AB Vilkyškių Pieninė

Separate financial statements for the year ended 31 December 2014

Content

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
Nordea Bank AB
AB DnB Bankas
AB Šiaulių Bankas

Management's statement on the financial statements

The Management has today discussed and authorized for issue the separate annual financial statements and has signed them on behalf of the Company.

The separate 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 annual financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Vilkyškiai, 27 March 2015

Management:

Gintaras Bertašius
General Director

Vilija Milaševičiutė
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 separate financial statements

We have audited the accompanying separate financial statements of AB VILKYŠKIŲ PIENINĖ ("the Company"), which comprise the separate statement of financial position as at 31 December 2014, the separate statements of income, 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, as set out on pages 5-54.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2014, and of its unconsolidated financial performance and its unconsolidated 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 55-72 of the separate financial statements, and have not identified any material inconsistencies between the separate financial information included in the annual report and the separate financial statements of the Company as at and for the year ended 31 December 2014.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner pp
Certified Auditor

Klaipėda, the Republic of Lithuania
31 March 2015

Separate statement of financial position

Thousand Litas	Note	31 December 2014	31 December 2013
Assets			
Property, plant and equipment	10	75,176	72,566
Intangible assets	11	121	47
Investment in subsidiaries	12	36,978	36,952
Long-term receivables	13	1,456	1,623
Non-current assets		**113,731**	**111,188**
Inventories	14	24,141	23,876
Trade and other receivables	15	27,666	26,091
Prepayments	16	1,616	1,878
Cash and cash equivalents	17	280	219
Current assets		**53,703**	**52,064**
Total assets		**167,434**	**163,252**
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		17,304	11,816
Retained earnings		36,318	35,401
Total equity	18	**76,961**	**70,556**
Liabilities			
Interest-bearing loans and finance lease liabilities	19	21,602	25,704
Derivative financial instruments	23	1,294	1,207
Government grants	20	7,261	7,683
Deferred tax liabilities	21	3,528	3,058
Non-current liabilities		**33,685**	**37,652**
Interest-bearing loans and financial lease liabilities	19	20,325	19,114
Profit tax payable		-	-
Derivative financial instruments	23	378	358
Trade and other payables	22	36,085	35,572
Current liabilities		**56,788**	**55,044**
Total liabilities		**90,473**	**92,696**
Total equity and liabilities		**167,434**	**163,252**

The notes, set out on pages 11 to 54, are an integral part of the separate financial statements.

Separate income statement

For the year ended 31 December

Thousand Litas	Notes	2014	2013
Revenue	1	436,080	409,282
Cost of sales	2	-412,079	-379,079
Gross profit		**24,001**	**30,203**
Other operating income	3	2,946	2,106
Distribution expenses	5	-17,481	-16,015
Administrative expenses	6	-8,182	-6,069
Other operating costs	4	-1,518	-798
Operating result		**-234**	**9,427**
Finance income		8,464	14,865
Finance costs		-1,881	-2,017
Net finance costs	7	**6,583**	**12,848**
Profit before tax		**6,349**	**22,275**
Income tax expense	8	162	-1,198
Net profit for the year		**6,511**	**21,077**
Basic earnings per share (Litas)	9	0.55	1.76
Diluted earnings per share (Litas)	9	0.55	1.76

The notes, set out on pages 11 to 54, are an integral part of the separate financial statements.

Separate statement of comprehensive income

For the year ended 31 December

Thousand Litas	Notes	2014	2013
Net profit		**6,511**	**21,077**
Other comprehensive income for the year			
Items that will never be reclassified to income statement		**-**	**-**
Gain (loss) from revaluation of non-current assets, net of deferred tax		3,584	-
Items that are or can be reclassified to income statement		**-**	**-**
Change in fair value of hedging instruments		-107	578
Other comprehensive income for the year, net of income tax		**3,477**	**578**
Total comprehensive income		**9,988**	**21,655**

The notes, set out on pages 11 to 54, are an integral part of the separate financial statements.

Separate statement of changes in equity

Thousand Litas	Note	Share capital	Share premium	Hedging reserve	Reserve for acquiring own shares	Revalua-tion reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2013		11,943	11,396	-2,143	5,768	6,570	1,194	16,681	51,409
Profit for the year		-	-	-	-	-	-	21,077	21,077
Other comprehensive income									
Depreciation of restated assets		-	-	-	-	-354	-	354	-
Formation of reserve for derivative financial instruments		-	-	578	-	-	-	-	578
Total comprehensive income		-	-	578	-	-354	-	354	578
Contributions by and distributions to owners stated directly in equity									
Allocated to reserve for acquiring own shares		-	-	-	203	-	-	-203	-
Allocated to legal reserve		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-2,508	-2,508
Total contributions by and distributions to owners		-	-	-	203	-	-	-2,711	-2,508
Balance as at 31 December 2013		11,943	11,396	-1,565	5,971	6,216	1,194	35,401	70,556
Balance at 1 January 2014		11,943	11,396	-1,565	5,971	6,216	1,194	35,401	70,556
Profit for the year		-	-	-	-	-	-	6,511	6,511
Other comprehensive income									
Change in the value of restated assets		-	-	-	-	3,584	-		3,584
Depreciation and write down of restated assets		-	-	-	-	-376	-	376	
Formation of reserve for derivative financial instruments		-	-	-107	-	-	-	-	-107
Total comprehensive income		-	-	-107	-	3,208	-	376	3,477
Contributions by and distributions to owners stated directly in equity									
Allocated to reserve for acquiring own shares		-	-	-	2,387	-	-	-2,387	-
Allocated to legal reserve		-	-		-	-	-	-	-
Dividends		-	-	-	-	-	-	-3,583	-3,583
Total contributions by and distributions to owners		-	-	-	2,387	-	-	-5,970	-3,583
Balance as at 31 December 2014		11,943	11,396	-1,672	8,358	9,424	1,194	36,318	76,961

The notes, set out on pages 11 to 54, are an integral part of the separate financial statements.

Separate statement of cash flows

For the year ended 31 December

Thousand Litas	Note	2014	2013
Cash flows from operating activities			
Net profit		6,511	21,077
Adjustments:			
Depreciation of property, plant and equipment	10	6,889	6,470
Amortization of intangible assets	11	40	5
Amortization and write down of grants	20	-820	-779
(Profit) loss on disposal and write down of property, plant and equipment		203	-27
Income tax expense	8	-162	1,198
Net finance costs		-6,583	-12,848
		6,078	**15,096**
Change in inventories		-244	-6,632
Change in long-term receivables		167	-230
Change in trade and other receivables		-1,522	-9,811
Change in prepayments		262	-530
Change in trade and other payables		8,424	13,301
		13,165	**11,194**
Paid income tax		-	-
Paid interest		-1,727	-1,651
Net cash flows from operating activities		**11,438**	**9,543**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-5,168	-9,256
Proceeds from sale of property, plant and equipment		360	406
Acquisition of shares of the subsidiary		-26	-
Acquisition of intangible assets		-114	-49
Net cash flow used in investing activities		**-4,948**	**-8,899**

Separate statement of cash flows (cont‘d)

For the year ended 31 December

Thousand Litas

	Note	2014	2013
Cash flows from financing activities			
Loans received		7,125	9,947
Repayment of borrowings		-10,740	-8,405
Dividends paid		-3,212	-2,508
Capital grants received	20	398	-
Net cash used in financing activities		**-6,429**	**-966**
Increase (decrease) in cash and cash equivalents		61	-322
Cash and cash equivalents at 1 January		219	541
Cash and cash equivalents at 31 December	17	280	219

The notes, set out on pages 11 to 54, are an integral part of the separate financial statements.

Notes to the financial statements

Background information

AB Vilkyškių Pieninė (hereinafter – the Company) was established in 1993. The Company does not have any branches or representative offices.

AB Vilkyškių Pieninė is listed on the Nasdaq OMX Vilnius Stock Exchange. The Company's shareholders as at 31 December 2014 are as follows:

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	3,238,258
Total capital	**11,943,000**	**1**	**11,943,000**

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

The Company is engaged in production and sales of different types of cheese. It also produces and sells whey, raw milk and cream.

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

As at 31 December 2014, the Company had 557 employees (at 31 December 2013 : 554).

The 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% voting rights of the subsidiary (at 31 December 2013: 99.7%). AB Modest produces cheese Mozzarella, blue cheese and other cheese products.

In 2008 the Company acquired one more subsidiary - AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. As at 31 December 2014 the Company holds 100% voting rights of AB Kelmės Pieninė (at 31 December 2013: 100%). AB Kelmės Pieninė specialises in production of fresh dairy products.

As of December 2013, the Group includes a subsidiary AB Pieno Logistika. The authorized capital of the mentioned company amounts to 371 thousand LTL; the main activity is lease of buildings. AB Vilkyškių Pieninė holds 56.1% shares of AB Pieno Logistika (at 31 December 2013: 50.8%).

Basis for preparation of financial statements

Statement of compliance

These separate financial statements (financial statements or separate financial statements) of AB Vilkyškių Pieninė have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Notes to the financial statements

Basis for preparation of financial statements (cont‘d)

The management of the Company is authorized to issue the separate financial statements of the Company after they are approved by the general shareholders meeting, which must be convened by 30 April 2015 as prescribed by the Law on Companies of the Republic of Lithuania.

Basis of measurement

Financial statements are prepared on the historical cost basis except for:

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

Functional and presentation currency

These separate financial statements are presented in Litas (LTL), which is the official currency of the Republic of Lithuania and the Company's functional currency. All financial information presented in Litas has been rounded to the nearest thousand.

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 date fair value was determined.

Summary of significant accounting policies and practices

The accounting policies of the Company, set out below, have been applied consistently to all periods presented in these financial statements.

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. The cost of self-constructed assets 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 Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company 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

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Property, plant and equipment (cont‘d)

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 conformity with depreciation of certain assets.

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 the equity. Depreciation is calculated on the amount which is equal to the acquisition cost/revaluated 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 latter is immediately reduced to the fair value and the impairment is deducted from the previous revaluation increases recognised in the revaluation reserve, to the extent it does not exceed the amount of such increases. Depreciation is calculated from the depreciable amount, which is equal to the acquisition value less the residual value.

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 Company 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.

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.

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.

Investment property

Investment property is the Company‘s property, held to earn rentals. Such property is stated under the category of buildings at a restated value.

Intangible assets

Intangible assets with a finite useful life that are acquired by the company 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.

Investment in subsidiaries

Investment in subsidiaries is measured at acquisition cost less impairment losses, if any.

Notes to the financial statements

Summary of significant accounting policies and practices (cont'd)

Inventories

Inventories include finished goods, production in progress as well as goods and materials.

Initially inventories are stated at acquisition cost, which includes direct costs of wages, materials and processing during production period. Production costs also include systematically allocated fixed and variable production overheads.

At the end of the reporting period inventories are stated at the lower of cost and net realizable value, less impairment losses. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Write down to net realisable value is stated under cost of sales.

Cost of inventories is based on the FIFO 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 investments; loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. Non-derivative financial instruments are recognized initially at fair value, plus, (except for instruments at fair value through profit or loss), directly attributable transaction costs.

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

Financial assets and financial liabilities at fair value through profit or loss are recorded 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 Parent Company or subsidiaries has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method. The effective interest rate method is the method used for estimation of amortised cost of financial assets and allocation of interest income or costs over a relevant period. An effective interest rate is the rate allowing to accurately discount the future payments in cash over the expected validity period of the financial liability or over a shorter period, where appropriate. Gains and losses are recognized in the income statement when the investments are derecognized or impaired.

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 method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Financial assets and liabilities (cont‘d)

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. Change in the fair value is recognised in the statement of comprehensive income until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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 Company 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 Company 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Financial assets and liabilities (cont‘d)

Borrowing costs

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

Trade and other payables

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

Derivative financial instruments

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 economic characteristics 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.

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.

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.

When the hedged asset is not financial, the amount accumulated under the equity is included in the carrying amount of the asset at the moment of recognition and accounting. In other cases 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

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 Company or subsidiaries 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 Company 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 Company’s continuing involvement in the asset.

Financial liabilities

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

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 loss 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 Company 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 Company 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Impairment (cont‘d)

Calculation of recoverable amount

The recoverable amount of the Company'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 due to subsequent events the recoverable amount of receivables objectively increases.

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

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 company 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 obligation.

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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Finance and operating leases

At the inception of arrangement the Company determines whether an arrangement is attributable to finance or operating lease.

The Company as a lessee

Finance leases, which transfer to the Company 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.
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.

Dividends

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

Government grants

Grants that compensate the Company for expenses incurred are recognized as revenue in the income statement in the same periods in which the expenses are incurred.

Grants that compensate the Company 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Distribution and administrative expenses

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

Operating costs are recognised based on accrual principle.

Other operating income and costs

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

Financial income and expenses

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

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

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

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

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

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Income tax (cont’d)

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 Company 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 Company 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. During the financial year the Company did not issue any potential ordinary shares.

Segments

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

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

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

The Company 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 Company, 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 Company as it does not participate in joint arrangements.

(ii) IFRS 10: Consolidated Financial Statements

As a result of IFRS 10 (2011), the Company 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 Company 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont'd)

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

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

(iii) 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 Company 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 Company 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).

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 Company 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 Company 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont'd)

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

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 results in a change in the Company'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 Company.

Contingencies

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

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

Subsequent events

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

Use of judgements and estimates

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

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by their nature, 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Use of judgements and estimates (cont‘d)

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 Company 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%.

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 Company 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 effective interest rate.

Impairment losses on goodwill and property, plant and equipment

The carrying amounts of the Company'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).

Valuation of buildings

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

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Use of judgements and estimates (cont‘d)

Impairment losses on receivables

The Company reviews receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company 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 receivables of the Company.

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.

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 Company is exposed to the following risks from its use of financial instruments:

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

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

The note 27 *Financial instruments risk management* includes quantitative information about each type of risk listed above as well as information about capital management. Disclosures are provided in the financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, 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 Company, 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.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Credit risk

When carrying out trade activities, the Company sells its products and services with a deferred payment term. Therefore, there might be a risk that the clients will not settle for the Company's goods and services. In order to reduce the credit risk to a minimum, the Company manages it by applying the credit limit principles, determining credit amounts and type of pledge, such as:

- limit,
- insurance,
- guarantees,
- credit insurance

The Company has also insured in 2014 the foreign customers by credit insurance in the company Eurler Hermes. For each client making settlement not in cash, the credit risk is assessed on an individual basis. Trade receivables are regularly reviewed by the Finance Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started.

Liquidity risk

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

The Company'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 Company's objective is to maintain a balance between continuity of funding and flexibility. The Company's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Company 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 Company'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 Company manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 27 Financial instruments and risk management.

The Company's income and operating cash flows are in general independent of changes in market interest rates. The Company does not have significant interest-bearing assets. The Company use derivative instruments to hedge the interest rate risk (refer to Note 23).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations.

Notes to the financial statements

Summary of significant accounting policies and practices (cont‘d)

Operational risk (cont’d)

The Company’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company’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
- 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 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 Company's reportable segments:

- *Cheese and cheese products.* Includes cheese and cheese products produced by the Company;
- *Other products.* Includes other products (except cheese) produced by the Company;
- *Other dairy products*. Includes other dairy products acquired for resale.

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 2014 are as follows:

Thousand Litas	Cheese and cheese products produced by the Company	Other products	Other dairy products acquired for resale	Total
Sales	160,071	165,969	110,040	436,080
Cost of sales	-151,761	-154,304	-106,014	-412,079
Gross profit	8,310	11,665	4,026	24,001

Segments results for the year 2013 are as follows:

Thousand Litas	Cheese and cheese products produced by the Company	Other products	Other dairy products acquired for resale	Total
Sales	149,201	149,010	111,071	409,282
Cost of sales	-139,114	-132,513	-107,452	-379,079
Gross profit	10,087	16,497	3,619	30,203

Management's opinion is that it is not reasonable to allocate general and administrative costs, finance income and costs, assets and liabilities to separate reportable segments.

The Company has one client in Russia, for whom sales during the year exceeded 10% of the total sales.

Notes to the financial statements

1 Segment reporting (cont'd)

Geographical information

When presenting information on the basis of geographical segments, income from segments is recognized according to a geographical location of a client. Assets of segments are allocated as to the geographical location of assets.

Segment information for 2014 per geographical zones:

Thousand Litas	Countries of European Union except Lithuania	Lithuania	Russia	Other countries	Total
Revenue	141,330	176,825	94,434	23,491	436,080
Segment receivables	8,145	17,940	1,650	1,547	29,282
Not allocated assets		138,152			138,152
Total assets	8,145	156,092	1,650	1,547	167,434
Not allocated liabilities					90,473
Not allocated cash flows from ordinary activities					11,438
Not allocated cash flows from investing activities					-4,948
Not allocated cash flows from financing activities					-6,429
Net cash flows					61
Not allocated acquisitions of non-current assets					5,958

Segment information for 2013 per geographical zones:

Thousand Litas	Countries of European Union except Lithuania	Lithuania	Russia	Other countries	Total
Revenue	104,568	161,220	126,075	17,419	409,282
Segment receivables	12,394	15,393	182	-	27,969
Not allocated assets		135,283			135,283
Total assets	12,394	150,676	182	-	163,252
Not allocated liabilities					92,696
Not allocated cash flows from ordinary activities					9,543
Not allocated cash flows from investing activities					-8,899
Not allocated cash flows from financing activities					-966
Net cash flows					-322
Not allocated acquisitions of property plant and equipment					10,127

Notes to the financial statements

Thousand Litas		2014	2013
2	**Cost of sales**		
	Raw materials	-251,368	-231,593
	Cost of resold items from subsidiaries	-106,014	-107,452
	Staff costs	-12,907	-11,490
	Gas, electricity	-5,686	-5,501
	Depreciation and grants amortisation	-5,167	-4,994
	Other	-30,937	-18,049
		-412,079	-379,079
3	**Other operating income**		
	Income from services, including lease	1,728	1,012
	Income from transportation services to other companies	264	476
	Income from disposal of non-current assets	225	34
	Income from sales of other materials	207	90
	Income from accounting services	338	336
	Other income	184	158
		2,946	2,106
4	**Other operating costs**		
	Staff costs	-591	-271
	Cost of services rendered	-431	-31
	Depreciation of leased assets and grants amortisation	-318	-282
	Cost of materials sold	-173	-212
	Other costs	-5	-2
		-1,518	-798
5	**Distribution expenses**		
	Logistics	-5,226	-4,233
	Marketing and advertising	-4,668	-4,970
	Transportation	-3,895	-3,650
	Staff costs	-1,889	-1,599
	Written down tare	-261	-407
	Depreciation and amortisation	-218	-123
	Other selling costs	-1,324	-1,033
		-17,481	-16,015

Notes to the financial statements

	Thousand Litas	2014	2013
6	**Administrative expenses**		
	Staff costs, including change in vacation reserve	-3,607	-3,065
	Association membership fee	-1,079	-73
	Taxes except for income tax	-507	-460
	Depreciation and amortisation	406	-297
	Impairment of non-current assets due to revaluation	-380	-
	Write down of bad debts	-220	-25
	Services received	-214	-256
	Bank charges	-205	-174
	Penalties and fines	-170	-120
	Payments to Board members	-150	-150
	Fuel	-143	-124
	Consultations	-121	-117
	Security	-77	-92
	Repair	-76	-82
	Insurance	-32	-31
	Training of employees	-20	-27
	Other	-775	-976
		-8,182	-6,069
7	**Net financing costs**		
	Financing income		
	Dividends	8,354*	14,742*
	Interest	26	33
	Other	84	90
	Total financing income	8,464	14,865
	Financing costs		
	Interest	-1,727	-1,651
	Loss from currency exchange	-57	-252
	Other	-97	-114
	Total financing costs	-1,881	-2,017
		6,583	12,848

* The dividends receivable from the subsidiary AB Kelmės Pieninė were set off against the amounts payable to this company.

Notes to the financial statements

8 Income tax expense

Recognised in the income statement

Current income tax expense		
Current period	-	-
Deferred tax		
Change in deferred tax	162	-1,198
	162	-1,198

Reconciliation of effective tax rate

Thousand Litas	2014		2013	
Profit for the year		6,511		21,077
Total income tax expense		-162		1,198
Profit before tax		6,349		22,275
Income tax applying the effective rate	*15.00%*	952	*15.00%*	3,341
Non-deductible expenses	*9,41%*	598	*0,78%*	174
Effect of non-taxable income	*-26,96%*	-1,712	*-10,35.%*	-2,305
Support			*-0.05%*	-12
Income tax expense	*-2,55%*	-162	*5,38%*	1,198

9 Earnings per share

	2014	2013
Number of issued shares calculated based on weighted average method, in thousand	11,943	11,943
Net profit, attributable to ordinary share holders of the Company, in thousand Litas	6,511	21,077
Basic earnings per share, in Litas	0.55	1.76

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

Notes to the financial statements

10 Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/ Revalued amount					
Balance as at 1 January 2013	26,580	68,529	5,314	4,447	104,870
Acquisitions	-	2,062	349	7,667	10,078
Disposals	-	-1,185	-158	-	-1,343
Reclassification	664	402	186	-1,252	-
Balance as at 31 December 2013	27,244	69,808	5,691	10,862	113,605
Balance as at 1 January 2014	27,244	69,808	5,691	10,862	113,605
Acquisitions	3,884	2,722	360	2,713	9,679
Disposals	-142	-1,559	-519		-2,220
Reclassification	2,247	7,807	124	-10,178	-
Transfer	-6,884	-	-	-	-6,884
Balance as at 31 December 2014	26,348	78,778	5,657	3,397	114,180
Depreciation and impairment					
Balance as at 1 January 2013	7,989	23,393	4,151	-	35,533
Depreciation for the year	900	5,283	287	-	6,470
Disposals	-	-865	-99	-	-964
Reclassification	-	-	-	-	-
Balance as at 31 December 2013	8,889	27,811	4,339		41,039
Balance as at 1 January 2014	8,889	27,811	4,339	-	41,039
Depreciation for the year	994	5,525	370	-	6,889
Disposals	-111	-1,413	-516	-	-2,040
Reclassification	-2,174	2,174	-	-	-
Transfer	-6,884	-	-	-	-6,884
Balance as at 31 December 2014	714	34,097	4,193	-	39,004
Carrying amounts					
1 January 2013	18,591	45,136	1,163	4,447	69,337
31 December 2013	18,355	41,997	1,352	10,862	72,566
31 December 2014	25,634	44,681	1,464	3,397	75,176

Pledged assets

To secure the bank loans, the Company has pledged its property, plant and equipment with a book value of 52,660 thousand LTL as at 31 December 2014 (as at 31 December 2013: 40,384 thousand LTL) (refer to note 19).

Acquisition cost of depreciated property, plant and equipment in use amounts to 15,127 thousand LTL as at 31 December 2014 (as at 31 December 2013: 13,553 thousand LTL).

Notes to the financial statements

10 Property, plant and equipment (cont'd)

Leased property, plant and equipment

The Company has acquired cars, machinery and equipment, constructions and other equipment by way of finance lease. The carrying amount of the leased assets amounted to 2,758 thousand LTL as at 31 December 2014 (as at 31 December 2013: 2,800 thousand LTL). The leasing liabilities are secured by pledging the leased assets (note 19).

Revaluation

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

As at 31 December 2014, the Company carried out an evaluation of buildings and accounted for the results in the financial statements.

An increase in value of 3,584 thousand LTL (net of deferred tax liability) is stated under equity. The total increase in value amounted to 3,835 thousand LTL and is stated in the acquisitions item for 2014.

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

The net value of the revaluation reserve as at 31 December 2014 amounts to 9,424 thousand LTL (at 31 December 2013 : 6,216 thousand LTL).

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2014 would be 12,765 thousand LTL (restated value – 23,472 thousand LTL) (at 31 December 2013: 10,106 thousand LTL and the restated value – 17,419 thousand LTL).

Investment property

The category of land and buildings includes certain not movable assets which are leased to a subsidiary. The carrying amount of these assets amounts to 6,822 thousand LTL as at 31 December 2014 (at 31 December 2013: 6,265 thousand LTL). Depreciation of the assets is provided on a straight-line basis over the useful lifetime of 40 years.

Depreciation

Depreciation is recorded in the following items:

Thousand Litas	2014	2013
Cost of finished goods	5,967	5,738
Distribution and administrative costs	584	415
Other operating costs	338	317
	6,889	6,470

Notes to the financial statements

11 Intangible assets

Thousand Litas	Software	Total
Cost		
Balance as at 1 January 2013	1,452	1,452
Acquisitions	49	49
Balance as at 31 December 2013	1,501	1,501
Balance as at 1 January 2014	1,501	1,501
Acquisitions	114	114
Balance as at 31 December 2014	1,615	1,615
Amortization and impairment		
Balance as at 1 January 2013	1,449	1,449
Amortization for the year	5	5
Balance as at 31 December 2013	1,454	1,454
Balance as at 1 January 2014	1,454	1,454
Amortization for the year	40	40
Balance as at 31 December 2014	1,494	1,494
Carrying amounts		
1 January 2013	3	3
31 December 2013	47	47
31 December 2014	121	121

Amortization charge for the year is included in administrative expenses.

12 Investments in subsidiaries

Thousand Litas	**31-12-2014**	**31-12-2014**
Cost of shares of AB Modest	6,876	6,876
Cost of shares of AB Kelmės Pieninė	29,887	29,887
Cost of shares of AB Pieno Logistika	215	189
	36,978	36,952

The Company obtained control over AB Modest in 2006. Ownership in the subsidiary amounted to 99.7% as at 31 December 2014 (2013: 99.7%).

Based on the share sales-purchase agreement, on 30 April 2008 the Company acquired a shareholding in AB Kelmės Pieninė. As at 31 December 2014 the ownership was 100%, as at 31 December 2013 - 100%.

In 2014, the Company owns 56.1% shares of AB Pieno Logistika (as at 31 December 2013 : 50.8%).

Notes to the financial statements

12 Investments in subsidiaries (cont'd)

The key financial figures of AB Modest as at 31 December 2014 are as follows:

Thousand Litas	**31-12-2014**	**31-12-2013**
Total assets	20,568	10,807
Equity	2,533	1,671
Net profit (loss)	862	-1,430

Allocation of the acquisition price of AB Modest shares:

Net assets acquired (in 2006)	352	352
Increase of authorised capital	5,491	5,491
Goodwill	1,033	1,033
Cost of acquisition	6,876	6,876

In December 2014, the recoverable amount of the investment in AB Modest, as a cash generating unit, was reviewed by calculating the value in use. For estimation of the value in use, the calculated future cash flows were discounted to their present value applying an industry weighted average cost of capital rate, which was equal to 7.91%. The main assumptions used for calculation are as follows:

- Future cash flows are calculated based on historical experience and the 5-year business plan. Cash flows expected over the remaining useful life of the machinery and equipment were calculated by extrapolating the cash flow for the fifth year with the expected 5 percent growth rate.
- For an increase of revenues and improvement of performance results, the Company 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 management of the Group expects that the prices for raw milk will not significantly differ from the prices in 2014.

The calculated recoverable amount revealed that the investment is not impaired as at 31 December 2014; therefore, no impairment has been recorded.

The key financial figures of AB Kelmės Pieninė as at 31 December 2013:

Thousand Litas	31-12-2014	31-12-2013
Total assets	32,453	27,894
Equity	15,676	11,555
Net profit (loss)	12,080	8,103

Allocation of the acquisition price of AB Kelmės Pieninė as at 31 December 2013:

Net assets acquired (in 2008)	7,234	7,234
Separation of AB Pieno Logistika by way reorganization	-189	-189
Goodwill	22,842	22,842
Cost of acquisition	29,887	29,887

Notes to the financial statements

12 Investments in subsidiaries (cont‘d)

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

The key financial figures of AB Pieno Logistika as at 31 December 2014:

	31-12-2014	31-12-2013
Total assets	710	650
Equity	371	372
Net profit	-2	1
Net assets acquired	208	189
Goodwill	-	-
Cost of acquisition	208	189

13 Long-term receivables

Thousand Litas	Note	31-12-2014	31-12-2013
Prepayments to related parties	26	739	842
Loans granted to related parties	26	437	426
Long-term receivables from farmers		280	355
		1,456	1,623

A prepayment (739 thousand LTL) has been made to a related company ŪKB Šilgaliai. Based on renewal of the agreement signed in 2014, the prepayment shall be fully settled by 31 December 2019. The outstanding balance is subject to an administration fee.

A loan (351 thousand LTL) , issued to a related company ŪKB Šilgaliai, shall be repaid by 31 December 2017. The outstanding balance is subject to fixed interest.

A loan of 86 thousand LTL was issued to a subsidiary company AB Pieno Logistika in 2014. The loan shall be repaid by 30 June 2017. The outstanding balance is subject to fixed interest.

Long term 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 Company, and impairment losses related to trade and other receivable amounts are disclosed in note 27.

Notes to the financial statements

14 Inventories

Thousand Litas	31-12-2014	31-12-2013
Finished goods	21,350	21,464
	21,350	21,464
Raw materials	3	102
Auxiliary materials	2,788	2,310
	24,141	23,876

Raw materials comprise raw milk and other materials used in production.

As at 31 December 2014, write down of inventories (finished goods) to net realisable value amounts to 2,130 thousand LTL. As at 31 December 2013, there were no inventories (finished goods) written down to net realisable value. As at 31 December 2013, an impairment of auxiliary materials amounted to 15 thousand LTL.

As at 31 December 2014, the inventories with the carrying amount of up to 16,5 million LTL (2013 : up to 16,5 million LTL) have been pledged to financial institutions (note 19).

15 Trade and other receivable amounts

Thousand Litas	Note	31-12-2014	31-12-2013
Trade receivables		19,237	21,368
Trade receivables due from related parties	26	4,904	996
Loans to related parties, including interest and administration fee	26	486	513
Other receivables		12	1
Sub-total: financial assets		24,639	22,878
Taxes receivable (excluding income tax)		3,027	3,213
Total trade and other receivables		27,666	26,091

Credit and foreign currency risks, encountered by the Company, and impairment losses related to trade and other receivable amounts are disclosed in note 27.

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

Receivable taxes as at 31 December 2014 mainly include receivable VAT of 3,020 thousand LTL (2013 : 3,202 thousand LTL).

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

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

Notes to the financial statements

16 Prepayments

Thousand Litas	Note	31-12-2014	31-12-2013
Prepayments for goods and services		1,153	1,393
Prepayments to related parties	26	463	485
		1,616	1,878

17 Cash and cash equivalents

Cash at bank	244	80
Cash in hand	36	139
	280	219

All account balances as at 31 December 2014 have been pledged to secure bank loans (note 19). Furthermore, cash inflows in the bank accounts are pledged to secure bank loans (note 19).

The interest rate risk, encountered by the Company, related to cash and cash equivalents, is disclosed in note 27.

18 Capital and reserves

Authorized capital of the parent company as at 31 December 2014 and 2013 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

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

Share premium

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

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. The reserve can be used only to cover the retained losses.

Revaluation reserve

Revaluation reserve is related to revaluation of buildings and is stated net of deferred tax liability.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 revaluated 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.

Notes to the financial statements

18 Capital and reserves (cont'd)

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

In 2011, a reserve was established for acquiring own shares which amounted to 5,768 thousand LTL

The extraordinary shareholders meeting, dated 25 April 2014, decided that the Company may acquire up to 10 % of own shares.

As at the end of 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 Company performs acquisition of own shares.

The Company did not acquire any own shares as at 31 December 2014 and 2013.

19 Loans and finance lease liabilities

Loans and finance lease liabilities of the Company are as follows:

Credit institution	Ref.	Currency	Contractual amount, thousand LTL	Balance 31-12-2014	Balance 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 credit line	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
Banko 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
Bank	m)	LTL	6,450	3,474	3,000
AB Kelmės pieninė*	n)	LTL	2,600	2,600	2,600
AB Modest*	o)	LTL	5,756	1,693	3,048
Factoring	p)	EUR		1,594	666
Finance lease liabilities	r)	EUR		1,078	884
Total liabilities				41,927	44,818
Less: current part				-20,325	-19,114
Loans and other liabilities payable after one year				21,602	25,704

* 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 Company 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 EURIBOR + margin.

Notes to the financial statements

19 Loans and finance lease liabilities (cont'd)

c) On 10 May 2011 AB Vilkyškių Pieninė was granted a loan (1,830 thousand EUR) for financing investments. The loan repayment started from May 2012 and will be completed by May 2016 making monthly instalments. 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.

d) On 14 June 2011 AB Vilkyškių Pieninė received a 3,000 thousand LTL overdraft for working capital needs. The repayment deadline is 30 April 2014. The loan is secured by pledging current and future cash inflows in all currencies. The determined interest rate is 1 day VILIBOR + margin.

f) On 21 June 2011 AB Vilkyškių Pieninė 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 Pieninė 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 LIBOR + margin.

h) On 15 March 2013 AB Vilkyškių Pieninė was granted a loan (1,700 thousand EUR) for financing investments in 2013-2014. Repayment of the loan starts as of March 2014 and will be performed n equal instalments on a monthly basis, except for January and February, until 15 March 2018. The loan is secured by pledging the buildings and equipments with a subsequent pledge, by new equipment with the original pledge, as well as current and future account balances at the bank. The contractual 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 tousand 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 Pieninė (1,825 thousand EUR) on 28 April 2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan starts 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 on the 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 Pieninė was granted a loan (1,039 thousand EUR) for re-financing of loan from the bank. The repayment shall start from February 2013 and until February 2017 making monthly instalments. The loan is secured by pledging the equipment, the current and future inflows on accounts 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 Pieninė for working capital needs. The repayment deadline is 31 March 2014. The outstanding balance bears annual interest rate of 1 week VILIBOR + margin. The loan is secured by pledging receivables, the current and future cash inflows in all currencies.

Notes to the financial statements

19 Loans and finance lease liabilities (cont'd)

n) In 2008 AB Vilkyškių Pieninė signed a long-term credit agreement with AB Kelmės Pienine for an amount of 2,600 thousand LTL. The loan shall be repaid by 28 May 2018 and bears a fixed interest rate.

o) In January 2011 AB Vilkyškių Pieninė signed a long-term credit agreement AB Modest for a loan of 1,667 thousand EUR (5,756 thousand LTL). The loan shall be repaid from 20 January 2012 in equal monthly instalments by 20 January 2016. The loan bears an interest rate related to 6 months EURLIBOR + margin.

p) 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.

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

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 current credit ratio as prescribed in the loan agreement with a bank. The Company received a bank letter stating that the Company will not be imposed any sanctions nor required an early repayment of the loan for the mentioned violation. According to the letter, the Company complies with the loan covenants.

As at 31 December 2014, the Company complied with the remaining loan covenants of the banks.

Loan repayment schedules, except for finance lease liabilities:

Thousand Litas	31-12-2014	31-12-2013
Within one year	19,930	18,758
From 1 to 5 years	20,919	25,176
After 5 years	-	-
	40,849	43,934

The effective interest rate applied on loans and leasing liabilities in 2014 was 4.1% (2013: 3.7%).

20 Government grants

Thousand Litas	31-12-2014	31-12-2013
Carrying amount at the beginning of the period	7,683	8,462
Grants received	398	-
Amortization charge recognized in the income statement under cost of sales	-820	-779
Carrying amount at the end of the period	7,261	7,683

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

Notes to the financial statements

20 Government grants (cont'd)

In 2013 a new agreement was signed with the National Settlement Agency under the Ministry of Agriculture regarding support of 400 thousand LTL for realisation of the Project „Modernisation of a milk processing company". It is expected to acquire equipment – a cheese cutter and containers for dairy products. The project was completed in 2014.

21 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:

	Assets		Liabilities		Net value	
Thousand Litas	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
Other accruals	-	-	-	-	-	-
Tax loss to be carried forward	-689	-394	-	-	-690	-394
Deferred tax (asset) / liabilities	-1,841	-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 carrying 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 amendment to the Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the amount of tax losses to be carried forward shall not be larger than 70% of income for the taxable period, which is calculated by deducting non-taxable income, allowed and restricted deductions, except for losses of the previous taxable periods.

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

22 Trade and other payable amounts

Thousand LTL	Note	**31-12-2014**	**31-12-2013**
Trade payables		27,614	30,715
Trade payables to related parties	26	4,477	1,515
Employment related liabilities		3,222	2,809
Prepayments received		323	369
Payable dividends		371	-
Other payable amounts and accrued expenses		78	164
		36,085	35,572

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 27.

Notes to the financial statements

23 Derivative financial instruments

Thousand LTL	31-12-2014	31-12-2013
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
	1,672	**1,565**

Derivatives are stated at fair value. As at 31 December 2014, the Company had three interest rate swap transactions with the bank for the loans amounting to 1,830 thousand EUR, 3,900 thousand EUR and 2,317 thousand EUR. The loans were subject to variable interest rates related to 3 months and 6 months EURIBOR+ margin. The Company encounters expected volatility of cash flows related to forecasted interest payments, 3 months and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with the bank where fixed interest on loans has been determined:

- 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 27.

24 Contingencies and commitments

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

Thousand Litas	31-12-2014	31-12-2013
Acquisition of property, plant and equipment	296	2,006
Purchase of raw materials	13,577	13,874
	13,873	15,880

Assets pledged as at 31 December 2014 to secure the bank loans (note 19):

- Current and future cash inflows in the accounts at different banks;
- Property, plant and equipment with the carrying amount of 52,660 thousand LTL;
- Inventories with the carrying amount up to 16,5 million LTL.
- Receivable from one trading network.
- Sub-lease right of the state land.
- 49,84% shares of AB Kelmės pieninė ownd by the Company.
- Guarantee of 5,921 thousand LTL (the loan balance as at 31 December 2014) to the bank for the liabilities of Kelmės pieninė.
- Guarantee of 8,974 thousand LTL (the loan balance as at 31 December 2014) to the bank for the liabilities of AB Modest.

Notes to the financial statements

24 Contingencies and commitments (cont'd)

The tax authorities have not performed a full scope tax review of the Company 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 Company for a period of 5 years before the current taxable period and may charge additional taxes and penalties. The Company's management is not aware of any circumstances, which could result in additional material tax liabilities.

25 Staff costs

Staff costs are included in the following items:

Thousand Litas	2014	2013
Cost of sales/inventories	12,920	11,519
Selling costs	1,889	1,605
Administrative costs	3,464	3,135
Other operating costs	591	271
	18,864	16,530

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 Company.

During the year 2014, the staff costs were subsidised by 55 thousand LTL (2013 : 74 thousand LTL).

Staff costs include remuneration to the Company's management of 1,267 thousand LTL, including social security contributions (2013: 1,172 thousand LTL).

26 Transactions with related parties

Parties are deemed related when one has an ability to control the other or make a significant influence while making financial and operational decisions. The related parties and transactions with Group companies during 2014 and 2013 are as follows (in thousand LTL):
AB Kelmės pieninė (a subsidiary);
AB Modest (a subsidiary);
AB Pieno logistika (a subsidiary);
UKB Šilgaliai (the main shareholder of the Company is a shareholder of ŪKB Šilgaliai).

Thousand LTL	2014	2013
Payable amounts		
Loans		
Loan payable to AB Kelmės Pieninė	2,600	2,600
Loan payable to AB Modest	1,693	3,048
	4,293	5,648
Trade payable		
AB Kelmės Pieninė	4,453	1,515
AB Modest	-	-
UKB Šilgaliai	24	-
	4,477	1,515
	8,770	**7,163**

Notes to the financial statements

26 Transactions with related parties (cont'd)

Thousand Litas	2014	2013
Receivable amounts		
Prepayments		
ŪKB Šilgaliai (non-current assets)	739	842
ŪKB Šilgaliai (current assets)	463	485
	1,202	1,327
Trade receivables		
AB Modest	4,903	996
AB Pieno logistika	1	-
	4,904	996
Loans granted, including interest and administration fee		
ŪKB Šilgaliai (non-current and current parts)	837	939
AB Pieno logistika	86	-
	923	939
	7,029	**3,262**
Interest income		
ŪKB Šilgaliai	23	33
AB Pieno logistika	3	-
	26	**33**
Interest expenses		
AB Kelmės Pieninė	156	156
AB Modest	51	79
	207	**235**
Sale of raw materials, goods and services		
AB Kelmės Pieninė	41,522	37,945
AB Modest	25,498	17,065
AB Pieno logistika	2	-
ŪKB Šilgaliai	61	43
	67,083	**55,053**
Purchase of raw materials, goods and service		
AB Kelmės Pieninė	84,599	88,054
AB Modest	32,746	25,877
AB Pieno logistika	-	-
ŪKB Šilgaliai	2,515	2,489
	119,860	**116,420**

ŪKB Šilgaliai is a supplier of raw milk.

Notes to the financial statements

27 Financial instruments and risk management

Credit risk

The carrying amount of financial assets shows the maximum credit risk. The maximum exposure to credit risk at the reporting date was as follows:

Thousand LTL		Carrying amount	
	Note	**31-12-2014**	**31-12-2013**
Non-current receivable amounts	13	1,456	1,623
Trade and other receivables	15	24,639	22,878
Cash and cash equivalents	17	280	219
		26,375	24,720

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

	Carrying amount	
	31-12-2014	**31-12-2013**
Lithuania	13,404	10,305
Germany	3,615	2,012
Estonia	2,214	391
Poland	1,710	3,288
Saudi Arabia	1,334	-
Latvia	1,073	4,476
Portugal	357	1,234
Russia	3	182
Other	917	989
	24,627	**22,877**

As at 31 December 2014, a significant credit risk concentration is related to three clients, the receivable from whom makes 40% 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.

Ageing of trade and other receivables, prepayments and granted loans 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	6,557	-	2,823	-
Past due 0-30 days	2	-	2	-
Past due 31-60 days	2	-	3	-
More than 60 days	468	-	434	-
	7,029	**-**	**3,262**	**-**

Notes to the financial statements

27 Financial instruments and risk management (cont'd)

Impairment losses (cont'd)

Thousand Litas	Gross 31 December 2014	Impairment 31 December 2014	Gross 31 December 2013	Impairment 31 December 2013
Other parties:				
Not past due	18,169		20,578	-
Past due 0-30 days	5,336		5,402	-
Past due 31-60 days	170		122	-
More than 60 days *	427	-393	506	-278
	24,102	**-393**	**26,608**	**-278**
	31,131	**-393**	**29,870**	**-278**

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	Carrying amount 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	-393	-278

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	More than 5 years
Financial liabilities							
Loans from banks	34,962	(38,117)	(12,831)	(5,335)	(8,686)	(11,265)	-
AB Kelmės Pieninė loan	2,600	(3,302)	(78)	(78)	(156)	(2,990)	-
AB Modest loan	1,693	(1,763)	(712)	(698)	(353)	-	-
Finance lease liabilities	1,078	(1,174)	(228)	(207)	(369)	(370)	-
Factoring	1,594	(1,659)	(1,659)	-	-	-	
Derivative financial instrument	1,672	(1,672)	(243)	(243)	(845)	(341)	-
Trade payable amounts	32,091	(32,091)	(32,091)	-	-	-	-
	75,690	(79,778)	(47,842)	(6,561)	(10,409)	(14,966)	-

Notes to the financial statements

27 Financial instruments and risk management (cont'd)

Liquidity risk (cont'd)

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 Company is planning to negotiate with the banks and agree on new maturity dates for the credit line. 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	More than 5 years
Financial liabilities							
Loans from banks	37,620	(40,812)	(12,599)	(4,821)	(10,918)	(12,474)	-
AB Kelmės Pieninė loan	2,600	(3,302)	(78)	(78)	(156)	(2,990)	-
AB Modest loan	3,048	(3,222)	(733)	(721)	(1,417)	(351)	-
Finance lease liabilities	884	(942)	(237)	(142)	(253)	(310)	-
Factoring	666	(687)	(687)				
Derivative financial instrument	1,565	(1,565)	(215)	(215)	(359)	(776)	-
Trade payable amounts	32,230	(32,230)	(32,230)	-	-	-	-
	(78,613)	(82,760)	(46,779)	(5,977)	(13,103)	(16,901)	-

The following interest rates were applied for the discount of cash flows:

	2014	**2013**
Loans and finance lease liabilities	2.3% - 6%	2.3% - 6%

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	LTL	EUR	USD
Long-term receivables	1,456	-	-	1,623	-	-
Trade and other receivables	13,416	11,223	-	9,882	12,996	-
Cash and cash equivalents	240	39	1	203	16	-
Loans and finance lease liabilities	(7,279)	(34,648)	-	(7,273)	(37,545)	-
Derivative financial instruments	-	(1,672)	-	-	(1,565)	-
Trade and other payables	(26,002)	(6,089)	-	(22,241)	(9,989)	-
Net exposure	(18,169)	(31,147)	1	(17,806)	(36,087)	-

Notes to the financial statements

27 Financial instruments and risk management (cont‘d)

Currency risk (cont‘d)
The currency risk (in thousand LTL), applying currency exchange rates valid as at 31 December, was as follows:

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

	Average	
	2014	2013
EUR	3.4528	3.4528
USD	2.5901	-
LVL	-	4.9228

The following exchange rates were applied as at 31 December:

	2014	2013
EUR	3.4528	3.4528
USD	2.8387	
LVL	-	4.9184

Sensitivity analysis

The functional currency of the Company is Litas (LTL). As the exchange rate of LTL to EUR is fixed at 3.4528 LTL / EUR, the Company a faces foreign currency risk on purchases and sales that are denominated in currencies other than EUR. The main part of the Company’s transactions in 2014 year are denominated in LTL and EUR, therefore the Company did not expose to significant foreign currency exchange risk.

Interest rate risk

The Company‘s borrowings bear variable interest rates related to EURIBOR/LIBOR + margin.

The Company has entered into three interest rate swap agreement with a bank, by which it partially hedges its exposure to significant 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 the item of derivative financial instruments.

At the reporting date the interest rate profile of the Company’s interest-bearing financial instruments was as follows:

Thousand Litas	Carrying amount	
	31-12-2014	**31-12-2013**
Fixed rate financial instruments		
AB Kelmės Pieninė loan	(2,600)	(2,600)
Loan to AB Pieno Logistika	86	-
Non-current part of loans granted	351	426
Current part of loans granted	-	43
	(2,163)	(2,131)

According to the agreement, the loan from AB Kelmės Pieninė bears a fixed interest rate. Therefore, changes in interest rates would not have influence on profit or loss at the reporting date.

Notes to the financial statements

27 Financial instruments and risk management (cont‘d)

Interest rate risk (cont‘d)

Thousand Litas	Carrying amount	
	31-12-2014	**31-12-2013**
Variable rate financial instruments		
Loans from banks	(36,556)	(38,286)
AB Modest loan	(1,693)	(3,048)
Financial lease liabilities	(1,078)	(884)
	(39,327)	(42,218)
	(41,490)	**(44,349)**

According to agreements, the loans bear a variable interest rate related to EURIBOR/LIBOR + margin.

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 2014.

Effect in thousand Litas	Profit (loss)	
	100 bp increase	100 bp decrease
31 December 2014		
Variable rate instruments	(415)	415
31 December 2013		
Variable rate instruments	(443)	443

Cash flow sensitivity analysis for variable rate instruments

Financial liabilities to banks and leasing companies are related to variable interest rate, therefore the carrying amount approximates the fair value.

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 Company‘s management. These two types of data determine the following fair value hierarchy:

Notes to the financial statements

27 Financial instruments and risk management (cont'd)

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

As at 31 December 2014

Thousand Litas

	Level 1	Level 2	Level 3	Total
Investment in subsidiaries	-	-	36,978	36,978
Non-current receivables	-	-	1,456	1,456
Trade and other receivables	-	-	27,666	27,666
Cash and cash equivalents	280	-	-	280
Loans and financial lease liabilities	-	(41,927)	-	(41,927)
Derivative financial instruments	-	(1,672)	-	(1,672)
Trade and other payables	-	-	(36,085)	(36,085)
	280	(43,599)	(6,963)	(50,282)

As at 31 December 2013

Thousand Litas

	Level 1	Level 2	Level 3	Total
Investment in subsidiaries	-	-	36,952	36,952
Non-current receivables	-	-	1,623	1,623
Trade and other receivables	-	-	26,091	26,091
Cash and cash equivalents	219	-	-	219
Loans and financial lease liabilities	-	(44,818)	-	(44,818)
Derivative financial instruments	-	(1,565)		(1,565)
Trade and other payables	-	-	(35,572)	(35,572)
	219	(46,383)	29,094	(17,070)

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 financial statements

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

28 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.

Financial liabilities

Fair value, determined for disclosure purposes, is calculated based on the present value of the future principal and interest rate cash flows, discounted applying the market interest rate at the reporting date. The market interest rate on financial loan is determined based on the similar loan agreements. Fair value of financial liabilities with shorter duration and no determined interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant.

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

Notes to the financial statements

28 Fair value of financial instruments (cont'd)

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

29 Subsequent events

In April 2013, AB Nordea Bank granted an overdraft of 6,450 thousand LTL to AB Vilkyškių Pieninė for working capital needs. The deadline of the credit facility is 31 March 2015. As at the reporting date, the Company has agreed with the bank on extension of the repayment deadline till 31 March 2016. The agreement 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 converted 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 significant events subsequent to the end of the reporting period that could materially affect the financial statements as at and for the year ended 31 December 2013.

Annual report of AB Vilkyškių Pieninė for the year 2013

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 Annual Report

This Annual 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. Main Types of Activity

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

Dairy operations and cheese production (EVRK 10.51)

The company has three subsidiaries: *AB Modest, AB Kelmės pieninė* and *AB Pieno logistika*.

AB Modest makes fermented *Mozzarella* cheese, blue cheese and other cheese products. On 31 December 2014, the Company held a 99.7 percent voting interest in *AB Modest*.

AB Kelmės pieninė is specialised in the production of fresh dairy products. On 31 December 2014, the Company owned 100 percent of the *AB Kelmės pieninė* stock.

AB Pieno logistika's main area of activity is lease of buildings. *AB Vilkyškių pieninė* holds 56.1percent of the voting shares of *AB Pieno logistika*.

4. Agreements with Brokerages for Public Issue

AB Vilkyškių pieninė has an underwriting agreement with *UAB FMĮ Orion Securities* brokerage (address A. Tumėno g. 4, B korp., LT-01109, Vilnius) on the accounting of AB Vilkyškių pieninė's shareholders and services associated with the accounting of the Company's securities.

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

The name of securities: *AB Vilkyškių 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.

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.

6. 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.

7. 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.

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.

8. 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.

9. Patents & Licenses

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

In 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-ФЗ.

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 Company 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.

10. Human Resources

AB Vilkyškių pieninė's human resources policy is focused on promoting team welfare and professional advancement. In order to maintain its collaborative and highly motivated workforce, the Company 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 Company 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 Company.

Occupational safety and health is another key priority for the Company. 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 Company 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 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.

11. 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 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 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.

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.

12. Issuer's Results of Operations

Key financial indicators of *AB Vilkyškių pieninė*:

	2010	2011	2012	2013	2014
Revenue (LTL tho)	249,969	288,927	329,859	409,282	436,080
EBITDA (LTL tho)	8,865	19,310	11,307	15,123	5,873
EBITDA margin, pct	3.5	6.7	3.4	3.7	1.3
Operating profit (LTL tho)	4,903	2,035	-3,486	9,427	-234
Operating profit margin, pct	2.0	0.7	-1.1	2.3	-0.05
Profit before tax (LTL tho)	3,568	13,509	4,403	22,275	6,349
Profit before tax margin, pct	1.4	4.7	1.3	5.4	1.5
Net profit (LTL tho)	3,064	13,546	5,175	21,077	6,511
Profit margin, pct	1.2	4.7	1.6	5.1	1.5
Earnings per share (LTL)	0.26	1.13	0.43	1.76	0.54
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2014, **sales** came to LTL 436 m, up 6.6 percent from LTL 409m in 2013.

In 2014, **EBITDA** was LTL 5.9m, down by a factor of 2.6 from LTL 15m the year before. EBITDA margin was 1.3 percent in 2014 (compared with 3.7 percent in 2013).

Operating profit (EBIT) was negative at LTL -234,000 in 2014, with -0.05 percent margin, down from LTL 9,427 tho in 2013, when EBIT margin reached 2.3 percent.

In 2014, **net profit** reached LTL 6.5m, a drop form LTL 21.1m 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	7.5	27.1	10.1	29.9	8.5
Return on assets (ROA), pct	3.0	11.0	3.6	12.9	3.9
Debt ratio	0.61	0.59	0.64	0.57	0.54
Deb/equity ratio	1.53	1.46	1.79	1.31	1.18
Quick liquidity ratio	0.56	0.76	0.72	0.95	0.95
Asset turnover ratio	2.43	2.35	2.30	2.51	2.60
Capital-to-assets ratio	0.39	0.41	0.36	0.43	0.46

In 2014, **assets totaled** LTL 167m, 2.5 percent more than in 2013.

In 2014, **fixed assets** grew by 2.2 pct due to acquisition of real estate, equipment and installations and totaled LTL 114m.

In 2014, **equity** was LTL 77m, up 9 percent from the previous year (LTL 70.6m).

On 31 December 2014, total value of **loans** was LTL 42m, down 7 percent year-on-year.

***AB Vilkyškių pieninė* production output, tonnes:**

	2010	2011	2012	2013	2014
Fermented cheese	9,427	9,775	10,135	12,167	14,776
Cream	8,433	8,875	8,135	11,143	13,368
Whey products	38,255	41,476	39,376	45,446	43,713

In 2014, a total of 14,776 tonnes of cheese was produced, 21 percent more than in 2013. As a result, cream production also went up by 20 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*:

	2010	2011	2012	2013	2014
Raw milk, tonnes	165,104	160,275	181,280	193,469	251,772
Cost of raw milk, LTL tho	122,480	137,084	142,538	193,677	221,502
Raw milk price, LTL/t	741.8	855.3	786.3	1,001.1	879.8

In 2014, a total of 251.8 tho tonnes of milk was purchased, an increase by 30 percent as compared with 2013. Meanwhile, the price of raw milk went down 12 percent from the previous year.

13. Sales and Marketing

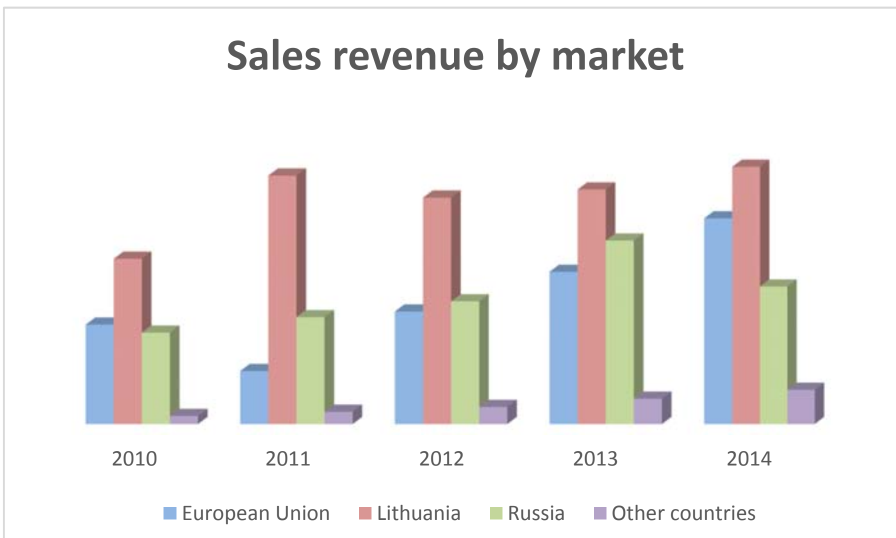
Core product sales

	2010	2011	2012	2013	2014
Fermented cheese	100,538	128,436	142,732	176,107	183,393
Cream	52,255	54,414	41,190	76,876	79,958
Other sales	97,176	106,077	144,847	156,299	172,729
Total revenue	**249,969**	**288,927**	**328,769**	**409,282**	**436,080**

In 2014, exports generated 60 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	68,214	36,404	77,260	104,568	141,330
Lithuania	113,539	170,772	155,571	161,220	176,825
Russia	62,661	73,333	84,227	126,075	94,434
Other countries	5,555	8,418	11,711	17,419	23,491
Total revenue	**249,969**	**288,927**	**328,769**	**409,282**	**436,080**



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* 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* 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'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.

14. 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

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.

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

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

15. Risk Factors Associated with Issuer's Business

Key risks in the business of *AB Vilkyškių pieninė*:

The Company 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 Company'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 Company's credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. In 2014, 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 0.54. The balance of outstanding loans on 31 December 2014 was LTL 41.9m. 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.

16. 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.

17. Key Events After Fiscal Year-End

There have been no significant events after 31 December 2014.

18. Business Plans and Forecasts

In 2015, *AB Vilkyškių pieninė* 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

19. Structure of Issuer‘s Share Capital

Type of share	Number of share	Share face value, LTL	Total face value, LTL
Common registered shares	11,943,000	1.00	11,943,000

20. Information on Treasury Stock

The Company does not hold its own shares.

21. Rights of Shareholders

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

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

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

- to receive a share of the Company‘s profit (dividend);

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

None of the Company‘s shareholders has any special control rights. The rights of all shareholders are equal. One common registered share in *AB Vilkyškių pieninė* 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 on 31 December 2014 was 923. The following are the major shareholders, who own more than 5 percent of the Issuer‘s stock:

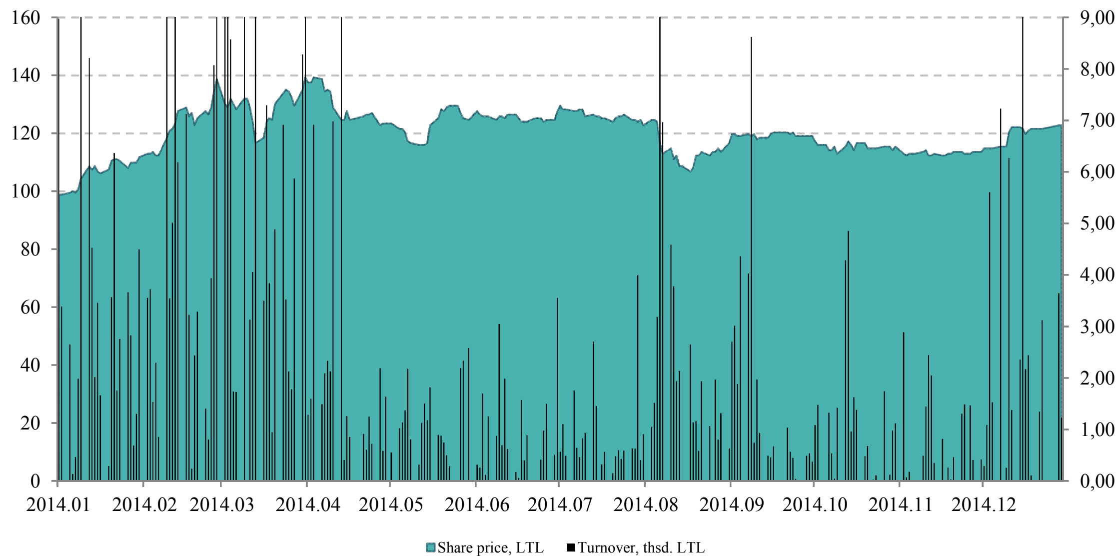
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Gintaras Bertašius	6,067,206	51%	51%
Linas Strėlis	1,918,215	16%	16%
Minority shareholders	3,957,579	33%	33%
Total stock	**11,943,000**	**100%**	**100%**

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

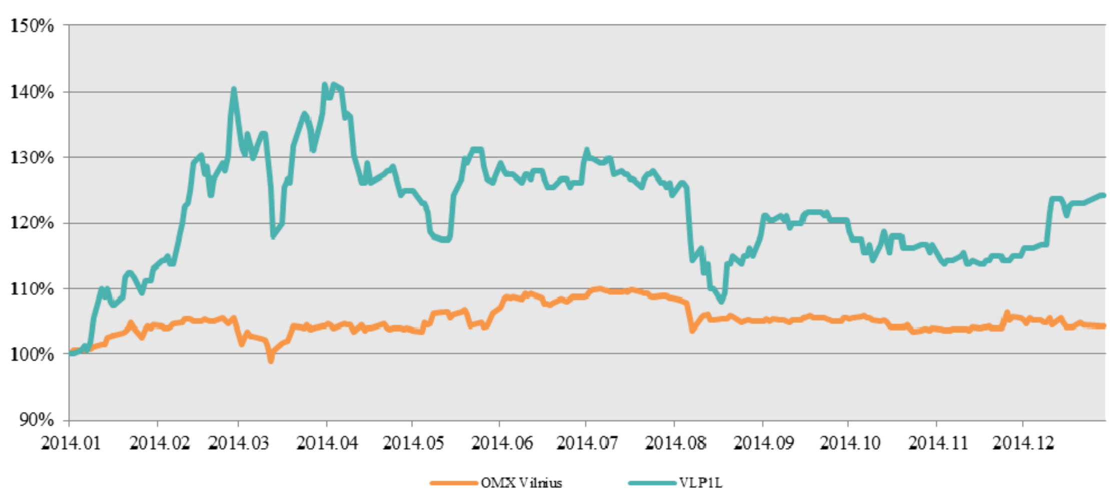
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

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

27. Employees

On 31 December 2014, there were 557 employees working at *AB Vilkyškių pieninė*.

Employee category	Number of employees	Education				Average monthly salary (LTL)
		higher	vocational	secondary	secondary incomplete	
Managers	6	4	2			12,516
Specialists	133	73	45	15		3,114
Workers	418	14	212	170	22	1,771
	557	**91**	**259**	**185**	**22**	**2,202**

On 31 December 2013, there were 544 employees working at *AB Vilkyškių pieninė*.

Employee category	Number of employees	Education				Average monthly salary (LTL)
		higher	vocational	secondary	secondary incomplete	
Managers	6	4	2			11,943
Specialists	125	64	46	15		2,817
Workers	413	12	223	153	25	1,580
	544	**80**	**271**	**168**	**25**	**1,998**

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. Issuer's 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.

30. Procedure of Amendments to Company Articles

Amendments to the Company's Articles of Association may be adopted by a General Meeting of Shareholders. Decisions on changes to the Articles of Association are considered approved if they are supported by two-thirds of the shareholders' 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.

32. Board Members

Gintaras Bertašius (born1964) – 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 (born1964) – 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 Milaševičiutė (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*.

33. Members of Administration

Gintaras Bertašius (born1964) – 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 Milaševičiutė (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 (born1964) – 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 livetock 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 CFO 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.

34. 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.

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

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

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

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

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

Information about transactions with parties that are related to the Company has been included in the *AB Vilkyškių pieninė* financial statements for the year ended 31 December 2014, in Chapter 26.

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

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

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 Annual 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 Vilkyškių Pieninė AB concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2014

The public company *Vilkyškių Pieninė*, 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 which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the Company.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer (Director General). 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

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

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

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

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

[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.

individual members which are relevant to their service on the collegial body.		professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly. The members of Audit Committee have relevant experience and a recent knowledge in the fields of accounting and audit.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the Management Board take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members. There are plans to establish the sufficient number of independent board members and their independence criteria in the forthcoming meetings of the Company's governing bodies.
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	No	The company has not defined the independence criteria of a member of the Management Board. However, there are two members of the Management Board that meet the independence criteria listed in this finding.

[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.

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

(if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board. As mentioned above, we plan to establish the independence criteria in the near future (2015) to fully resolve this issue.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the Management Board are paid tantjems for their service on the Management Board.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general	Yes	The Management Board ensures the integrity and transparency

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

[7] See Footnote 3.

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

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

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

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.		
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes	In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees 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 ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.
4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition	Yes	*Vilkyškių Pieninė* AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee.

[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).

requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The key objective of the Nomination and Remuneration Committee is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Each committee of the company is composed of 3 members.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance	Yes	The activity of Nomination and Remuneration Committee is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee is approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance.

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.		
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.	Yes	The functions of nomination committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such	Yes	The functions of Remuneration committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		

4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration	Yes	The company 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. Audit committee ensures effectiveness of internal audit function as well.

should be given to company's operations in offshore centres 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. In 2015 the Management Board plans to conduct the assessment of its activities in the future.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Board meetings are organised once per month.
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	The chairperson of the Management Board heads up the meetings of the Management Board. The employee of the company organizes the work of the Management Board by order of the chairperson of the Management Board. Meetings of the Management Board are organised once per month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Each member of the management body may take the cognizance of the issues on the agenda of the meeting before the day of the meeting. Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and which may include specialists who are not the employees of the company.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
Principle VI: The equitable treatment of shareholders and shareholder rights		

[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.

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary registered shares that grant the same personal property and not-property right to all holders of company's shares.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Important transactions are approved following the order set in the Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.
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	Yes	No late that 21 day before the General Shareholders' Meeting, shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. If the shareholder requests in writing, chief executive office of the Company no later than 3 days from the receipt of a written request hands in all draft decisions of the meeting to the shareholder against the signature and sends by registered mail. The draft decisions

[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.

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.		should be referred to whose initiative they are involved. If the initiator of the draft decision submitted the explanations of the draft decision, these are attached to the draft decision. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ 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	The 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.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.	Yes	The members of the Management Board do not mix the company's assets with his/her personal assets.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except	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

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.		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; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments;	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.

9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;	No	

2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
	Yes	

8.11. Termination payments should not be paid if the termination is due to inadequate performance.		
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.	Ne	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	The salary for the CEO is established by the decision of the Management Board.
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-	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.

based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.		
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer	Not applicable	

due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Each stakeholder may participate in the management of the company and 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	Each stakeholder may participate in the management of the company as prescribed by legislation.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) The management structure and strategy of the company. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of	Yes, except for salary information provided in point 4	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company. 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

the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes Yes Not applicable	belongs. Except for information on salaries.
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, and **in cases prescribed by law – a free-of-charge** access to the information. 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 of the company proposes a candidate firm of auditors to the shareholders' meeting. The firm of auditors is approved by the shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any not-audit services and it has not received from the company any remuneration for not-audit services.