect Company's cash flows and operating results.
- Company's credit risk is related to trade receivable amounts. The risk that business partners would not meet their financial obligations is controlled by established procedures of control. In 2013 the Company

insured foreign clients with credit insurance at the insurance company Eurler Hermes. The credit risk for each client settling not in cash is assessed individually.

- Company's credit risk is related to receivable amounts of trade. The risk that business partners would not meet their financial obligations is controlled by established procedures of control. Credit risk, related to assets held in banks, is limited because the Company works only with the largest Lithuanian banks (mainly with AB SEB Bank and Swedbank AB). As at 31 December 2013 the total liabilities and the total assets ratio was 0,61. The balance of financial liabilities as at 31 December 2013 amounted to 54,510 thousand LTL. The loans are denominated in EUR and LTL. Repayment of loans is carried out as to time Schedule. There are no overdue payments. Interest on all major loans are related to EUR LIBOR and VILIBOR. In 2013 interest rate SWAP's for loans amounting to LTL 27.8 million were signed for the period of 5 years.

- Foreign exchange risk. Operations with foreign currency are evaluated in LTL according to the exchange rate of operation date. Cash assets and liabilities denominated in foreign currency are evaluated in LTL applying the exchange rate valid at the balance sheet date. Gains or losses from the currency exchange fluctuations are accounted in the income statement. The main part of Company's income is received in EUR. The Company does not carry out foreign currency transactions that could significantly affect the Company's financial results due to exchange rate fluctuations.

The main investments of Vilkyskiu pienine AB during the last 5 years:

In 2009 there were no investments exceeding 10 % of the Issuer's authorised capital.

In 2010 LTL 1 million was invested in the development of energy sector (cold, heat, electricity). Cheese packaging line was acquired for almost LTL 2 million.

In 2011 LTL 1.8 million was invested in a new cold - storage facilities, LTL 0.8 million in the water and washing facilities expansion.

2012 a new cheese production line was installed, that allowed to increase the capacity of cheese production by 30 percent (value LTL 16 million). Cheese packaging and treatment line installation allows to produce higher value-added cheese (value LTL 9.5 million).

investments in the wash-house of milk trucks, garage, warehouse, workshops with general and auxiliary premises, administration offices, engineering net, sites and entries to the building amounted to 3.6 million LTL. Besides, expansion works were carried out in the whey processing workshop. After the investment, amounting to approximately 5.3 million LTL, the production capacities increased up to 600 tons per day. In the beginning of the year, the whey ultra filtration project was completed. This is new technology that breaks the whey into ingredients. The result of the process is new profitable products that increase competitiveness of the Company in the market.

AB Kelmės Pieninė has introduced equipment for packaging liquid dairy products using Tetra top packs. This type of tare is modern and environmentally friendly. A reliable cardboard packaging protects the product from environmental impact – light, air, harmful microorganisms and is comfortable to use.

Patents, licences, contracts

On the 8th of May 2000 the company received Export Licence to the European Union which provided the company with the right to export its production to the European Union. The company has introduced quality management programme (Hazard Analysis Critical Control Points System).

On the 14th of October 2004 an inspection due to the conformity with the requirements and certification of production to Russian market was carried out by the Russian National Veterinary Inspectorate.

On the 18th of May 2004 Taurage workshop of Vilkyskiu pienine AB was granted an EU veterinary certificate.

In 2008 ISO 9001:2000 and ISO 22000:2000 Certificates were presented to Vilkyskiu pienine AB.

ISO 9001 Standard of Quality Management specifies requirements for quality management systems, including documentation requirements and requirements for processes of planning, management of recourses, product realization, measurement, analysis and improvement. This certificate demonstrates that a company is capable of managing and improving the quality of its supplied products and services, and its production meets with requirements of customers and the law. Repeated audits ISO 9001:2000 and ISO 22000:2000 are performed each year.

ISO 22000 Standard of Food Safety Management System demonstrates that food safety risk is identified, measured and controlled in the entire food management chain of Vilkyskiu pienine AB. This current certificate aims at ensuring food safety within the entire chain of food production and supply in order to ensure that food is safe at the time of human consumption. This standard is applied to all types of organizations within the food chain, i.e. for producers of food and food packages.

On the 18th of September 2009 Vilkyskiu pienine AB was visited by experts of the Russian Federal Veterinarian and Phytosanitarian Service who performed a review of the Company. During the review the expects assessed the sanitary state of the Company as well as compliance of production, auxiliary, ripening and storing premises with the Russian norms and requirements. The audit included examination of the Company‘s documentation from raw materials, additions and other consumable materials to product realisation.

The mentioned audit of the Russian Federal Veterinarian and Phytosanitarian Service did not result in any discrepancies. The experts concluded that the Company‘s operations are carried out in accordance with the requirements of the Russian Federal Veterinarian and Phytosanitarian Service.

In 2011 the audit of production in AB Vilkyskiu Pienine was performed in order to check the compliance with the requirements of Russian Federal Technical Regulations N88-ФЗ.

In 2013 AB Vilkyškių pieninė was re-certified for compliance of the management system as to ISO 9001:2008 and ISO 22000:2005. After the recertification, the validity of the standards was extended for 3 years.

On 16 September 2013 AB Kelmės Pieninė received a certificate proving the compliance of food safety to standards ISO 22000:2005/ FSSC 22000 and ĮSO TS 22002-1:2009 and to additional requirements of FSSC 22000. It should be noted that the mentioned certificate was implemented within a very short time.

On 22-25 October 2013, representatives of the Consumer Rights Supervisory Authority of the Russian Federation („Rosspotrebnadzor") visited Lithuania. During a visit in AB Kelmės Pieninė on 24 October, the specialists learned about the production processes as well as about food safety and quality control systems at AB Kelmės Pieninė. The company answered to the raised questions, presented detailed information on the laboratory testing and self-monitoring results. On 3 February 2014 an export permit to Russia was renewed.

Competitors

Based on the calculation of Vilkyskiu pienine AB, the company holds about 17 percent of Lithuania's cheese market, i.e. it ranks fourth among the producers, after Rokiskio suris AB, Pieno zvaigzdes AB and Zemaitijos pienas AB. The Company holds approximately 16% of the local market among the companies producing fresh dairy products.

In foreign markets Vilkyskiu pienine AB has to compete with local producers, whose advantage is lower transportation expenses. However, Vilkyskiu pienine AB compensate this fact by offering higher value added cheese assortment.

Paid out dividends

Vilkyskiu pienine AB has no preferred shares, thus dividends are paid only for ordinary registered shares.

At the Ordinary General Meeting of Shareholders of Vilkyškių pieninė AB which was held on the 27 April 2012 was approved the dividend policy.

Vilkyskiu pienine AB payment of dividends within the last 5 years is as follows:

Dividends	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)
Dividends (LTL)	0	1,194,300	2,866,320	2,985,750	2,508,030
Dividends per share (LTL)	0	0.10	0.24	0.25	0.21
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

AB Kelmes Pienine payment of dividends within the last 5 years is as follows:

Dividends	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)
Dividends (LTL)	-	-	12,997,950	9,979,232	14,742,420
Dividends per share (LTL)	-	-	5.21	4.00	6.00
Number of shares	2,494,808	2,494,808	2,494,808	2,494,808	2,457,070

AB Modest did not pay any dividends during the period of 5 years.

IV OTHER INFORMATION ABOUT THE ISSUER

Structure of the Issuer's authorized capital

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)	ISIN code
Ordinary registered shares	11,943,000	1.00	11,943,000	LT0000127508

Structure of authorised capital of AB Modest

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)
Ordinary registered shares	5,617,118	1.00	5,617,118

Structure of authorised capital of AB Kelmės Pieninė

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)
Ordinary registered shares	2,457,070	1.00	2,457,070

Restrictions to transfer the securities

There are no restrictions to transfer the securities.

Shareholders

AB Vilkyškių Pieninė

The total number of shareholders as at 31 December 2013 was 972. The following persons were the major shareholders who had an ownership or held more than 5 per cent of Company's share capital:

Shareholder	Shares	Nominal value in LTL	Total value in LTL
Gintaras Bertašius	6,067,206	1	6,067,206
Linas Strėlis	1,918,215	1	1,918,215
Non-controlling interest	3,957,579	1	3,957,579
Total capital	**11,943,000**	**1**	**11,943,000**

AB Modest

Shareholder	Shares	Nominal value in LTL	Total value in LTL
AB Vilkyškių pieninė	5,601,277	1	5,601,277
Non-controlling interest	15,841	1	15,841
Total capital	**5,617,118**	**1**	**5,617,118**

AB Kelmės Pieninė

Shareholder	Shares	Nominal value in LTL	Total value in LTL
AB Vilkyškių pieninė	2,457,070	1	2,457,070
Total capital	**2,457,070**	**1**	**2,457,070**

Basic characteristics of shares issued into public circulation of securities

Securities issued by the Company have been included into the Current Trade List of Vilnius Stock Exchange since the 17th of May 2006. ISIN code of securities is LT0000127508.

Since the 1st of January 2008, company's securities were allowed to be included in the Official Trade List.

Name of securities – ordinary registered shares of Vilkyskiu pienine AB.

Shareholders who have special rights of control

There are no shares which would provide the shareholders with special rights of control.

Voting right restrictions

There are no restrictions of voting right.

Inter-agreements of shareholders which are known to the Issuer and due to which transfer of securities and voting right may be restricted.

There are no inter-agreements of shareholders which are known to the Issuer and due to which transfer of securities and voting right may be restricted.

Order of amendment of the Issuer's Articles of Association

The Issuer's Articles of Association can be amended during the General Meeting of the Shareholders. Decisions on the amendments of the Articles of Association are considered to be taken if 2/3 of votes of all shareholders are received.

Governing Bodies of the Issuer

Board of Directors:

Name, surname	Education, speciality	Position held in the Issuer	Start of tenure	End of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	30/04/2010	30/04/2014
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	30/04/2010	30/04/2014
Rimantas Jancevičius	Further education, zoo - technician	Member of the Board, Stock Director	30/04/2010	30/04/2014
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	30/04/2010	30/04/2014
Andrej Cyba	Higher education	Member of the Board	30/04/2010	30/04/2014
Linas Strėlis	Higher education	Member of the Board	30/04/2010	30/04/2014

Key administration staff of AB Vilkyskiu Pienine:

Name, surname	Education, speciality	Position held in the Issuer	Beginning of service*
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Management Board, Director General	01/01/2006**
Vaidotas Juškys	Higher education, IT engineer	Chief operation officer (COO)	17/05/2010
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	01/05/2000
Rimantas Jancevičius	Further education, zoo - technician	Member of the Management Board, Stock Director	02/01/1996
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Management Board, Technical Director	01/09/1993
Arvydas Zaranka	Further education, Technologist of dairy products	Production Director	30/07/1995

Alvydas Eičas	Higher education, Pedagogy	Sales manager for Baltic countries	14/09/2004
Sonata Jurgilienė	Higher education, Business administration	Head of Export Department	01/07/2013
Elena Šilovaitė	Higher education, Business Management and Administration	Head of Marketing Department	19/07/2010
Matas Kazlauskas	Higher education, Veterinary medicine	Quality manager	19/06/2013
Karolina Šematulskienė	Higher education, Economist	Chief Accountant	04/09/2012
LigitaPudžiuvelytė	Higher education, Economist	Senior Economist	20/05/2004
Nedas Budginas	Higher education, Public administration	Head of Personnel	16/10/2012
Rita Juodikienė	Higher education, Business Management and Administration	Head of Purchase Department	23/09/2002
Marius Beišys	Higher education, IT engineer	Head of IT Department	03/05/2011

* None of the labour contracts with the members of the Management Bodies is terminable.
** He has been appointed newly after the reorganization of the Issuer into public company, despite he has been working as a Director of the Issuer since 10/05/1993.

Key administration staff and management board of AB Modest

Name, surname	Education	Position held	Beginning of service in the company	Start of tenure	End of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board		10/12/2013	10/12/2017
Arvydas Zaranka	Further education, technologist of dairy products	Member of the Board		10/12/2013	10/12/2017
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board		10/12/2013	10/12/2017
Kęstutis Keršys	Higher education, economics	Director	12/07/2010	-	-
Daiva Babonienė	Higher education, technologist - engineer of food products	Head of production	06/02/2012	-	

Key administration staff and management board of AB Kelmes Pienine

Name, surname	Education	Position held	Beginning of service in the company	Start of tenure	End of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board		26/04/2012	26/04/2016
Arvydas Zaranka	Further education, technologist of dairy products	Member of the Board		26/04/2012	26/04/2016
Algirdas Žukauskas	Higher education Zoo- engineer	General Director, member of the board	04/06/2008	26/04/2012	26/04/2016
Valė Leonavičienė	Further education, technologist of dairy products	Head of production	08/09/2010	-	-

Information about participation in other companies activity:

AB Vilkyškių Pieninė

Name, surname	Position held	Other data - shares, participation in other companies activity	Shares held at AB Vilkyskiu Pienine
Gintaras Bertašius	General Director, Chairman of the Board	Shareholder of Silgaliai ŪKB (1 share), Chairman of the board of AB Modest, Chairman of the board of AB Kelmes Pienine	6,067,206
Sigitas Trijonis	Technical Director, member of the Board	has no other shares, does not participate in the activity of other companies	425,607
Rimantas Jancevičius	Stock Director, member of the Board	has no other shares, does not participate in the activity of other companies	2,435
Vilija Milaševičiutė	Finance Director, member of the Board	Member of the board of Modest AB, has no other shares	7,813
Arvydas Zaranka	Production Director	Member of the boards of AB Modest and AB Kelmes pienine, has no other shares	1,933
Vaidotas Juškys	Chief operation officer (COO)	has no other shares, does not participate in the activity of other companies	250
Andrej Cyba	member of the Board	General director of „Finasta Asset Management" , member of the Board; member of the Board at AB bank Finasta, director of financial markets department; member of the Board at AB Finasta Holding, deputy general director; member of supervisory board at AS Pirmais atklātais pensiju fonds; member of supervisory board at IPAS Finasta Asset Management; member of supervisory board at AS „F Capital; general director of UAB GP1; general director of UAB GP2; general director of UAB Piola; does not hold any other shares.	-
Linas Strėlis	member of the Board	Director of UAB LS Capital; Director of UAB Biglis; member of the board of football club Ekranas, chairman of the council of Socialiniu įmoniu asociacija; member of the board of AB Agrowill group.	1,918,215

AB Modest

Name, surname	Position held	Other data - shares, participation in other companies activity
Gintaras Bertašius	Chairman of the Board	Shareholder of Silgaliai ŪKB (1 share) General Director and Chairman of the Board of AB Vilkyskiu Pienine, Chairman of the Board of AB Kelmes Pienine
Arvydas Zaranka	Member of the Board	Production director of AB Vilkyskiu Pienine, Member of the Board of AB Kelmes Pienine
Vilija Milaševičiutė	Member of the Board	Finance Director of AB Vilkyškių Pieninė, Member of the Board
Kęstutis Keršys	Director of AB Modest	has no other shares, does not participate in the activity of other companies

AB Kelmės Pieninė

Name, surname	Position held	Other data - shares, participation in other companies activity
Gintaras Bertašius	Chairman of the Board	Shareholder of Silgaliai ŪKB (1 share) General Director and Chairman of the Board of AB Vilkyskiu Pienine, Chairman of the Board of AB Modest
Arvydas Zaranka	Member of the Board	Production director of AB Vilkyskiu Pienine, Member of the Board of AB Modest
Algirdas Žukauskas	Director, Member of the Board	Shareholder of Dziaugsmelis ŽŪK (1 share)

Employees

Average salary per staff groups:

31 December 2013

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	10	7	3			9,469
Key specialists	55	37	17	1		3,433
Specialists	152	52	74	26		2,079
Workers	719	34	285	355	45	1,599
	936	**130**	**379**	**382**	**45**	**1,923**

31 December 2012

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	10	7	3			8,915
Key specialists	58	34	22	2		3,109
Specialists	139	51	56	32		2,060
Workers	718	35	279	364	40	1,545
	925	**127**	**360**	**398**	**40**	**1,801**

Agreements the parties of which is the Issuer and which would enter into force on the change of Issuer’s control

There are no any agreements the parties of which is the Issuer and which would enter into force on the change of Issuer’s control.

V. DATA ABOUT THE OPENLY PUBLISHED INFORMATION

Summary of significant events in 2013

Sales turnover for the previous month is published the 10th day of each month.

The following decisions were taken at the Ordinary General Meeting of Shareholders of AB Vilkyskiu Pienine which was held on the 26 April 2013:
Item 1 of the Agenda – Approval of the annual report of the Company of the year 2012.
Approved.

Item 2 of the Agenda – Announcement of the Auditor‘s Report on the Company's Financial Statements for 2012.
Heard.

Item 3 of the Agenda – Approval of the Company's audited separate and consolidated financial statements for 2012.
Approved.

Item 4 of the Agenda – Approval of profit (loss) appropriation for the year 2012.
The Audited Profit Appropriation for the year 2012 under IFRS was approved as follows (in thousand LTL; thousand EUR):

	thousand LTL	thousand EUR
1) Retained earnings (losses) at the end of 2011	14.138	4.095
2) Dividends for 2011 as approved by the shareholders	2.986	865
3) Allocated to legal reserve	0	0
4) Allocated to reserve for acquisition of own shares	0	0
5) Retained earnings (losses) in the beginning of the current year after payment of dividends and transfers to reserves	11.152	3.230
6) Net profit for the year	5.175	1.499
7) Transfers from reserves	354	103
8) Profit (loss) for distribution:	16.681	4.831
- portion of the profit allocated to the legal reserve	0	0
- portion of the profit allocated to the reserve for the purchase of own shares	203	59
- portion of the profit allocated for payment of the dividends (or 0,21LTL (0,0608EUR) per ordinary registered share with nominal value of 1 LTL)	2.508	726
- portion of the profit allocated to other reserves	0	0
- portion of the profit allocated to be paid as annual payouts (tantiemes) to board members, bonuses to employees and for other purposes	150	43

Item 5 of the Agenda: – Redemption of own shares.
The decision on redemption of own shares is as follows:
a. To purchase up to 10% of own shares.
b. The purpose of redemption – to retain and increase the price of the Company's shares.
c. Period during which the Company may acquire own shares – until 25 April 2014.
d. To set the maximum price per share of own shares to be acquired – 1,45 EUR (5,00 LTL), at the same time setting the minimum acquisition price per share equal to the nominal value of a share, i.e. 0,29 EUR (1,00 LTL).
e. To commit the Board to organise the purchase of own shares, to determine the procedure for purchase and sale of shares, time, number of shares and price, as well as to perform other actions relating thereto in compliance with the terms set in this resolution as well as in accordance with the requirements established in the Republic of Lithuania Law of Companies.

Item 6 of the Agenda: – Election of an audit company for 2013, 2014 and 2015 and determination of settlement terms and conditions
Decided:
1) To elect KPMG Baltics, UAB to perform audits of the financial statements.
2) To authorise the General Director Gintaras Bertašius to sign an audit agreement with KPMG Baltics, UAB and determinate the settlement terms and conditions.

Establishment of AB Pieno Logistika

On 10 December 2013, the AB Vilkyškių Pieninė Group was supplemented by a new company - AB Pieno Logistika. The authorized capital of the mentioned company amounts to 371 thousand LTL. The purpose of the establishment of the mentioned company is to optimize the activities of individual nature in the Group. It is expected that operations of the new company will not have significant influence on the consolidated result of the Group.

VI. Information concerning disclosure of compliance with the Governance Code of the companies

Announcement of Vilkyskiu pienine AB Group concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2013

The public company *Vilkyskiu Pienine* following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company constantly presents information related with the development strategy and with the optimization of shareholder value via the information system of the Stock Exchange, on its website (www.vilkyskiu.lt/investuotojams/), and via agency BNS.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the company act in furtherance of the declared strategic objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The company has set up the Management Board which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the Company.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer. The company does not set up a supervisory board as a collegial management body. The Management Board is responsible for the supervision of company's activity and management.

supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.		
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions that are indicated in this recommendation are implemented by the Management Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The company does not follow this recommendation, where a company chooses to form only one collegial body, as Management Board is the one collegial body. The company does not follow the Recommendation 2.3 of the Governance Code – at present the only collegial body of the company is a management body, not a supervisory one. The management body of the company implements the supervisory functions as well.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	Management Board elects and recalls the chief executive officer, sets his remuneration, other working conditions, approves Staff Regulations, induces him and imposes penalties.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	At present, in accordance with the Articles of Association, the Management Board of AB Vilkyškių Pieninė is composed of 6 members who are appointed for the period of four years. The Management Board of AB Modest is composed of 3 members. The Management Board of AB Kelmės Pieninė is composed of 3 members. The number of members of the collegial body is sufficient to dominate decision-making.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this	Yes	In accordance with the Articles of Association, the members of the Management Board are appointed for the period of four years without limiting the number of their terms of office. The Articles of Association provides the company with the possibility to withdraw the whole Management Board or any of its members. The withdrawal of a member of the Management Board should be based on the legislation.

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

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

procedure should not be easier than the removal procedure for an executive director or a member of the management board.		
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	No	AB Vilkyškių Pieninė does not follow the Recommendation 2.7 because the chairman of the Management Board is Director General of the Company. The independence of supervision is guaranteed by other five members of the Management Board. AB Modest and AB Kelmės Pieninė follow the recommendation.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[3]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	While electing the collegial body of the company, the shareholders may take the cognizance of comprehensive information about the candidates early enough before the meeting of the shareholders and during it as well.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The company follows all provisions that are indicated in this recommendation, moreover, the company could additionally mention the document (such as the operating regulation of that body), if any, which determines the specific order of data exchange among the member of that collegial body. The company accumulates and discloses the entire information about the members of collegial body, their professional education, qualification and conflicts of interest, following the order set out in these recommendations. The Company does not have any regulation on the Management Board's activity.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The company could comprehensively comment the implemented practice (for instance, prior to the announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year). During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education, professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.

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

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly. The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit. No audit committee has been formed in AB Modest and AB Kelmės Pieninė.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the Management Board and the members of Audit Committee of AB Vilkyškių Pieninė constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the	No	The company has not defined the independence criteria of a member of the Management Board.

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

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

company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the	Not applicable	The company has not defined the independence criteria of a member of the Management Board.

collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the Management Board of AB Vilkyškių Pieninė are paid tantjems for their service on the Management Board. not remunerated for their service on the Management Board. Members of the Management Boards of AB Modest and AB Kelmės Pieninė are not paid for their service on the Management Board.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting. The Board also submits recommendations and suggestions to the head of administration.

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

[7] See Footnote 3.

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

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Based on the company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	In the year 2013, the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.
4.6. The collegial body should be independent in	Yes	In all senses the Management Board makes decisions on the

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.		interest of the company. The Management Board of the company and its committees (if formed) are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion. Remuneration committee of AB Vilkyškių Pieninė ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.
4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	*Vilkyskiu pienine* AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee. The committees are not formed in AB Modest and AB Kelmės Pieninė.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when	Yes	The key objective of the Nomination and Remuneration Committee of AB Vilkyškių Pieninė is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee

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

[11] The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee of AB Vilkyškių Pieninė exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Each committee of AB Vilkyškių Pieninė is composed of 3 members.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.	Yes	The functions of Nomination committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is	Yes	The functions of Remuneration committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by	Yes	AB Vilkyškių Pieninė substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control. The Audit Committee ensures effectiveness of internal audit function as well.

monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.		

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity. The Management Board plans to conduct the assessment of its activities in the future.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The chairperson of the Management Board heads up the meetings of the Management Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12].	Yes	Meetings of the Board are organised in accordance with the approved time schedule and upon need.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Each member of the management body may take the cognizance of the issues on the agenda of the meeting before the day of the meeting. Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and which may include specialists who are not the employees of the company.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary registered shares that grant the same personal property and not-property right to all holders of company's shares.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders	Yes	Important transactions are approved following the order set in the Articles of Association.

additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

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

should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ OMX Vilnius in Lithuanian and English languages: 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Company has not applied the means of modern technologies.
Principle VII: The avoidance of conflicts of interest and their disclosure		

Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Management Board avoid situations of a conflict of personal and company's interests.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.	Yes	The members of the Management Board do not mix the company's assets with his/her personal assets.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	Any member of the Management Board may conclude a transaction with the company. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Management Board abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly

previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.		announced, and the company attributes such information to information of commercially confidential nature.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant,	No	

attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	No	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	No	
8.8. Where a variable component of remuneration is	No	

awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.		
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	No	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	No	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.13. Shares should not vest for at least three years after their award.	No	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	

8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.23. Prior to the annual general meeting that is		

intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company and they have access to relevant information.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	Stakeholders, who own the shares of the company, have a right to participate in the meetings of the company, to take interest in activities of the company and its results. If the company works profitably, dividends are paid to the shareholders.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5. Material foreseeable risk factors; 6. Transactions between the company and connected persons, as well as transactions	Yes, except for items 4	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company.

concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. When disclosing information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	 Yes No	 When disclosing the information set in item 1 of Recommendation 10.1, a company, which is the parent of other companies, discloses the information regarding the consolidated results of the whole group to which the company belongs.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The company presents the information via the information disclosure system applied by NASDAQ OMX Vilnius simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavours to announce the information before or after a trading session on NASDAQ OMX Vilnius and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have an impact on the price of its issued stocks and does not disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The company publicly announces all the essential information (in Lithuanian and English languages) on the website of the company, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should	Yes	The company follows this recommendation and places all the essential information on the company's website.

announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.		
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Management Board of the company proposes a candidate firm of auditors to the shareholders' meeting. The firm of auditors is approved by the shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any not-audit services and it has not received from the company any remuneration for not-audit services.