

AB VILKYŠKIŲ PIENINĖ

Consolidated financial
statements for the year ended
31 December 2014

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Company details

AB VILKYŠKIŲ PIENINĖ

Telephone: +370 441 55330
Fax: +370 441 55242
Company code: 277160980
Address: P. Lukošaičio str. 14, Vilkyškiai, LT-99254 Pagėgių sav., Lithuania

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, Raw materials Purchasing Director
Arvydas Zaranka, Production Director
Vilija Milaševičiutė, Economics and Finance Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas
Swedbank, AB
DnB Nord Bankas
Nordea Bank AB
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“).

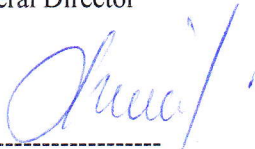
The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements give a true and fair view in accordance 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, 27 March 2015

Management:

Gintaras Bertašius
General Director



Vilija Milaševičiūtė
Economics and Finance Director



KPMG Baltics, UAB
Liepų st. 4
LT-92114 Klaipėda
Lithuania

Phone: +370 46 48 00 12
Fax: +370 46 48 00 13
E-mail: klaipeda@kpmg.lt
Website: www.kpmg.lt

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 2014, 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.



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 2014, 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 2014, set out on pages 57-78 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 2014.

On behalf of KPMG Baltics, UAB

A handwritten signature in blue ink, appearing to read 'Rokas Kasperavičius', with a horizontal line extending to the right.

Rokas Kasperavičius
Partner pp
Certified Auditor

Klaipėda, the Republic of Lithuania

31 March 2015

Consolidated statement of financial position

Thousand Lit	Note	31 December 2014	31 December 2013
Assets			
Property, plant and equipment	10	107,761	97,493
Intangible assets	11	23,998	23,922
Non-current receivables	12	1,402	1,678
Non-current assets		133,161	123,093
Inventories	13	35,637	30,179
Trade and other receivables	14	23,328	25,513
Prepayments	15	1,652	2,265
Cash and cash equivalents	16	397	241
Current assets		61,014	58,198
Total assets		194,175	181,291
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		17,699	11,816
Retained earnings		41,241	35,742
Total equity attributable to the shareholders of the Group	17	82,279	70,897
Non-controlling interest		163	183
Total equity	17	82,442	71,080
Liabilities			
Interest-bearing loans and finance lease liabilities	18	24,916	28,684
Derivative financial instruments	22	1,294	1,207
Government grants	19	10,771	11,204
Deferred tax liabilities	20	3,528	3,058
Non-current liabilities		40,509	44,153
Interest-bearing loans and finance lease liabilities	18	30,953	25,826
Current tax liabilities		39	-
Derivative financial instruments	22	378	358
Trade and other payables	21	39,854	39,874
Current liabilities		71,224	66,058
Total liabilities		111,733	110,211
Total equity and liabilities		194,175	181,291

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	2014	2013
Revenue	1	378,633	364,432
Cost of sales	2	-339,686	-323,793
Gross profit		38,947	40,639
Other operating income	3	2,581	1,441
Distribution expenses	5	-16,913	-17,309
Administrative expenses	6	-10,645	-8,205
Other operating costs	4	-966	-257
Result from operating activities		13,004	16,309
Finance income		70	100
Finance costs		-2,125	-2,202
Net finance expense	7	-2,055	-2,102
Profit before tax		10,949	14,207
Income tax expense	8	124	-1,198
Profit for the year		11,073	13,009
Attributable to:			
Shareholders of the Company		11,074	12,949
Non-controlling interest		-1	60
Profit for the year		11,073	13,009
Basic earnings per share (Litas)	9	0.93	1.08
Diluted earnings per share (Litas)	9	0.93	1.08

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	2014	2013
Profit for the year		11,073	13,009
Other comprehensive income			
Items that will never be reclassified to income statement	-		-
Profit (loss) due to revaluation of non-current assets net of deferred tax asset		3,978	-
Items that are or can be reclassified to income statement		-	-
Change in fair value of hedging instruments		-106	578
		3,872	578
Other comprehensive income for the year, net of income tax		3,872	578
Total comprehensive income		14,945	13,587
Attributable to:			
Shareholders of the Company		14,946	13,527
Non-controlling interest		-1	60
Total comprehensive income		14,945	13,587

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

Consolidated statement of changes in equity

Thousand Lit	Note	Equity attributable to shareholders of the Group							Non-controlling interest	Total equity	
		Share capital	Share premium	Revaluation reserve	Hedging reserve	For acquisition of own shares	Legal reserve	Retained earnings			Total
At 1 January 2014		11,943	11,396	6,216	-1,565	5,971	1,194	35,742	70,897	183	71,080
Comprehensive income for the period											
Net profit		-	-	-	-	-	-	11,074	11,074	-1	11,073
Other comprehensive income											
Increase (decrease) in revaluation reserve		-	-	3,978					3,978		3,978
Allocated from reserves		-	-	-376				376			
Formation of reserve for derivative financial instruments		-	-		-106				-106		-106
Total other comprehensive income		-	-	3,602	-106			376	3,872		3,872
Total comprehensive income for the period		-	-	3,602	-106			11,450	14,946	-1	14,945
Contributions by and distributions to owners:											
Allocated to legal reserve		-	-								
Allocated to reserve for acquiring own shares		-	-			2,387		-2,387			
Dividends		-	-					-3,583	-3,583		-3,583
Total contributions by and distributions to owners		-	-			2,387		-5,970	-3,583		-3,583
Changes in the Group without losing control											
Changes in non-controlling interest (decrease)		-	-					19		-19	
Total contributions by and distributions to owners		-	-					19		-19	-3,583
At 31 December 2014	17	11,943	11,396	9,818	-1,671	8,358	1,194	41,241	82,279	163	82,442

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 Lit	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	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	-	578
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	2014	2013
Cash flows from operating activities			
Profit for the year		11,073	13,009
Adjustments:			
Depreciation of property, plant and equipment	10	9,759	9,140
Amortization of intangible assets	11	41	6
Amortization and write down of grants	19	-1,333	-1,360
Loss (profit) on disposal and write off of property, plant and equipment		434	-39
Income tax expense		-124	1,198
Net financing expenses		2,068	2,102
		21,918	24,056
Change in inventories		-5,437	-6,210
Change in non-current receivables		276	-283
Change in trade and other receivables and prepayments		2,795	-9,686
Change in trade and other payables		-553	8,098
		18,999	15,975
Interest paid		-1,907	-1,805
Net cash from operating activities		17,093	14,170
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	-15,492	-12,797
Acquisition of intangible assets	11	-117	-49
Proceeds from sale of property, plant and equipment		375	689
Acquisition of the subsidiary's shares		-26	-
Net cash flows used in investing activities		-15,260	-12,157

Consolidated statement of cash flows (cont'd)

For the year ended 31 December

Thousand Litas	Note	2014	2013
Cash flows from financing activities			
Loans received		15,465	11,618
Repayment of borrowings		-14,829	-11,762
Funds for payment of dividends		-3,212	-2,508
Government grants received	19	900	-
Net cash flows used in financing activities		-1,676	-2,652
Increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 January		241	880
Cash and cash equivalents at 31 December	16	397	241

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 Nasdaq OMX Vilnius Stock Exchange. As at 31 December 2014, 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 shareholders	3,957,579	1	3,957,579
Total	11,943,000	1	11,943,000

Gintaras Bertašius and persons related to him are an ultimate controlling party 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 products, raw milk and cream.

Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region.

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. As at 31 December 2014, the Company holds 99.7% of voting rights of the subsidiary (at 31 December 2013 – 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 2014, the Company holds 100% of voting rights of AB Kelmės Pieninė (at 31 December 2013 – 100%). 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. As at 31 December 2014, AB VILKYŠKIŲ PIENINĖ holds 56.1% of shares of AB Pieno Logistika.

As at 31 December 2014, the Group had 966 employees (at 31 December 2013 - 936).

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 the functional currency of the Parent Company and 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 the 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

Significant accounting policies

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”.

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 statement.

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 under 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 materials, merchandise, work in progress and finished goods.

Inventories are measured initially at production cost or acquisition 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. Any adjustment to net realizable value is accounted under cost of sales in the income statement.

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 them 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 amortized 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

Notes to the consolidated financial statements

the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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 2014, 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 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 before the asset is put into operation.

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 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 or 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 or 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 had 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

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

Operating costs are recognized based on accrual principle.

Other operating income and costs

Other operating income and charges comprise gain or loss from disposal of non-current assets 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 cannot 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.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

(i) *IFRS 12: Disclosure of Interests in Other Entities*

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 standard did not have impact on the Group, as it does not hold significant interests in other entities, except of subsidiaries, including equity accounted investees.

IFRS 11 Joint Arrangements also became first applicable in 2014; however, it is not applicable to the Group as the Group does not participate in joint arrangements.

(i) *IFRS 10: Consolidated Financial Statements*

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. The Group concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

(ii) *Other amendments to standards*

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated financial statements:

- IAS 27 (2011) Separate Financial Statements;
- IAS 28 (2011) Investments in Associates and Joint Ventures;
- Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 27 on Investment Entities;
- Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting.

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 2015, 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.

(i) *Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015).*

Notes to the consolidated financial statements

Summary of significant accounting policies (cont'd)

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

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a Group is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the Amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(ii) IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government.

In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the Interpretation, when initially applied, will not have a material impact on the financial statements since it does not result in a change in the Group's accounting policy regarding levies imposed by governments.

(iii) Annual Improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Group.

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 judgments 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 judgments 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 judgments 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 judgments 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.

Since 2013, the Parent Company insures foreign customers by credit insurance in the company Eurler Hermes.

For each client, 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)

Financial risk management (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 2014 are as follows:

Thousand Litas	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	180,449	87,380	110,804	378,633
Cost of sales	-172,291	-71,672	-95,723	-339,686
Gross profit	8,158	15,708	15,081	38,947

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

Information on assets, liabilities, interest income and expenses, 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 the 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 2014:

Thousand Lit	AB VILKYŠKI Ų PIENINĖ	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika	Adjustment	Total
Revenue	436,080	92,576	32,474	31	-182,528	378,633
Interest income	26	156	51		-209	24
Interest expenses	-1,727	-236	-150	-3	209	-1,907
Depreciation and amortization	6,109	1,593	784	18	-	8,504
Result before taxation	6,349	12,080	901	-2	-8,379	10,949
Income tax expense	162	-	-38	-	-	124
Net profit for the year	6,511	12,080	863	-2	-8,379	11,073
Other material non-cash items						
Segment assets	167,434	32,453	20,568	710	-26,990	194,175
Acquisition of non-current assets	5,958	3,872	6,439	68	-	16,337
Segment liabilities	90,473	16,777	9,136	339	-4,992	111,733

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

Segment information for 2014 per geographical zones:

Thousand Lit	Revenue	Assets
Lithuania	119,378	182,921
European Union, except Lithuania	141,330	9,000
Russia	94,434	3
Other	23,491	2,251
	<u>378,633</u>	<u>194,175</u>

Notes to the consolidated financial statements

1 Segment reporting (cont'd)

Segment information for 2013:

Thousand Lit	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	-1,651	-247	-141		235	-1,804
Depreciation and amortization	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 Lit	Revenue	Assets
Lithuania	107,444	168,551
European Union	113,495	11,569
Russia	126,075	182
Other	17,418	989
	<u>364,432</u>	<u>181,291</u>

Information about major clients

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

Thousand Lit	2014	2013
2 Cost of sales		
Raw materials	-255,827	-242,718
Staff costs	-21,326	-20,778
Depreciation and amortization of grants	-7,177	-6,874
Gas, electricity	-9,821	-9,301
Milk collection and transportation costs	-10,363	-9,826
Other costs	-35,172	-34,296
	<u>-339,686</u>	<u>-323,793</u>

Notes to the consolidated financial statements

Thousand Lit	2014	2013
3 Other operating income		
Services rendered	1,295	459
Transportation services	425	572
Income from sales of materials	272	79
Gain from disposal of non-current assets	238	48
Accounting services	60	60
Other	291	223
	<u>2,581</u>	<u>1,441</u>
4 Other operating expenses		
Cost of services rendered	-573	-14
Cost of sold materials	-387	-226
Other	-6	-17
	<u>-966</u>	<u>-257</u>
5 Distribution expenses		
Logistics and transportation	-7,835	-8,473
Marketing and advertising	-4,906	-5,393
Staff costs	-2,096	-1,812
Depreciation	-324	-222
Other sales expenses	-1,752	-1,409
	<u>-16,913</u>	<u>-17,309</u>
6 Administrative expenses		
Staff costs	-4,492	-3,677
Membership fee	-1,083	-79
Impairment of property, plant and equipment due to revaluation	-554	-
Depreciation and amortization	-513	-404
Taxes except for income tax	-414	-248
Veterinary services	-412	-359
Security	-349	-371
Write off of bad debts	-220	-
Bank charges	-217	-185
Fuel	-191	-173
Penalties	-171	-159
Payments to Board members	-150	-150
Repair	-102	-140
Security commission services	-93	-87
Insurance	-49	-45
Consultations	-205	-28

Notes to the consolidated financial statements

Other		-1,430		-2,100
		<u>-10,645</u>		<u>-8,205</u>
Thousand Litas		2014		2013
7 Net financing costs				
<i>Financing income</i>				
Interest		24		33
Other		46		67
Total financing income		<u>70</u>		<u>100</u>
<i>Financing costs</i>				
Interest		-1,907		-1,804
Loss from foreign exchange		-81		-264
Other		-137		-134
Total financing costs		<u>-2,125</u>		<u>-2,202</u>
		<u>-2,055</u>		<u>-2,102</u>
8 Income tax expense				
Thousand Litas		2014		2013
<i>Recognized in the income statement</i>				
Current income tax expense				
Current period		-38		-
Deferred tax				
Change in deferred tax		162		-1,198
		<u>124</u>		<u>-1,198</u>
Thousand Litas				
<i>Reconciliation of effective tax rate</i>				
Thousand Litas		2014		2013
Profit for the year		11,073		13,009
Income tax expense		-124		1,198
Profit before income tax		<u>10,949</u>		<u>14,207</u>
Income tax applying the effective tax rate	15.00%	1,642	15.00%	2,131
Non-taxable result of subsidiary AB Kelmės Pieninė due to the social status of the subsidiary	-16.52%	-1,812	-8.55%	-1,215
Non deductible expenses	0.39%	43	1.98%	282

Notes to the consolidated financial statements

Income tax expense	-1.13%	-124	8.43%	1,198
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9 Earnings per share

	2014	2013
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 Lit	11,074	12,949
Basic earnings per share, in Lit	0.93	1.08

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

10 Property, plant and equipment

Thousand Lit	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2013	31,164	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
Balance as at 1 January 2014	35,642	91,023	9,721	12,066	148,452
Acquisitions	4,214	8,764	753	6,547	20,278
Disposals	-323	-1,737	-902	-	-2,692
Reclassification	2,403	7,911	124	-10,348	-
Transfer*	-7,709	-	-	-	-7,709
Balance as at 31 December 2014	34,227	105,961	9,696	8,175	158,059
Depreciation and impairment					
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
Balance as at 1 January 2014	10,455	34,179	6,325	-	50,959
Depreciation for the year	1,243	7,822	694	-	9,759
Disposals	-292	-1,523	-896	-	-2,711
Reclassification	-2,174	2,174	-	-	-
Transfer*	-7,709	-	-	-	-7,709
Balance as at 31 December 2014	1,523	42,652	6,123	-	50,298
Carrying amounts					
1 January 2013	24,839	59,989	3,408	5,691	93,927
31 December 2013	25,187	56,844	3,396	12,066	97,493
31 December 2014	32,704	63,309	3,573	8,175	107,761

Notes to the consolidated financial statements

* Elimination of accumulated depreciation due to revaluation of buildings. Prepayments for property, plant and equipment are classified as acquisitions of property, plant and equipment.

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 74,508 thousand LTL as at 31 December 2014 (2013: 58,194 thousand LTL) (note 18).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 19,937 thousand LTL as at 31 December 2014 (2013: 18,472 thousand LTL).

Vehicles under finance lease contracts

The Group has acquired several transport vehicles, machinery and equipment under finance lease arrangements. The carrying amount of the leased assets amounted to 2,818 thousand LTL as at 31 December 2014 (2013: 2,918 thousand LTL).

Depreciation

Depreciation is provided for in the following items:

Thousand Lit	2014	2013
Cost of finished goods	8,963	8,513
Distribution and administrative expenses	796	627
	9,759	9,140

Valuation of buildings

Buildings are recognized at revalued amounts, less accumulated depreciation and impairment losses.

As at 31 December 2014 the Group has revalued its buildings and in the financial statements accounted the revaluation results.

An increase in value of 3,978 thousand LTL (net of deferred tax liability) was recognized in equity. Total revaluation surplus equaled to 4,057 tūkst. LTL and is accounted under 2014 acquisition line in property, plant and equipment table.

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, cost method and their combination.

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2014 would be 18,247 thousand LTL (the revalued value – 29,176 thousand LTL) (at 31 December 2013: 10,106 thousand LTL, the revalued value – 17,419 thousand LTL).

The revaluation reserve as at 31 December 2014 is decreased by an amount of deferred tax of 632 thousand LTL, and the net value of the mentioned reserve as at 31 December 2014 amounts to 9,818 thousand LTL (at 31 December 2013 : 6,216 thousand LTL).

Notes to the consolidated financial statements

11 Intangible assets

Thousand Litas	Goodwill	Software	Total
Cost			
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
Balance as at 1 January 2014	23,875	1,682	25,557
Acquisitions	-	116	116
Disposals	-	-2	-2
Balance as at 31 December 2014	23,875	1,796	25,671
Amortization and impairment			
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	1,629
Balance as at 1 January 2014	-	1,635	1,635
Amortization for the year	-	41	41
Disposals	-	-3	-3
Balance as at 31 December 2014	-	1,673	1,673
Carrying amounts			
1 January 2013	23,875	4	23,879
31 December 2013	23,875	47	23,922
31 December 2014	23,875	123	23,998

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	31-12-2014	31-12-2013
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 7.41%. If not stated otherwise, the same estimation of the value in use in 2014 was done for 2013. The main assumptions used for the calculation of the value in use 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 1 percent growth rate.
- For an increase of revenues and improvement of performance results, the Group is planning to increase sales not only of usual assortment of cheese, but also of the new product – whey; to increase production and sales of blue cheese using the new technological equipment, to find target markets for these products; to improve operation of the logistics warehouse; to review workload of the production employees.
- The Group's management expects that prices for raw milk will not differ significantly from the prices in 2014; is planning to strengthen marketing and increase export sales;
- The Group's management is planning to strengthen marketing of the Group and increase export sales;

The recoverable amount of the goodwill estimated based on these assumptions was higher than the carrying amount. Therefore, no impairment loss was recognised in the financial statements.

12 Non-current receivables

Thousand Lit		31-12-2014	31-12-2013
	Note		
Prepayments to related parties (a)	25	739	842
Loans granted to related parties (b)	25	351	426
Non-current receivables from farmers (c)		280	355
Other non-current receivables		32	55
		1,402	1,678

a) A prepayment (739 thousand LTL) is made to a related company ŪKB Šilgaliai. The prepayment must be fully covered by 31 December 2019. The outstanding balance of the prepayment is subject to administration fee.

b) 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.

c) 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	<u>31-12-2014</u>	<u>31-12-2013</u>
Finished production	27,937	22,536
	<u>27,937</u>	<u>22,536</u>
Raw materials	82	182
Auxiliary materials	7,213	6,709
Production in progress	394	749
Goods for re-sale	11	3
	<u>35,637</u>	<u>30,179</u>

Raw materials include milk and other materials used in production.

As at 31 December 2014, write down of inventories (finished goods) to net realisable value amounts to 2,935 thousand LTL. As at 31 December 2013, there were no inventories (finished goods) written down to net realisable value.

As at 31 December 2014, write down of inventories (tare) to net realisable value amounts to 504 thousand LTL (at 31 December 2013 – 33 thousand LTL).

Write-off to net realisable value and reversal of the write down is accounted in cost of sales.

As at 31 December 2014, the inventories with the carrying amount of up to 20,2 million LTL (2013 : up to 19,1 million LTL) have been pledged to financial institutions (note 18).

14 Trade and other receivables

Thousand Litas	Note	<u>31-12-2014</u>	<u>31-12-2013</u>
Trade receivables		19,464	21,603
Loans issued to related parties, including calculated interest and administration fee	25	486	513
Other receivable		235	184
Total financial assets		<u>20,185</u>	<u>22,300</u>
Taxes receivable (excluding income tax)		3,143	3,213
Total trade and other receivables		<u>23,328</u>	<u>25,513</u>

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.

Notes to the consolidated financial statements

14 Trade and other receivables (cont'd)

The receivable of 486 thousand LTL is due from the related party ŪKB Šilgaliai. The amount includes interest on the loan and an administrative fee for prepayments.

The trade receivables with the carrying amount of not less than 280 LTL have been pledged to Nordea Bank AB. As at 31 December 2014, the pledged amount is 926 thousand LTL (as at 31 December 2013 the pledged amount was 457 thousand LTL).

15 Prepayments

Thousand Lit	Note	31-12-2014	31-12-2013
Prepayments	a)	1,189	1,780
Prepayments to related parties	25	463	485
		<u>1,652</u>	<u>2,265</u>

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

16 Cash and cash equivalents

Thousand Lit	31-12-2014	31-12-2013
Cash at bank	361	92
Cash on hand	36	149
	<u>397</u>	<u>241</u>

All account balances as at 31 December 2014 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 2014 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 per 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.

Notes to the consolidated financial statements

17 Capital and reserves (cont'd)

Share premium

Share premium is the difference between the issue price and the par 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.

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 2014, 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 reserve for acquiring own shares was formed in 2011 and amounted to 5,768 thousand LTL.

The general shareholders meeting, dated 25 April 2014, decided to acquire up to 10 % of own shares.

At the end of the year 2014, the reserve for acquiring own shares amounted to 8,358 thousand LTL.

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

During the years 2013 and 2014, the Group did not acquire any own shares.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities

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

Credit institution	Ref.	Currency	Contracted amount, tLTL	Balance at 31-12-2014	Balance at 31-12-2013
Bank loan	a)	EUR	6,284	2,000	2,629
Bank loan	b)	EUR	3,459	1,297	1,730
Bank loan	c)	EUR	6,319	798	1,362
Bank loan	d)	LTL	3,000	1,206	1,673
Bank loan	f)	EUR	12,603	5,839	7,508
Bank loan	g)	EUR	10,773	5,617	7,146
Bank loan	h)	EUR	5,870	4,174	3,749
Bank credit line	i)	EUR	3,453	1,133	
Bank loan	j)	EUR	6,906	6,412	4,170
Bank loan	k)	EUR	6,300	1,160	1,978
Bank loan	l)	EUR	3,588	1,852	2,675
Overdraft	m)	LTL	6,450	3,474	3,000
Bank loan	n)	EUR	9,205	5,921	6,928
Bank loan	o)	LTL	3,000	2,701	2,894
Bank loan	p)	EUR	6,008	1,769	3,182
Bank loan	r)	LTL	2,969	1,572	2,271
Bank loan	s)	EUR	6,560	6,247	-
Factoring	t)	EUR		1,594	666
Finance lease liabilities	u)	EUR		1,103	949
Total liabilities				55,869	54,510
Less: current portion				-30,953	-25,826
Payable after one year				24,916	28,684

*note 26

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 March 2010, in equal quarterly instalments and ends on 20 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) 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 6 month EURLIBOR + margin.

d) 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 29 April 2015. 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.

Notes to the consolidated financial statements

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

f) 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 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 month EURLIBOR + margin.

g) 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.

h) 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.

i) On 2 May 2014, AB Vilkyškių Pienine was granted a credit limit (1,000 thousand EUR) to finance the working capital of the Credit beneficiary. The credit matures on 4 May 2015. The effective interest rate is 1 month EURLIBOR +margin.

j) On 2 May 2014, the credit limit granted to AB Vilkyškių Pienine was converted into a long-term loan (2,000 thousand EUR). The loan shall be repaid in equal instalments starting from 30 September 2014 and ending on 5 May 2018. The determined interest rate is related to 3 months EURLIBOR + margin.

k). 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.

l) 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.

m) 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 2015. 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.

n) In August 2012, AB Kelmės Pienine was granted a loan of 1,160 thousand EUR for financing of investments for 2012-2013. In 2013, the loan was increased up to 2,666 thousand EUR. The repayment started as of February 2013 and will end by 31 December 2015. The loan is secured by pledged buildings, equipment and inventories. The determined interest rate is 6 months EURIBOR + margin.

o) On 8 June 2012, AB Kelmės Pienine was granted an overdraft of 3,000 thousand LTL for working capital needs. The repayment deadline is 9 May 2015. The annual interest rate is 3 months VILIBOR + margin. The credit facility is secured by pledging non-current assets, the right to rent the land, bank account balances and inventories.

Notes to the consolidated financial statements

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

p) 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.

r) 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.

s) On 14 May 2014, AB Modest was granted a non-current loan (1,900 thousand EUR) to finance acquisition of equipment for the whey processing workshop. According to planning, the repayment will be in equal quarterly installments from June 2015 and will end by 21 March 2019. The loan is secured by pledged equipment and inventories. The determined interest rate is 3 month EURIBOR + margin.

t) On 10 January 2014, AB Vilkyškių Pienine was granted a factoring limit of 500 thousand EUR. The determined interest rate is 1 week EURIBOR + margin.

u) Finance lease agreements are signed with finance lease companies. The last agreement matures in June 2018.

According to loan agreements signed with banks, the Company 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 2014, the Company did not comply with the financial debt and EBITDA ratio as prescribed in the loan agreement with one bank. The Company received a waiver from the bank, 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 Company complies with the loan covenants.

As at 31 December 2014, the Company complied with other loan covenants.

Loan repayment schedules, except for finance lease liabilities:

Thousand Lit	2014	2013
Within one year	30,539	25,431
From 1 to 5 years	24,227	28,130
After 5 years	-	-
	54,766	53,561

The effective interest applied on the loans and finance lease liabilities in 2014 was 3.8 per cent (2013 : 3.7 per cent).

Finance lease liabilities

The finance lease is paid as follows:

Within 1 year	414	395
From 1 to 5 years	689	554
	1,103	949

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

Notes to the consolidated financial statements

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	11,204	12,564
Grants received	900	-
Amortization and write down of grants recognized in the income statement	-1,333	-1,360
Carrying amount at the end of the period	10,771	11,204

The Group has received support from the EU Structural funds under the Lithuanian Rural Development Programme for 2004-2006 and 2007-2013 from the National Settlement Agency under the Ministry of Agriculture. 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 project was implemented in 2014.

20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate as at 31 December 2014 (31 December 2013: 15%), are attributed to the following items:

Thousand Litas	Assets		Liabilities		Net value	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
Property, plant and equipment		-	5,370	4,176	5,370	4,176
Vacation reserve	-234	-206	-	-	-234	-206
Inventories	-320	-2	-	-	-320	-2
Government grants	-598	-516	-	-	-598	-516
Tax losses to be carried forward	-690	-394	-	-	-689	-394
Deferred tax (asset) / liabilities	-1,842	-1,118	5,370	4,176	3,528	3,058

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.

A decrease in the deferred tax liability of 162 thousand LTL was recognized in the income statement.

Notes to the consolidated financial statements

21 Trade and other payable amounts

Thousand Litas	Note	<u>31-12-2014</u>	<u>31-12-2013</u>
Trade payables	26	33,559	34,759
Trade payables to related parties	26	24	-
Employment related liabilities		4,871	4,053
Prepayments received		348	368
Payable dividends		628	268
Other payable amounts and accrued expenses		424	426
		<u>39,854</u>	<u>39,874</u>

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	<u>31-12-2014</u>	<u>31-12-2013</u>
Interest rate swap transaction to hedge against cash flow fluctuations (non-current part)	1,294	1,207
Interest rate swap transaction to hedge against cash flow fluctuations (current part)	378	358
	<u>1,672</u>	<u>1,565</u>

Derivatives are stated at fair value. As at 31 December 2014, the Group had three interest rate swap transactions with a bank relating to loans which initially amounted 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 2014 were as follows:

Thousand Litas	<u>2014</u>	<u>2013</u>
Acquisition of property, plant and equipment	1,679	2,006
Purchase of raw materials	13,577	13,874
	<u>15,256</u>	<u>15,880</u>

Notes to the consolidated financial statements

23 Contingencies and commitments (cont'd)

Assets pledged as at 31 December 2014 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 74,508 thousand LTL;
- Inventories with the carrying amount of up to 20,2 million.
- Trade receivables from one of the retail chain.
- Sub-lease right of the state land.

The tax authorities have not performed a full scope tax review of the Group for the period from 2010 to 2014. Pursuant to the prevailing tax legislation, the tax authorities have the right at any time to check the accounting registers of the Group for a period of 5 years before the current taxable period and may charge additional taxes and penalties. The Group's management is not aware of any circumstances, which could result in additional material tax liabilities

24 Staff costs

Thousand Lit	2014	2013
Staff costs are included in the following items:		
Cost of sales/inventories	23,277	22,072
Distribution and administrative costs	6,249	5,618
	<u>29,526</u>	<u>27,690</u>

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

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

During the year 2014, the staff costs were subsidised by 1,241 thousand LTL.

Staff costs include remuneration to the Group's management of 1,507 thousand LTL, including social security contributions (2013: 1,399 thousand LTL).

Notes to the consolidated financial statements

25 Transactions with related parties

Payable amounts

Thousand Litas	Note	2014	2013
<i>Trade payables</i>			
ŪKB Šilgaliai		24	-
		24	-
<i>Prepayments</i>			
ŪKB Šilgaliai (non-current assets)	12	739	842
ŪKB Šilgaliai (current assets)	15	463	485
		1,202	1,327
<i>Loans granted, including interest and administration fee</i>			
ŪKB Šilgaliai	12, 14	837	939
		837	939
		2,039	2,266
<i>Interest income</i>			
ŪKB Šilgaliai		24	33
		24	33
Sale of raw materials, goods and services			
ŪKB Šilgaliai		61	43
		61	43
Purchase of raw materials, goods and services			
ŪKB Šilgaliai		2,515	2,489
		2,515	2,489

ŪKB Šilgaliai is a supplier of raw milk. The main shareholder and persons related to him have ownership rights in 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 Lit	Note	Carrying amount	
		31-12-2014	31-12-2013
Non-current receivable amounts	12	1,402	1,678
Trade and other receivables (excl. taxes)	14	20,185	22,300
Cash and cash equivalents	16	397	241
		<u>21,984</u>	<u>24,219</u>

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

Thousand Lit	Carrying amount	
	31-12-2014	31-12-2013
Lithuania	8,696	8,863
Germany	3,615	2,012
Estonia	2,214	391
Poland	1,710	3,288
Saudi Arabia	1,334	-
Latvia	1,104	4,644
Portugal	357	1,234
Russia	3	182
Other	917	989
	<u>19,950</u>	<u>21,603</u>

As at 31 December 2014, a significant credit risk concentration is related to three customers, the receivables from which accounted for 34% 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 2014	Impairment 31 December 2014	Gross 31 December 2013	Impairment 31 December 2013
Related parties:				
Not past due	1,566	-	2,162	-
Past due 0-30 days	2	-	2	-
Past due 31-60 days	2	-	3	-
More than 60 days	469	-	99	-
	<u>2,039</u>	<u>-</u>	<u>2,266</u>	<u>-</u>
Other parties:				
Not past due	18,767	-	21,256	-
Past due 0-30 days	5,351	-	5,555	-
Past due 31-60 days	182	-	162	-
More than 60 days	436	-393	495	-278
	<u>24,736</u>	<u>-393</u>	<u>27,468</u>	<u>-278</u>
	<u>26,775</u>	<u>-393</u>	<u>29,734</u>	<u>-278</u>

The impairment losses in relation to trade and other receivable amounts as at 31 December 2014 amount to 393 thousand LTL (2013: 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	
	2014	2013
Balance as at 1 January	-278	-278
Impairment loss recognized	-220	-25
Write down of doubtful receivable	27	25
Recovered impairment losses	78	-
Balance as at 31 December	<u>-393</u>	<u>-278</u>

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 2014

Thousand Litas	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank loans	53,172	(57,263)	(19,090)	(11,516)	(11,550)	(15,107)
Finance lease liabilities	1,103	(1,176)	(235)	(209)	(369)	(363)
Factoring	1,594	(1,643)	(1,643)	-	-	-
Derivatives	1,672	(1,672)	(243)	(243)	(845)	(341)
Trade payables	33,583	(33,583)	(33,583)	-	-	-
	<u>91,124</u>	<u>(95,337)</u>	<u>(54,794)</u>	<u>(11,968)</u>	<u>(12,764)</u>	<u>(15,811)</u>

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 extension of overdrafts. The Company also expects to earn a sufficient cash flow from ordinary activity to cover the current liabilities.

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	<u>34,759</u>	<u>(34,759)</u>	<u>(34,759)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>90,834</u>	<u>(94,003)</u>	<u>(51,735)</u>	<u>(11,028)</u>	<u>(17,833)</u>	<u>(14,417)</u>

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

	2014	2013
Loans and finance lease liabilities	1.7% - 3.5%	1.7% - 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 2014, was as follows:

	31 December 2014				31 December 2013			
	LTL	EUR	USD	RUB	LTL	EUR	USD	RUB
Long-term receivables	1,376	26	-	-	1,678	-	-	-
Trade and other receivables (excl. taxes)	8,851	11,334	-	-	9,136	13,164	-	-
Cash and cash equivalents	356	40	1	-	223	18	-	-
Loans and finance lease liabilities	(7,380)	(48,489)	-	-	(7,567)	(46,943)	-	-
Derivative financial instrument	-	(1,672)	-	-	-	(1,565)	-	-
Trade payables	(26,897)	(6,686)	-	-	(24,499)	(10,260)	-	-
Net exposure	(23,694)	(45,447)	1	-	(21,029)	(45,586)	-	-

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

	Average	
	2014	2013
EUR	3.4528	3.4528
LVL	-	4.9228

The following exchange rates were applied as at 31 December:

	2014	2013
EUR	3.4528	3.4528
LVL	-	4.9184

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 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 2014 year were 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 1,672 thousand LTL (2013: 1,565 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 Lit	Carrying amount	
	31-12-2014	31-12-2013
Fixed rate financial instruments		
Non-current part of loans granted	351	426
Current part of loans granted	-	43
	351	469

Thousand Lit	Carrying amount	
	31-12-2014	31-12-2013
Variable rate financial instruments		
Bank loans	54,766	53,561
Financial lease liabilities	1,103	949
	55,869	54,510
	55,518	54,041

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 2013.

Effect in thousand Lit	Profit (loss)	
	100 bp increase	100 bp decrease
31 December 2014		
Variable rate instruments	(555)	555
31 December 2013		
Variable rate instruments	(540)	540

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 of 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group values 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 2014

Thousand Lit

	Level 1	Level 2	Level 3	Total
Non-current receivables	-	-	1,402	1,402
Trade and other receivables	-	-	23,328	23,328
Cash and cash equivalents	397	-	-	397
Loans and financial lease liabilities	-	(55,869)	-	(55,869)
Derivative financial instruments	-	(1,672)	-	(1,672)
Trade and other payables	-	-	(39,854)	(39,854)
	397	(57,541)	(15,124)	(72,268)

As at 31 December 2013

Thousand Lit

	Level 1	Level 2	Level 3	Total
Non-current receivables	-	-	1,678	1,678
Trade and other receivables	-	-	25,513	25,513
Cash and cash equivalents	241	-	-	241
Loans and financial lease liabilities	-	(54,510)	-	(54,510)
Derivative financial instruments	-	(1,565)	-	(1,565)
Trade and other payables	-	-	(39,874)	(39,874)
	241	(56,075)	(12,683)	(68,517)

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 2014 and 31 December 2013.

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 30 per cent. 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.

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.

Fair value is allocated according to hierarchy, which reveals materiality of initial valuation data. The hierarchy levels are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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).

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 2014 include derivative financial instruments

28 Subsequent events

In April 2012, Nordea Bank AB granted an overdraft of 6,450 thousand LTL to AB VILKYŠKIŲ PIENINĖ for working capital needs. The repayment term is 31 March 2015. As at the reporting date, the Company has an agreement with the Bank on extension of the repayment deadline until 31 March 2016. The agreement on extension was signed on 30 March 2015.

On 1 January 2015 the Republic of Lithuania joined the eurozone and the Lithuanian national currency litas was replaced by the euro. As a result, AB VILKYŠKIŲ PIENINĖ Group translated its financial accounting to euros as from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LTL 3.4528 to EUR 1.

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 2014.

B Vilkyškių pieninės Consolidated report for 2014

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

The year 2014 was a year of challenges that came primarily from our export markets, where some dramatic changes took place. The ban on exports to Russia did not affect all of our products, but the slump in the Russian ruble exchange rate led to a considerable decrease in consumer purchasing power and, consequently, a decrease in demand. Selling dairy products on the Lithuanian and Baltic markets was equally difficult due to increasing competition among local companies as well as growing supply of imported products.

Last year, the Group's revenues totalled LTL 379m, 4 percent more as compared with 2013. Sales growth was curbed by a drop in prices on global dairy markets, decreasing overall demand and the Russian Federation embargo, so only 4-percent growth was recorded despite larger sales volumes. This also affected our net profit, which was LTL 11m, down 14 percent from 2013.

Our strategy to invest in the development of innovative products and brand awareness did produce quick results, as the sales of our glazed cottage-cheese bars, traditional and drinkable yogurts and other value-added products soared. In 2014, we presented a series of highly successful and original products: a new line of gourmet processed cheese products was launched in the spring, and the line of *Murr* yogurt deserts with crispy white buckwheat was added in the autumn.

We were very active in the search for new overseas partners. In 2014, *Vilkyškių pieninė* was named as Lithuania's *Exporter of the Year* in a national contest. The Group attended the *Gulfood 2014* international exhibition in Dubai where new business contacts were established. We were also successful in the world's largest food industry trade fair, *SIAL 2014* in Paris, where our new *kefir* in innovative *on-the-go* packages was given the *SIAL INNOVATION 2014* award. The Group also established new contacts with potential trade partners during a visit to Japan.

Last year, we completed some important investment projects. *AB Vilkyškių pieninė* launched a brand new cheese cutting line and started renovation of its cheese brining baths. Under an EU-funded production modernisation project, new storage tanks for dairy products and new cheese cutting machines were acquired, with LTL 0.4m allocated from EU funds.

Another investment project, entitled "Investments into dairy processing", was completed at *AB Kelmės pieninė* subsidiary. It acquired a new yogurt packaging line, with LTL 0.4m allocated from EU funds. In addition, the company renovated its compressor station. Meanwhile, subsidiary *AB Modest* renovated its boiler house and built a whey denaturation facility.

Despite the dramatic changes last year, we were quick to react and managed to achieve some major improvements in our operations. We will continue to pursue this strategy: to continue exploring new export opportunities, while simultaneously strengthening our positions on the domestic and Baltic markets. In 2015, we plan investments in new technologies and will continue seeking EU support where available. And, of course, we will launch a number of new innovative products for our expanding circle of loyal customers in Lithuania and abroad.

Yours Sincerely,
Gintaras Bertašius

I. ISSUER OVERVIEW

1. Reporting Period for this Consolidated Report

This Consolidated Report is for 2014.

2. Issuer Information and Contact Details

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

3. Subsidiary Company Data and Contact Details:

AB Modest

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

AB Kelmės pieninė

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

AB Pieno logistika

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

4. Main Types of Activity

The main business activity of the *AB Vilkyskių pieninė* group of companies is production and sale of dairy products.

Dairy operation and cheese production (EVRK 10.51)

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

Subsidiary company *AB Modest* makes fermented mozzarella cheese, blue cheese and other cheese products.

Subsidiary company *AB Kelmės pieninė* makes fresh dairy products: milk, kefir, yogurts, cottage cheese, chocolate-glazed cottage cheese bars and butter.

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

5. Agreements with Brokerages for Public Issue

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

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

The name of securities: *AB Vilkyskių pieninė* common registered shares. The number of securities issued: 11,943,000 units. Share face value: LTL 1.00 per share.

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

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

The securities of the subsidiary companies are not publicly traded.

II. OVERVIEW OF OPERATIONS

AB Vilkyškių pieninė produces a wide range of delicious dairy products made to original recipes, many of them winning accolades at various international trade fairs. We are proudly continuing the long-standing traditions of cheese production that originated in the picturesque valleys of western Lithuania. The lush flood-meadows of the Nemunas River inspire us to create and share what nature has so generously bestowed on us.

Our mission is to make gourmet dairy products for people to enjoy.

Values

Quality – we make high-quality dairy products and keep to the highest standards.

Innovation – we constantly strive to surprise our customers with new products by introducing original tastes and flavours. We keep investing in new technologies and are expanding our range of products. We find joy in the creative process and in sharing what we create — that is how new traditions are born.

Competence – in the hands of our dairy masters, ordinary dairy products turn into exceptional and original ones, setting the standard for the rest.

Honesty – we are open and trustworthy. We cherish the confidence and respect of our customers. Time-tested relationships with our partners and the professionalism of our people make the foundation of our business.

7. Issuer's Jurisdiction

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

8. Brief History of Issuer

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

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

Key Events in Issuer's History

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

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

1997: LTL 2.87m was invested in the company, approximately LTL 0.5m of which was used for renovation works. A power substation was renovated, the Company was fully computerized, a boiler house by the Danish company BWE was built and a Dutch-made cold store with a capacity for 400 tonnes of products was installed.

1998: Almost LTL 1.5m was invested in vehicles, buildings, milk refrigerators, production equipment, a new cheese production unit and other major facilities.

1999- 2000: LTL 3.84m was invested in the construction of new production departments, vehicles and a major overhaul. LTL 8.5m was invested in a new o *TetraPakTebel* cheese production facility. As a result, new fully computerised and automated cheese production line was installed, enabling the company to make EU-compliant products.

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

2001: The Company acquired the Tauragė dairy facility of the Mažeikiai branch of *AB Pieno žvaigždės*. It was built in 1965 as a cheese production facility and was fully operational as such. Since 2007, it houses the head office of *AB Modest*, a subsidiary of *AB Vilkyškių pieninė*.

2003: The Company adopted the Navision accounting and business solution.

2003 – 2004: Additional investments were made into milk processing infrastructure, expanding the network of milk collection points and upgrading the fleet of milk tank trucks. In 2003, the refrigeration chamber was reconstructed, and renovation work was performed on the roof and buildings in 2004.

2004: An EU-compliant wastewater treatment facility, made by the Dutch company *NewWaterTechnology*, was installed, and investments were made into cheese packaging equipment in the same year.

2005: The boiler room of the Tauragė production facility was renovated, switching to a more ecological type of fuel.

2006: *AB Vilkyškių pieninė* was allocated LTL 3.45m from EU structural funds, which was used to upgrade production facilities and achieve full compliance with EU requirements.

The first phase of the project involved the upgrading of production technologies and was completed in 2006. As part of the modernisation, the Company's main dairy production facility was expanded significantly, adding two new cheese evaporators, three new cheese press machines and a buffer tank, as well as a new wash station for the cheese production line. In addition, the cheese brining shop and cheese loading processes were fully automated. After completing the modernization, the dairy's maximum cheese production capacity increased from 10,000 to 14,000 tonnes per year.

The second phase of implementation began in June 2007, when a new modern whey processing facility was launched. The total value of the whey processing facility was more than LTL 8m. The investment increased the Company's productivity, improved quality controls and reduced waste considerably. The Company had no whey processing until then. The new whey processing unit is almost completely automated and is manned by just two staff.

17 May 2006: A total of 9,353,000 common registered shares of *AB Vilkyškių pieninė* were listed on the Current List of the NASDAQ OMX Vilnius exchange and then uprated to the blue-chip Official List on 1 January 2008.

In January **2006:** The Issuer acquired an 80.25-percent stake in *AB Modest*. Based on a decision by the Lithuanian Competition Council, the Issuer has the right to acquire up to 100 percent of the *AB Modest* stock. At present, *AB Vilkyškių pieninė* holds 99.7 percent of the *AB Modest* stock. In 2009, the share capital of *AB Modest* was increased from LTL 128,408 up to LTL 617,118 through the issue of 488,710 new common registered shares. Meanwhile, the share capital of *AB Vilkyškių pieninė* was raised from LTL 617,118 to LTL 5,617,118 by a contribution in cash in 2010.

2007: *AB Modest*, controlled by *AB Vilkyškių pieninė*, was allocated LTL 2.1m in support from EU structural funds. *AB Modest* used the funds to upgrade its fleet of refrigerated vans for product transportation and to modernise its production processes. It installed new milk processing technologies and a packaging line for its main product, Mozzarella cheese. The EU support accounted for 44 percent of project value.

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

2009: LTL 33m in EU support was under an agreement with the Lithuanian National Paying Agency/ The support was awarded under the Lithuanian Rural Development Programme for 2007-2013, measure "Adding Value to Agricultural and Forestry Products", activity "Processing and Marketing of Agricultural Products".

2010: *AB Vilkyškių pieninė* set up new marketing and quality departments.

Investments were mainly made into refrigeration equipment, a cheese cutting and packaging line. The installation of the *Equinox* warehouse management system was also started.

2011: LTL 1.8m was invested into new cold store equipment, and another LTL 0.8m was invested to expand the existing wastewater treatment and equipment washing capacities.

2012: a new cheese production line was assembled (LTL 16m in value), increasing output by 30 percent, in addition to the launch of a LTL 9.5m packaging and plastic-coating line. This enabled the launch of the production of the *Prussia* brand of plastic-coated cheese, made using the latest technologies.

The 2007-2013 investment project "Improving the competitiveness of dairy processing" was completed. The project was worth LTL 33m, with LTL 6.6m coming from the EU structural funds. In 2010, the Company was allocated LTL 0.8m in EU support. Another LTL 5.4m was received in 2012.

2013: LTL 3.6m was invested in auxiliary facilities: a tank truck washer, a garage, a utility room, a mechanical workshop with utility premises, administrative offices, utility services, landings and a truck entry point. Another LTL 5.3m was invested to expand the whey processing unit's daily capacity to 600 tonnes. By the end of the year, the whey ultrafiltration project was also completed — it is a new technology that breaks whey proteins into their basic components, which results in new profitable products.

In 2013, *AB Kelmės pieninė* signed an agreement with the National Paying Agency on LTL 400,000 in EU support toward investments into dairy processing operations. The funds have been used to acquire a yogurt packaging line.

AB Kelmės pieninė installed a new *TetraTop* packaging line for liquid dairy products. This innovative environment-friendly packaging provides great protection for the product and is very convenient.

In addition, *AB Modest* has completed the modernisation of its blue cheese production facility, increasing its output by 30 percent.

9. Main Investments During Reporting Period

AB Vilkyškių pieninė has launched a new cheese-slicing line, expanding its range of products.

AB Vilkyškių pieninė has completed a modernisation project (LTL 2m), acquiring new storage tanks for milk products and new cheese slicing equipment. The project drew LTL 0.4m in support from EU funds.

AB Vilkyškių pieninė has begun renovation of its cheese brining baths.

AB Vilkyškių pieninė also started a project to upgrade its cleaning equipment.

AB Kelmės pieninė has renovated its compressor station.

AB Modest has rebuilt its boiler house and launched a whey denaturation facility.

10. Patents & Licenses

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

On 14 October 2004, the Company was issued with a certificate of compliance for exports to the Russian market.

Production audits have been carried out at the Vilkyškiai dairy for compliance with the Russian Federation Technical Regulation N88-Φ3.

In 2013, *AB Vilkyškių pieninė's* management system was certified in accordance with the ISO 9001:2008 and ISO 22000:2005 standards. Following recertification, compliance under those standards has been extended for another three years.

The Group is wholly committed to the quality of its products, customer satisfaction and compliance with food safety regulations. *AB Vilkyškių pieninė* has obtained certification of its Quality Management and Food Safety systems under the international standards ISO 9001:2008 and ISO 22000:2005. These standards set a number of rules that ensure stable and safe production processes. The system covers every process from raw material supplies to customer satisfaction surveys, all performed in line with the organisation's policies.

The Quality Management and Food Safety systems are subject to continuous monitoring, review and improvements with a view to maintaining the high quality of the Company's products. The continual search for improvements and adherence to the top food safety standards has enabled the Company to start preparation in 2014 for certification under ISO 22000:2005/FSSC 22000, a stricter version of the same standard. This certification scheme is part of the Global Food Safety Initiative (GFSI) and is equivalent to such internationally recognised standards as BRC and IFS.

AB Modest finished consultations in 2014 on the certification scheme for the ISO 22000:2005/FSSC 22000 standard, with the certification audit scheduled to take place in the first half of 2015.

The *Vilkyškių pieninė* dairy lab, operating at *AB Modest*, has been issued with a State Food and Veterinary Service approval, which confirms the laboratory's compliance with the highest requirements for labs. The new laboratory validation rules were adopted in early 2014, and *AB Modest* lab managed to obtain its new license in October the same year.

11. Human Resources

AB Vilkyškių pieninė Group's human resources policy is focused on promoting team welfare and professional advancement. In order to maintain its collaborative and highly motivated workforce, the Group implements regular trainings, occupational safety and health measures, as well as promoting a favourable work environment.

In early 2010, using EU financial support, *AB Vilkyškių pieninė* set up a day care service, which was completely free of charge for the parents. After public funding ended in 2013, *AB Vilkyškių pieninė* took over the financial burden and retains the free day care service for its employees. Since many employees travel to work from neighbouring towns and districts (Pagėgiai, Jurbarkas, Tauragė), the Company offers them free transport to work and back home.

In order to promote the team spirit, the Group has adopted a number of traditions, such as company anniversaries, excursions abroad, profession days and Christmas events. Staff take regular professional trainings and courses funded by the Group.

Occupational safety and health is another key priority for the Group. Every year, employees are offered free health checkups and flu vaccination. Special projects are implemented to promote the employee's children's health. The Company plans to open a canteen and a company boarding house for employees visiting from other towns.

As part of motivation-building efforts, the Group launched a Work Climate and Motivation survey 2014, which has continued to date. The study aims at setting clear future priorities for work and greater productivity.

AB Kelmės pieninė has the status of a social enterprise. Approximately 40 percent of its staff are people with disabilities. One of the key priorities for the company is to ensure integration and social skill development for people with disabilities. The company aims to create conditions for each employee to maximise their vocational potential and participate in various social projects, including discussion groups, lectures, excursions, festivals, etc.

AB Vilkyškių pieninė took an active part in the public project “The creation and development of career development and monitoring models as part of the general education and professional training”. The aim of the project was to help students explore various occupations, professions and career paths, build early work experience, develop professional motivation and plan their careers – so they can find work in Lithuania rather than abroad. As part of the project, *AB Vilkyškių pieninė* holds monthly professional information and consultation meetings with students, in addition to organising field visits so young people can gain first-hand insights about work, careers and professions at the Company.

12. Environmental Protection

Based on the European Parliament and Council IPPC Directive 2008/1/EC, *AB Vilkyškių pieninė* is attributable to the Annex I installations and is required to have an IPPC permit. The Company obtained its first IPPC permit from the Klaipėda Regional Environmental Protection Department on 10 August 2004, which was renewed on 28 December 2012. The first IPPC permit was issued to *AB Kelmės pieninė* on 28 December 2005 by the Šiauliai Regional Environmental Protection Department. The permit has been extended seven times, with the last extension on 10 April 2013. *AB Modest's* IPPC permit was last updated on 17 February 2011. The Company has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels.

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

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

Production wastewater is treated at the Company's own combined biomechanical treatment facility. In 2014, *AB Vilkyškių pieninė* treated 459,057 m³ of wastewaters. The resulting sludge is given to local waste managers and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be in the 83-99 percent range. *AB Kelmės pieninė* and *AB Modest* do not have their own wastewater treatment facilities and deliver their waste to Kelmė and Tauragė municipal treatment plants.

In 2014, the Company began modernisation of its wastewater treatment plant in order to boost treatment efficacy. This is being done in line with the main national strategies and legal acts on wastewater treatment: the Baltic Marine Environment Protection Strategy, the Lithuanian Law on Water Bodies, the National Long-Term Development Strategy and the National Sustainable Development Strategy.

13. Group Results of Operations

Key financial consolidated indicators of AB Vilkyškių pieninė Group:

	2010	2011	2012	2013	2014
Revenue (LTL tho)	244,273	290,133	295,759	364,432	378,633
EBITDA (LTL tho)	19,964	18,566	16,093	24,095	21,470
EBITDA margin, pct	8.2	6.4	5.4	6.6	5.7
Operating profit (LTL tho)	13,736	12,366	9,216	16,309	13,004
Operating profit margin, pct	5.6	4.3	3.1	4.5	3.4
Profit before tax (LTL tho)	12,346	10,346	6,903	14,207	10,949
Profit before tax margin, pct	5.1	3.6	2.3	3.9	2.9
Net profit	11,842	10,641	7,675	13,009	11,073
Profit margin, pct	4.8	3.7	2.6	3.6	2.9
Earnings per share (LTL)	0.99	0.89	0.64	1.09	0.93
Number of shares (units, tho)	11.943	11.943	11.943	11.943	11.943

In 2014, **sales** came to LTL 379 m, up 4 percent from LTL 364m in 2013.

In 2014, **EBITDA** was LTL 21.5m, down 11 percent from LTL 24m the year before. EBITDA margin was 5.7 percent in 2014 (compared with 6.6 percent in 2013).

Operating profit (EBIT) was LTL 13m in 2014, with 3.4 percent margin, down from LTL 16.3m in 2013, when EBIT margin reached 4.5 percent.

In 2014, **net profit** reached LTL 11.1m, a drop from LTL 13m the year before. The decrease in profit was caused by a slump in dairy product prices on export markets, falling demand and the Russian embargo on dairy imports.

Key financial ratios of AB Vilkyškių pieninė:

	2010	2011	2012	2013	2014
Return on equity (ROE), pct	23.8	19.0	12.8	18.3	13.5
Return on assets (ROA), pct	9.6	7.5	4.7	7.2	5.7
Debt ratio	0.60	0.61	0.63	0.61	0.58
Deb/equity ratio	1.48	1.54	1.70	1.55	1.36
Quick liquidity ratio	0.80	0.88	0.85	0.88	0.86
Asset turnover ratio	1.98	2.04	1.82	2.01	1.95
Capital-to-assets ratio	0.40	0.39	0.37	0.39	0.42

In 2014, **assets totaled** LTL 194m, 7.1 percent more than in 2013.

In 2014, **non-current assets** grew by 8 pct due to acquisition of real estate, equipment and installations and totaled LTL 133m.

In 2014, **equity** was LTL 82m, up 16 percent from the previous year (LTL 71m).

On 31 December 2014, total value of **loans** was LTL 55.9m, increased 2.5 percent year-on-year.

AB Vilkyškių pieninė Group production output, tonnes:

	2010	2011	2012	2013	2014
Fermented cheese	11,979	12,747	12,857	13,796	17,436
Cream	10,684	10,794	9,595	12,514	15,384
Whey products	38,255	41,476	39,376	45,446	43,713
Cream	3,030	3,905	4,546	3,928	3,090
Yogurt products	1,291	1,899	3,259	5,416	5,565
Cottage cheese products	3,247	3,848	4,697	4,360	4,009

In 2014, a total of 17,436 tonnes of cheese was produced, 6 percent more than in 2013. As a result, cream production also went up by 23 percent against the previous year. The output of whey products was lower than in 2013 because different types of products were made.

Raw milk purchases by AB Vilkyškių pieninė Group:

	2010	2011	2012	2013	2014
Raw milk, tonnes	181,643	197,536	204,898	208,380	253,947
Cost of raw milk, LTL tho	153,784	174,039	164,811	206,739	218,405
Raw milk price, LTL/t	846.6	881.0	804.4	992.1	860.0

In 2014, a total of 254 tho tonnes of milk was purchased, an increase by 22 percent as compared with 2013. Meanwhile, the price of raw milk went down 13 percent from the previous year.

14. Sales and Marketing

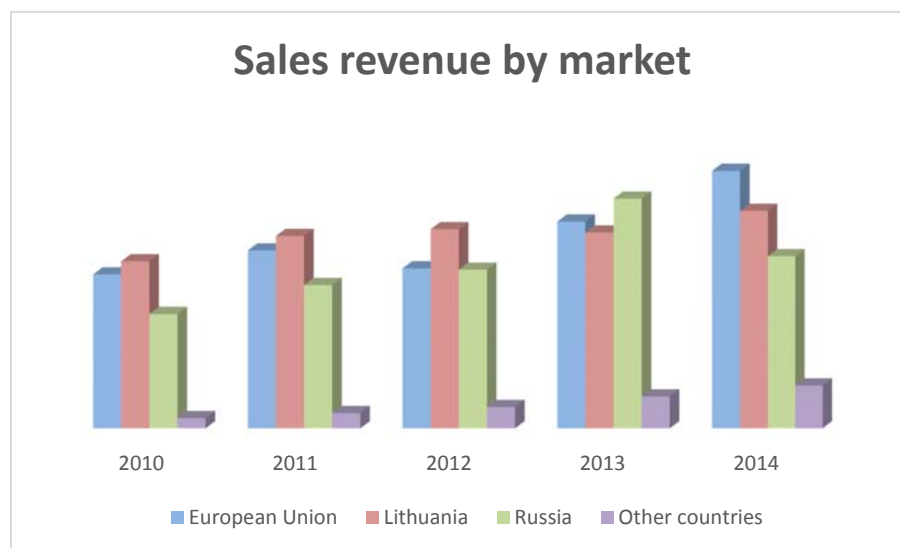
Core product sales

	2010	2011	2012	2013	2014
Fermented cheese	105,167	136,778	144,030	171,982	180,449
Cream	55,428	68,792	43,176	79,263	72,851
Whey products	10,107	13,127	13,690	18,924	22,660
Cream	12,998	17,343	20,162	18,067	14,607
Yogurt products	506	3,654	9,773	18,301	18,676
Cottage cheese products	22,375	28,629	36,827	36,429	37,072
Other sales	37,692	21,810	28,101	21,466	32,318
Total revenue	244,273	290,133	295,759	364,432	378,633

In 2014, exports generated 68 percent of the Company's sales. The main market was the Russian Federation (36 pct of all export sales) despite the introduction of an import ban on EU products starting from August 2014. By year-end, however, sales on the Russian market were 25 percent smaller than in 2013. As a result, the Company refocused its efforts to the search for new markets as Russian sales plummeted. Part of the output was directed to the existing markets (Albania, Belarus, Israel, Kosovo, Croatia, Lebanon, Portugal and Germany), and efforts were made to find new markets. In the second half of the year, sales were started to Azerbaijan, Saudi Arabia, Malta, Moldova, Hungary and elsewhere.

Sales revenue by market, LTL tho:

	2010	2011	2012	2013	2014
European Union	84,431	97,594	87,734	113,495	141,330
Lithuania	91,626	105,526	109,260	107,444	119,378
Russia	62,661	78,594	87,054	126,075	94,434
Other countries	5,555	8,419	11,711	17,418	23,491
Total revenue	244,273	290,133	295,759	364,432	378,633



In 2010, a new marketing department was set up within the Group to develop new products and implement branding and marketing strategies. The first priority was to strengthen its domestic presence, so investments were made into brand identity and unique value propositions to Lithuanian consumers. The Group achieved quick sales growth and acceptance on the local market by consistently expanding its range of fresh dairy products, high quality, original product flavours and unique packaging.

Within a few years, *Vilkyškių pieninė* Group made it to the TOP 3 producers of chocolate-glazed cottage cheese bars. At the end of 2013, a decision was taken to add another line, *Murr*, of exclusively desert flavours to the range of glazed cottage cheese bars.

In 2013, *Vilkyškių pieninė* Group also took a leading position on the Lithuanian market for drinkable yogurts, claiming a market share of more than 32 percent in this market segment. This was achieved after launching a range of drinkable yogurts in innovative *TetraTop* packages and adding the smaller *on-the-go* package version for the busy consumer. The packaging innovations, along with the introduction of new original flavours, clearly created a strong added value perception among consumers and contributed to the strengthening of the *Vilkyškių* brand, which was named as the Lithuanian Brand of the Year 2013.

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

The Company's branded and originally packaged products with great value propositions also have strong potential on export markets, which the Company is targeting with its *Vilvi* trademark.

15. Exhibitions and Awards

2001: *Maasdam* cheese was awarded as the *Lithuanian Product of the Year* in the *Food Product* category in the contest organised by the Lithuanian Industry Confederation.

2004: *Prussia* cheese won Gold in the *Lithuanian Product of the Year* contest in the *Food Product* category. The contest was organised by the Lithuanian Industry Confederation

2010: Blue cheese *Memel Blue* was awarded the Gold Medal at the AgroBalt international exhibition.

2011: Two *Vilkyškių pieninė* cheese products – *Žalgiris* and *Legenda* – were awarded at the ProdExpo international trade fair in Moscow, in the *Russian Supermarket Choice* category

2011: Hard cheese *Žalgiris* won Gold at World Food Moscow trade fair in the *Product of the Year* category.

2011: *Prussia* cheese was awarded Gold in the ProdExpo international exhibition in Moscow, in the *Best Product* category.

2011: Blue cheese *Memel Blue* won the Bronze Medal at the international trade fair World Food Moscow in the *Product of the Year* category.

2011: *Vilkyškių* light whipping cream (30 pct fat) was awarded the Bronze Medal at the international trade fair World Food Moscow in the *Product of the Year* category.

2012: Semi-hard Dutch cheese *Maasdam* won Gold at the ProdExpo international trade fair in Moscow in the *Best Product* category.

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

2012: At the 21st international food trade fair World Food Moscow 2012, a connoisseur jury awarded the Silver Medal to the *Vilkyškių* apple- and oat-enriched functional yogurt from among more than 600 products. The yogurt was also recently introduced to the Lithuanian market.

2012: A connoisseur jury at World Food Moscow 2012 awarded Silver to the *Vilkyškių* cottage cheese spread with sea salt.

2012: At the international trade fair ProdExpo in Moscow, the spicy *Basilis* cheese and *Vilkyškių* cottage cheese with sea buckthorn were awarded in the *Russian Supermarket Choice* category.

2013: *Vilkyškių Original* cheese claimed Gold in the *Best Product* category at the ProdExpo trade fair in Moscow.

2013: The *Innovative Product* award at ProdExpo in Moscow was given to *Vilkyškių* processed blue cheese with Bruschetta spices.

2013: Processed cheese *Memel Blue* with sun-dried tomatoes won the Gold Medal in the *Best Product* category at the ProdExpo international exhibition in Moscow.

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

2014: *Vilkyškių pieninė*'s hard cheese *Jubiliejinis 1934* was awarded the Gold Medal at the ProdExpo 2014 international exhibition in Moscow for innovative technology and packaging.

16. Risk Factors Associated with Issuer's Business

Key risks in the business of AB Vilkyškių pieninė Group:

The Group operates in the business of dairy processing (production of fermented cheese). The main factors that may pose business risks for the Company are possible changes on the raw material and

product markets, competition, as well as changes in the legal, political, technological and social environment. These may affect – whether directly or indirectly – the Group’s cash flows and results.

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

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

The Group’s credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. Since 2013, the Company obtained credit insurance for its overseas customers with the insurer *Euler Hermes*. The risk of each client is assessed individually.

Credit risk associated with cash in banks is limited, as the Company works only with Lithuania’s largest banks (mainly AB SEB Bankas). On 31 December 2014, the Company’s debt-to-assets ratio was 0.57. The balance of outstanding loans on 31 December 2014 was LTL 55.9m. All loans are denominated in euro and are being repaid under the established schedule, without any delays. The interest on all largest loans is linked to the EUR LIBOR rate. In 2011, interest rate swaps for the amount of LTL 27.8m were concluded for a period of five years.

17. Competition

AB Vilkyškių pieninės estimates that it has a 17-percent share of the Lithuanian market for cheese, i.e. it is in fourth place behind competitors *AB Rokiškio sūris*, *AB Pieno žvaigždės* and *AB Žemaitijos pienas*.

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

18. Key Events After Fiscal Year-End

There have been no significant events after 31 December 2014.

19. Business Plans and Forecasts

In 2015, *AB Vilkyškių pieninė* Group will continue focusing its efforts on food safety and quality. We will continue expanding our range of products and searching for new sales markets, which will be targeted actively once identified. Further investments are planned into whey processing in order to make this line of business even more profitable.

III. OTHER INFORMATION ABOUT ISSUER

Structure of Issuer's Share Capital

AB Vilkyškių pieninė Group's Share Capital:

Type of share	Number of share	Share face value, LTL	Total face value, LTL	Type of share
AB Vilkyškių pieninė	Common registered shares	11,943,000	1.00	11,943,000
AB Kelmės pieninė	Common registered shares	2,457,070	1.00	2,457,070
AB Modest	Common registered shares	5,617,118	1.00	5,617,118
AB Pieno logistika	Common registered shares	371,333	1.00	371,333

20. Information on Treasury Stock

The Company does not hold its own shares.

21. Rights of Shareholders

Shareholders have these non-proprietary rights:

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

Shareholders have the following proprietary rights:

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

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

22. Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

23. Information About Shareholders

The total number of shareholders of **AB Vilkyškių pieninė** on 31 December 2014 was 923. The following are the major shareholders, who own more than 5 percent of the Issuer's stock:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Gintaras Bertasius	6,067,206	51%	51%
Linas Strėlis	1,918,215	16%	16%
Minority shareholders	3,957,579	33%	33%
Total stock	11,943,000	100%	100%

AB Kelmės pieninė shareholders

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

AB Modest shareholders

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

AB Pieno logistika shareholders

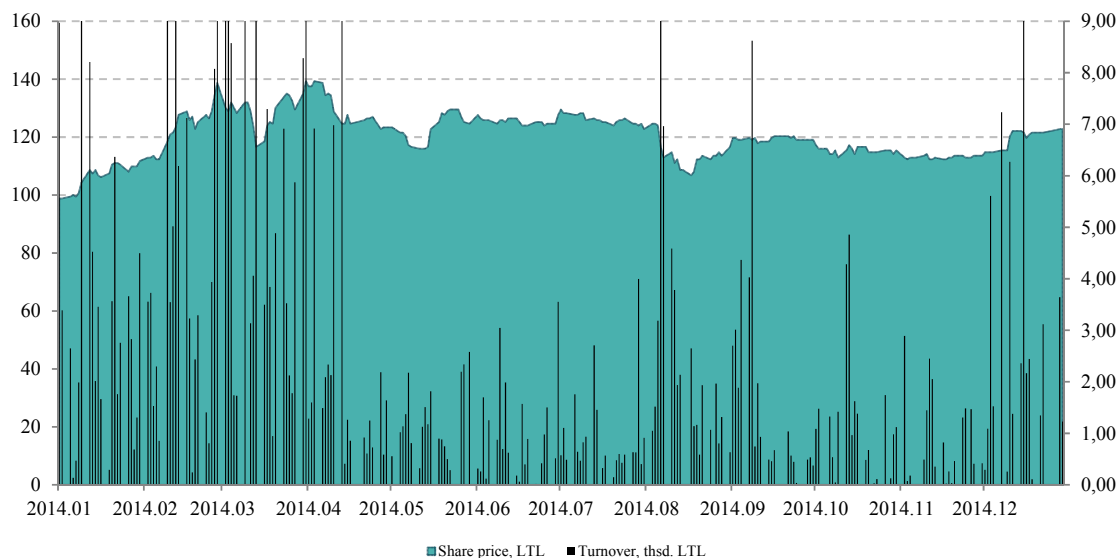
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
AB Vilkyškių pieninė	208,458	56.1%	56.1%
Minority shareholders	162,875	43.9%	43.9%
Total stock	371,333	100%	100%

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

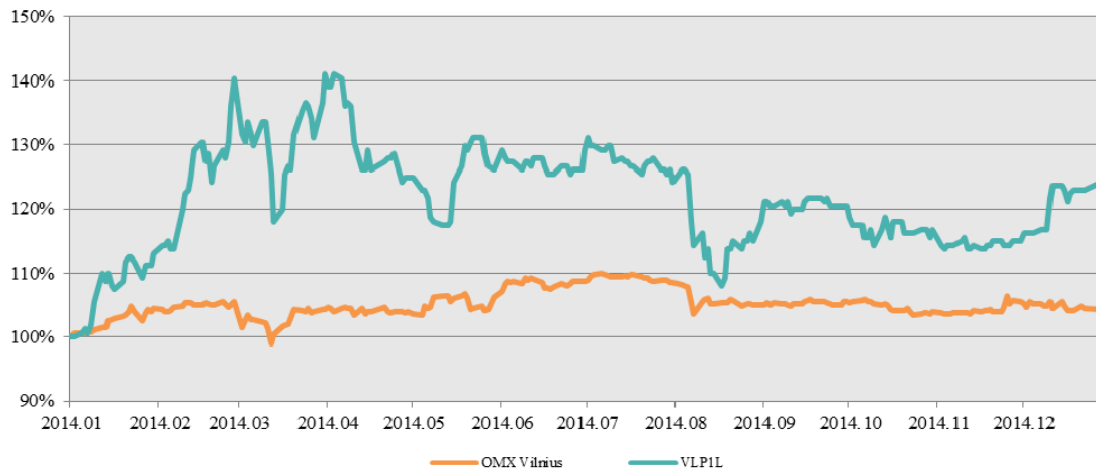
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

25. Trading in Issuer’s Securities on Regulated Markets

The change of price of *AB Vilkyškių pieninė* shares and trade volume in 2014



Comparison of *AB Vilkyškių pieninė* share price and OMX Vilnius Index, 2014.



26. Dividend

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

Dividend and amount of dividend

1. The Law on Public Companies of the Republic of Lithuania stipulates that the dividend constitutes a share of profit payable to a shareholder in proportion to the face value of the stock held by the shareholder.
2. The Company's shareholders cannot vote to pay a dividend at a general meeting of shareholders, if 1) the Company is insolvent 2) the distributed result for the fiscal year ended is negative 3) the Company's equity is smaller than the sum of its authorised capital and reserves, or in cases where it would become smaller following a dividend payout.
3. The Company's board shall submit to the General Meeting of Shareholders an amount of dividend based on the audited net profit result for the fiscal year ended.
4. If the Company has been profitable, the Company's board shall allocate a certain part of revenue for dividend as set out in Clause 2.6, reinvesting the rest of the revenue so as to increase the Company's capitalisation.
5. The Company shall pay dividend in cash.
6. The Company's board should establish the amount of dividend after taking into account the consolidated net profit of the Company for the year ended. The dividend amount must be not less than 25 percent of the consolidated net profit of the Company for the year ended, but not larger than the Company's annual consolidated net profit
7. The Company reserves the right to diverge from the criteria for the amount of dividend, provided it gives reasons for such divergence.

AB Vilkyškių pieninė's dividend payments in the past 5 years:

Dividend	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)
Dividend (LTL)	1,194,300	2,866,320	2,985,750	2,508,030	3,582,900
Dividend per share (LTL)	0.10	0.24	0.25	0.21	0.30
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

AB Kelmės pieninė's dividend payments in the past 5 years:

Dividend	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)
Dividend (LTL)	-	12,997,950	9,979,232	14,742,420	8,354,038
Dividend per share (LTL)	-	5.21	4.00	6.00	3.40
Number of shares	2,494,808	2,494,808	2,494,808	2,457,070	2,457,070

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

27. Employees

On 31 December 2014, there were 966 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (LTL)
		higher	vocational	secondary	secondary incomplete	
Managers	10	7	3			10,216
Specialists	223	106	71	46		2,850
Workers	733	29	261	397	46	1,745
	966	142	335	443	46	2,106

On 31 December 2013, there were 936 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (LTL)
		higher	vocational	secondary	secondary incomplete	
Managers	10	7	3			9,469
Specialists	207	89	91	27		2,720
Workers	719	34	285	355	45	1,599
	936	130	379	382	45	1,923

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

28. Authorisations to Issuer's Governing Bodies to Issue or Repurchase the Issuer's Stock

The general meeting of shareholders has authorised the Company's Board to conduct acquisition of the Company's own shares. The Board was authorised to purchase up to 10 percent of own stock, organise the purchasing process, establish the procedure, timing, numbers and prices for the purchase and sale of own shares, and to conduct all the necessary actions in compliance with the Law on Public Companies.

29. AB Vilkyškių pieninė's Group Governing Bodies

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

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

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

The Board elects and dismisses the General Director. The General Director is the head of the Company. The head of the Company is a single governing body in charge of organising the current business operations of the Company.

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

30. Procedure of Amendments to Company Articles

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

31. Activities of the Board

In the course of 2014, a total of 10 Board meetings were held, with the required quorum present at each of them. The Board approved the 12-month financial accounts for 2013, the 2014 three-month,

six-month and nine-month interim financial statements, the 2013 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2013 profit for an ordinary meeting of shareholders, and proposed the procedure of treasury stock purchase.

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

32. Board & Administration Members

AB Vilkyškių pieninė Board Members

Gintaras Bertašius (born 1964) – a Board Chairman since 30 January 2006, re-elected for a four-year term on 25 April 2014, General Director of *AB Vilkyškių pieninė*. Has a higher education diploma in mechanical engineering. Membership in other companies' governing bodies: a shareholder of ŪKB Šilgaliai, board chairman of *AB Modest*, board chairman of *AB Kelmės pieninė*. On 31 December 2014, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Sigitas Trijonis (born 1964) – a Board Member since 30 January 2006, re-elected for a four-year term on 25 April 2014, Technical Director of *AB Vilkyškių pieninė*. Has a higher education degree in mechanical engineering. As of 31 December 2014, he held 425,607 shares of *AB Vilkyškių pieninė*, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rimantas Jancevičius (born 1962) – a Board Member since 30 January 2006, re-elected for a four-year term on 25 April 2014, Raw materials Purchasing Director at *AB Vilkyškių pieninė*. Has a college diploma as livestock engineer. As of 31 December 2014, he held 167,223 shares of *AB Vilkyškių pieninė*, 1.4 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vilija Milaševičiūtė (born 1965) – a Board Member since 30 April 2009, re-elected for a four-year term on 25 April 2014. Has higher education in finance and credit. Economics and Financial Director of *AB Vilkyškių pieninė*. Membership in other companies' governing bodies: A board member of *AB Modest*. As of 31 December 2014, she held 7,813 shares of *AB Vilkyškių pieninė*, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Linas Strėlis (born 1968) – a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has higher education. General Director of *UAB LS Capital*, Director of *UAB Biglis*, board member of football club *Ekranas*, council chairman of Association of Social Enterprises (*Socialinių imonių asociacija*), board member of *AB Agrowill*. As of 31 December 2014, he held 1,918,215 shares of *AB Vilkyškių pieninė*, 16 percent of the stock and voting rights.

Andrej Cyba (born 1983) – a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has a university degree in business administration and management. General Director and board chairman of *AB Bankas Finasta* (as of the date of Annual Report), General Director of *UAB GPI*, General Director of *UAB GP2*, General Director of *UAB Piola*. As of 31 December 2014, did not have any shares in *AB Vilkyškių pieninė*.

AB Vilkyškių pieninės Members of Administration

Gintaras Bertašius (born 1964) – General Director and Chairman of the Board. Works at the Company since 1993. Has a higher education diploma as mechanical engineer. Membership in other companies' governing bodies: a shareholder of ŪKB Šilgaliai, board chairman of *AB Modest*, board chairman of *AB Kelmės pieninė*. On 31 December 2014, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Vilija Milaševičiūtė (born 1965) – Economics and Financial Director, a Board Member, working at the Company since 2000. Has higher education in finance and credit. A board member of *AB Modest*. As of 31 December 2014, she held 7,813 shares of *AB Vilkyškių pieninė*, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vaidotas Juškys (born 1969) – Chief Operation Officer, working at the Company since 2010. Has a degree in IT. As of 31 December 2014, he held 250 shares of *AB Vilkyškių pieninė*, 0.002 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Sigitas Trijonis (born 1964) – Technical Director, a Board Member, working at the Company since 1993. Has higher education as mechanical engineer. As of 31 December 2014, held 425,607 shares of *AB Vilkyškių pieninė*, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rimantas Jancevičius (born 1962) – Raw materials Purchasing Director and a Board Member, working at the Company since 1996. Has a college diploma as livestock engineer. As of 31 December 2014, held 167,223 shares of *AB Vilkyškių pieninė*, 1.4 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Arvydas Zaranka (born 1966) – Production Director, working at the Company since 1995. Has a college degree in dairy technology. Membership in other companies' governing bodies: a board member of *AB Modest*, a board member of *AB Kelmės pieninė*. As of 31 December 2014, held 1,933 shares of *AB Vilkyškių pieninė*, 0.016 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

A total of LTL 768,000 in bonuses were paid out to *AB Vilkyškių pieninė* board members in 2014, on average LTL 128,000 per member. The bonuses to the General Director and Economics and Financial Director totaled LTL 377,000, or LTL 188,000 per person on average. In 2014, the Company did not issue any loans, guarantees or letters of credit to members of its governing bodies. In 2014, the Company did not pay its board members or employees any salaries, bonuses or other payments from the profits of the Company's subsidiaries.

Members of *AB Kelmės pieninė* board and administration

Gintaras Bertašius (born 1964) – Chairman of the Board, last re-elected for a four-year term on 26 April 2012. Participation in the governing bodies of other companies: board chairman and General Director of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2014, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Arvydas Zaranka (born 1966) – a member of the board, re-elected for a four-year term on 26 April 2012. Participation in the governing bodies of other companies: Production Director of *AB Vilkyškių pieninė*, board member of *AB Modest*. Has a college degree in dairy technology. As of 31 December 2014, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

Algirdas Žukauskas (born 1958) – a member of the board, re-elected for a four-year term on 26 April 2012, General Director of *Kelmės pieninė*. Working at the company since 2008. Has a degree in livestock engineering. Holds no positions in other companies.

In 2014, *AB Kelmės pieninė* did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

Members of AB Modest board and administration

Gintaras Bertašius (born 1964) – Chairman of the Board, last re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: board chairman and General Director of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2014, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Arvydas Zaranka (born 1966) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Production Director of *AB Vilkyškių pieninė*, board member of *AB Kelmės pieninė*. Has a college degree in dairy technology. As of 31 December 2014, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

Vilija Milaševičiūtė (born 1965) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Economics and Financial Director of and board member *AB Vilkyškių pieninė*, a member of *AB Kelmės pieninė* board. Holds a university degree in finance and credit. As of 31 December 2014, held 7,813 shares in *AB Vilkyškių pieninė*, i.e. 0.07 percent of the stock and voting rights.

Kęstutis Keršys (born 1957) – Director of *AB Modest*, working at the company since 2010. Holds a higher education degree in economics, has no shares or seats in other companies.

In 2014, AB Modest did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

33. Committees

Members of the Audit Committee: Vanda Krivonosovienė (an independent member, employee of Tauragė District Municipality), Ligita Pudžiuvelytė (*AB Vilkyškių pieninė* employee) and Milana Buivydienė (*AB Vilkyškių pieninė* employee). None of the Committee members hold senior positions in the Company's administration or have shares in the Company.

During 2014, three meetings of the Audit Committee were held. They discussed and approved the following: the Company's 2013 financial statements, the draft 2013 annual report, the draft 2013 profit distribution report, the 2014 internal audit plan and the 2015 budget. Each meeting was attended by all members of the Committee.

No committees are formed in subsidiary companies.

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

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

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

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

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

Information about transactions with parties that are related to the Company has been included in the *AB Vilkyškių pieninė* consolidated financial statements for the year ended 31 December 2014, in Chapter 25.

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

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

IV. INFORMATION ABOUT COMPLIANCE TO MANAGEMENT CODE

The Company has prepared a Disclosure on Compliance with the Management Code Principles, which is attached as an Annex to this Consolidated Report.

V. INFORMATION ON DISCLOSURES

On the 10th day of each month, sales figures for the preceding months are published. A report has been published on an ordinary meeting of shareholders, as well as reports on the annual and interim results and the following report on the suspension of dairy product import to the Russian market:

By decree of the Russian Federation president on 6 August 2014, an import embargo was imposed on the import to Russia of most agricultural production originating in the European Union, the United States of America, Australia, Canada and the Kingdom of Norway. In recent months, *AB Vilkyškių pieninė's* sales to the Russian market accounted for 20-25 percent of total sales. The import embargo does not pose a threat to the continuity of *AB Vilkyškių pieninė's* operations, but will have a negative impact on financial results.”

Annex

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 2014

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 NASDAQ OMX Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

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

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	These principles are applied to the Management Board as long as they do not contradict the essence and purpose of the Board.
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. No Management Board is set up at AB Pieno logistika. The number of members of the collegial body is sufficient to dominate decision-making.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	In accordance with the Articles of Association, the members of the Management Board are appointed for the period of four years without limiting the number of their terms of office. The Articles of Association provides the company with the possibility to withdraw the whole Management Board or any of its members. The withdrawal of a member of the Management Board should be based on the legislation.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose	No	AB Vilkyškių Pieninė does not follow the Recommendation 2.7 because the chairman of the Management Board is Director

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.

<p>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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>General of the Company. The independence of supervision is guaranteed by other five members of the Management Board.</p> <p>AB Modest and AB Kelmės Pieninė follow the recommendation.</p>
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>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</p>		
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p> <p>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.</p> <p>The Company does not have any regulation on the Management Board's activity.</p>
<p>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.</p>	<p>Yes</p>	<p>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).</p> <p>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.</p>
<p>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</p>	<p>Yes</p>	<p>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.</p> <p>The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit.</p>

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.

<p>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.</p>		<p>No audit committee has been formed AB Modest and AB Kelmės Pieninė. and AB „Pieno logistika“</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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 sufficient⁴ number of independent⁵ members.</p>	<p>No</p>	<p>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. AB Vilkyškių pieninė is planning to establish the sufficient number of independent Management Board members and their independence criteria in the next meetings of the Company’s governing bodies.</p>
<p>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:</p> <ol style="list-style-type: none"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders’ meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does 	<p>No</p>	<p>The Company has not defined independence criteria for Management Board members. However, AB „Vilkyškių pieninė“ has two Board members who meet the independence criteria specified herein.</p>

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.

<p>not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>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);</p> <p>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);</p> <p>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;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>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.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
	No	

<p>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.</p>		<p>The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board. As mentioned above, AB Vilkyškių pieninė is planning to establish independence criteria for Board Members in the near future (2015).</p>
<p>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.</p>	<p>No</p>	<p>The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>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 monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>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</p>	<p>Yes</p>	<p>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.</p>

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 (tantjems) 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 (tantjems) 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.

<p>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).</p>	<p>Yes</p>	<p>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.</p>
<p>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 half⁹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>In the year 2014, 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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the</p>	<p>Yes</p>	<p>In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company</p>

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.

<p>company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies¹⁰. 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 advise the human resources department, executive directors or collegial management organs of the company concerned.</p>		<p>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.</p>
<p>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 committees¹¹. 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.</p>	<p>Yes</p>	<p><i>Vilkyskiu pienine</i> AB has 2 committees: Nomination and Remuneration Committee and Audit Committee.</p> <p>The Management Board forms the Nomination and Remuneration Committee.</p> <p>General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee.</p> <p>The committees are not formed in AB Modest, AB Kelmės Pieninė. and AB „Pieno logistika“</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on</p>	<p>Yes</p>	<p>The key objective of the Nomination and Remuneration Committee of AB Vilkyškių Pieninė is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the</p>

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).

<p>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.</p>		<p>members of the Management Board, to the chief executive office and to other executive officers.</p> <p>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.</p>
<p>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.</p> <p>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.</p>	<p>Yes</p>	<p>Each committee of AB Vilkyškių Pieninė is composed of 3 members.</p>
<p>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.</p>	<p>Yes</p>	<p>The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board.</p> <p>The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders.</p> <p>Both committees on a regular basis inform the collegial body on their activities and performance.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <p>1) Identify and recommend, for the approval of the collegial body, candidates to fill board</p>	<p>Yes</p>	<p>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.</p>

<p>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;</p> <ol style="list-style-type: none"> 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. <p>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.</p>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 	<p>Yes</p>	<p>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.</p>

<p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>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);</p> <p>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.</p> <p>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:</p> <p>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;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>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.</p> <p>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.</p> <p>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.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>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);</p> <p>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;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of 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;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the</p>	<p>Yes</p>	<p>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.</p>

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 in 2015 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.
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	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

¹² The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

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.		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-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>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.</p>		
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 should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Important transactions are approved following the order set in the Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue,	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

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

date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.		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 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.
	Yes	

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.		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 previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;	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.

<p>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</p> <p>5) Sufficient information on deferment periods with regard to variable components of remuneration;</p> <p>6) Sufficient information on the linkage between the remuneration and performance;</p> <p>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>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;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>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.</p>	No	
<p>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.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>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;</p> <p>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;</p> <p>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;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p>	No	

<p>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:</p> <ol style="list-style-type: none"> 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. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 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. <p>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.</p>		
<p>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.</p>	Not applicable	
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	Not applicable	
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Not applicable	
<p>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.</p>	Not applicable	
<p>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.</p>	Yes	

8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used 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.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	According to the Company's Articles of Association, the salaries of management fixed by the Management Board (except for AB Pieno logistika, where the salary for the company head is fixed by the General Meeting.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject	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.

<p>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.</p>		
<p>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.</p>	Not applicable	
<p>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.</p>	Not applicable	
<p>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.</p>	Not applicable	
<p>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.</p>	Not applicable	
<p>Principle IX: The role of stakeholders in corporate governance</p>		

<p>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.</p>		
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.
<p>Principle X: Information disclosure and transparency</p>		
<p>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.</p>		
<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 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 concluded outside the course of the company’s regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>	<p>Yes, except salary information set out in point 4</p> <p>Yes</p> <p>Yes</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Except for salary information.</p>

be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Not applicable	
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The company presents the information via the information disclosure system applied by NASDAQ OMX Vilnius simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavours to announce the information before or after a trading session on NASDAQ OMX Vilnius and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have an impact on the price of its issued stocks and does not disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient 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 announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The company follows this recommendation and places all the essential information on the company's website.
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Management Board nominates the candidate firm of auditors to the General Meeting (except for AB „Pieno logistika, where the nomination is done by the company head), and the General Meeting is responsible for appointing the audit firm.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any non-audit services and it has not received from the company any remuneration for non-audit services.