

**AB VILKYŠKIŲ PIENINĖ**

Consolidated financial  
statements for the year ended  
31 December 2016

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## **Company details**

### **AB VILKYŠKIŲ PIENINĖ**

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### **Board of Directors**

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

### **Management**

Gintaras Bertašius, General Director  
Vaidotas Juškys, Chief Operation Officer  
Sigitas Trijonis, Technical Director  
Rimantas Jancevičius, Raw materials Purchasing  
Arvydas Zaranka, Production Director  
Vilija Milaševičiutė, Economics and Finance Director  
Rita Juodikienė, Management and Quality Director

### **Auditor**

KPMG Baltics, UAB

### **Banks**

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

## **Management's statement on consolidated financial statements**

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

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements give a true and fair view of the Company's financial position as at 31 December 2016, performance and cash flows in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Vilkyškiai, 6 April 2017

Management:

  
-----  
Gintaras Bertašius  
General Director

  
-----  
Vilija Milaševičiūtė  
Economics and Finance Director





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# Independent Auditor's Report

To the Shareholders of AB VILKYŠKIŲ PIENINĖ

## *Opinion*

We have audited the consolidated financial statements of AB VILKYŠKIŲ PIENINĖ ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AB VILKYŠKIŲ PIENINĖ and its subsidiaries as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Impairment assessment of goodwill

As at 31 December 2016, the carrying amount goodwill: EUR 6,915 thousand; impairment losses recognized in 2016: nil; accumulated impairment losses as at 31 December 2016: nil. We refer to the information presented in the following notes to the financial statements: *Summary of Significant Accounting Policies – Goodwill*, *Summary of Significant Accounting Policies – Impairment (Non-financial assets)*, *Use of Judgements and Estimates (Impairment of goodwill and property, plant and equipment)*, and Note 11 *Intangible assets*.

### Key audit matter

As at 31 December 2016, the stated amount of goodwill in relation to the acquisition of two subsidiaries, AB Kelmės Pieninė and AB Modest, was EUR 6,915 thousand. Relevant accounting standards require that goodwill is tested, at least annually, for impairment.

The assessment of the recoverability of goodwill requires significant judgment in determining the forecast future performance of the cash generating units (CGUs) to which goodwill is allocated.

Management's impairment assessment involves significant estimation, primarily relating to the key assumptions for revenue growth rates, terminal growth rates and discount rates. The key assumptions applied by management are further described in Note 11 *Intangible assets*.

The subjectivity of the principal assumptions required an application of a significant amount of audit judgment and effort. Accordingly, we consider this area to be our key audit matter.

### How the matter was addressed in our audit

Our procedures included, among others:

- Evaluating the appropriateness of the Group's determination of CGUs to which goodwill is allocated;
- Assisted by our own valuation specialists, critically assessing the Group's assumptions and estimates used in value-in-use calculations to determine the recoverable amount of goodwill. This included, but was not limited to:
  - assessing the Group's discounted cash flow model for compliance with the relevant accounting standards;
  - assessing the reasonableness of key macroeconomic assumptions applied in the model (including those relating to revenue growth rate and discount rate) against market data derived from analyst and industry reports;
  - tracing cash flow forecasts to management's approved budgets and assessing the reasonableness of these budgets by comparing historical information and business plan.
- Comparing the Group's forecast for the current year made as of 31 December 2015 to the current year's outcomes to assess the quality of management's forecasting process;
- Evaluating the Group's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rates and operating profit adjusted by depreciation and amortization.
- Assessing whether the Group's disclosures about the CGU's, the key assumptions used and sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

## Valuation of inventories

The carrying amount of inventories as at 31 December 2016: EUR 10,373 thousand; expense due to write-down of inventories to net realisable value in 2016: EUR 1,677 thousand.

We refer to the information presented in the following notes to the financial statements: *Summary of Significant Accounting Policies – Inventories* and *Note 13 Inventories*.

### *Key audit matter*

The Group is primarily engaged in the production and distribution of dairy products to customers in Lithuania, and other countries both within and outside of the European Union. Nearly half of the Group's revenues are represented by cheese and cheese products. Cheese-making process (ripening) can take up to 12 months or longer, while the price of milk – the main raw material – fluctuated significantly in recent years. As the raw milk is used in the initial stages of cheese making there is a risk that cheese is made of expensive milk but at the time of actual sale its' market price is lower than the cost.

At each reporting date, as required by relevant accounting standards, the Group determines whether the carrying amount of its inventory does not exceed its net realizable value. In respect of obsolete or slow moving items this involves comparing the levels of inventory held to future utilization projections. In addition, all of the Group's product inventories are tested for potential decline of their expected selling prices below cost.

We focused on this area as arriving at the carrying amount of inventory requires significant management judgment, which relies on the assumptions such as, primarily, the sales prices achievable in the future and the levels of market demand driving expected usage. Changes to these assumptions could result in a material change in the carrying value of inventory and the associated income statement effect.

### *How the matter was addressed in our audit*

Our procedures included, among others:

- Testing internal controls over inventory valuation, including those over the identification of obsolete and slow moving inventory items and the estimation of their net realisable value;
- Analysing gross profit margins by product to identify inventory sold at low or negative margins pre-year end to give an indication of any items in the year-end balance that might be impaired;
- Challenging the assumptions used by the Group in its utilisation projections for slow moving and obsolete inventory, by reference to our knowledge of the Group's business and industry;
- Evaluating management's ability to estimate the required inventory obsolescence by comparing write-offs during the year to the prior period provision;
- Challenging any significant aged inventory items which were excluded from management's calculation in order to further verify completeness of the inventory write-down;
- On a sample basis, considering whether the write-down to net realizable value applicable to individual categories of inventory is reasonable by reference to their post year end selling prices and estimated costs to sell;
- Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the net realizable value of inventory and the related write-down.



### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

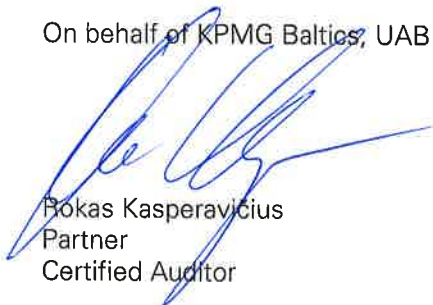
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Rokas Kasperavičius.

On behalf of KPMG Baltics, UAB



Rokas Kasperavičius  
Partner  
Certified Auditor

Klaipėda, the Republic of Lithuania  
7 April 2017

## Consolidated statement of financial position

Thousand EUR	Note	31 December 2016	31 December 2015
<b>Assets</b>			
Property, plant and equipment	10	49,065	35,263
Intangible assets	11	7,020	7,047
Long term receivables	12	342	405
<b>Non-current assets</b>		<b>56,427</b>	<b>42,715</b>
Inventories	13	10,373	12,047
Trade and other receivables	14	6,968	6,002
Prepayments	15	365	448
Cash and cash equivalents	16	229	154
<b>Current assets</b>		<b>17,935</b>	<b>18,651</b>
<b>Total assets</b>		<b>74,362</b>	<b>61,366</b>
<b>Equity</b>			
Share capital		3,463	3,463
Share premium		3,301	3,301
Reserves		5,129	5,157
Retained earnings		16,977	12,366
<b>Total equity attributable to the shareholders of the Group</b>	17	<b>28,870</b>	<b>24,287</b>
<b>Non-controlling interest</b>		<b>45</b>	<b>46</b>
<b>Total equity</b>	17	<b>28,915</b>	<b>24,333</b>
<b>Liabilities</b>			
Interest-bearing loans and finance lease liabilities	18	21,611	13,092
Derivative financial instruments	22	154	239
Government grants	19	2,942	3,134
Deferred tax liabilities	20	820	388
<b>Non-current liabilities</b>		<b>25,527</b>	<b>16,853</b>
Interest-bearing loans and finance lease liabilities	18	8,697	9,123
Current tax liabilities		71	8
Derivative financial instruments	22	83	125
Trade and other payables	21	11,069	10,924
<b>Current liabilities</b>		<b>19,920</b>	<b>20,180</b>
<b>Total liabilities</b>		<b>45,447</b>	<b>37,033</b>
<b>Total equity and liabilities</b>		<b>74,362</b>	<b>61,366</b>

The notes on pages 15-63 are an integral part of these consolidated financial statements.

## Consolidated income statement

For the year ended 31 December

Thousand EUR	Note	2016	2015
Revenue	1	90,490	84,445
Cost of sales	2	-77,881	-75,595
<b>Gross profit</b>		12,609	8,850
Other operating income	3	282	424
Distribution expenses	5	-4,115	-5,443
Administrative expenses	6	-2,926	-2,529
Other operating costs	4	-167	-165
<b>Result from operating activities</b>		5,683	1,137
Finance income		15	37
Finance costs		-728	-629
<b>Net finance expense</b>	7	-713	-592
<b>Profit before tax</b>		4,970	545
Income tax expense	8	-515	623
<b>Profit for the year</b>		4,455	1,168
Attributable to:			
Shareholders of the Company		4,458	1,169
Non-controlling interest		-3	-1
<b>Profit for the year</b>		4,455	1,168
Basic and diluted earnings per share (EUR)	9	0.37	0.10

The notes on pages 15-63 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

For the year ended 31 December

Thousand EUR	Note	2065	2015
<b>Profit for the year</b>		<b>4,455</b>	<b>1,168</b>
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to income statement</b>			
Difference on translation of Litas into EUR		-	4
<b>Items that are or can be reclassified to income statement</b>			
Change in fair value of hedging instruments		127	120
<b>Other comprehensive income for the year, net of income tax</b>		<b>127</b>	<b>124</b>
<b>Total comprehensive income</b>		<b>4,582</b>	<b>1,292</b>
Attributable to:			
Shareholders of the Company		4,585	1,293
Non-controlling interest		-3	-1
<b>Total comprehensive income</b>		<b>4,582</b>	<b>1,292</b>

The notes on pages 15-63 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

Thousand EUR	Note	Equity attributable to shareholders of the Group								Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve	Hedging reserve	For acquisition of own shares	Legal reserve	Retained earnings	Total		
At 1 January 2016		3,463	3,301	2,667	-364	2,508	346	12,366	24,287	46	24,333
<b>Comprehensive income for the period</b>											
Net profit		-	-	-	-	-	-	4,458	4,458	-3	4,455
<b>Other comprehensive income</b>											
Allocated from PPE revaluation reserves		-	-	-155	-	-	-	155	-	-	-
Change in fair value of hedging instruments		-	-	-	127	-	-	-	127	-	127
<b>Total other comprehensive income</b>		-	-	-155	127	-	-	155	127	-	127
<b>Total comprehensive income for the period</b>		-	-	-155	127	-	-	4,613	4,585	-3	4,582
<b>Contributions by and distributions to owners:</b>											
Allocated to legal reserve		-	-	-	-	-	-	-	-	-	-
Allocated to reserve for acquiring own shares		-	-	-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-	-	-	-
<b>Changes in the Group without losing control</b>											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	-2	-2	2	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-2	-2	2	-
At 31 December 2016	17	3,463	3,301	2,512	-237	2,508	346	16,977	28,870	45	28,915

The notes on pages 15-63 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity (cont'd)

Equity attributable to shareholders of the Group

Thousand EUR	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	Reserve for acquisition of own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2015		3,459	3,301	2,843	-484	2,421	346	11,944	23,830	47	23,877
<b>Comprehensive income for the period</b>											
Net profit		-	-	-	-	-	-	1,169	1,169	-1	1,168
<b>Other comprehensive income</b>											
Change in authorised capital due to translation of nominal value from litas to euro		4	-	-	-	-	-	-	4	-	4
Allocated from PPE revaluation reserves		-	-	-176	-	-	-	176	-	-	-
Change in fair value of hedging instruments		-	-	-	120	-	-	-	120	-	120
<b>Total other comprehensive income</b>		4	-	-176	120	-	-	176	124	-	124
<b>Total comprehensive income for the period</b>		4	-	-176	120	-	-	1,345	1,293	-1	1,292
<b>Contributions by and distributions to owners:</b>											
Allocated to legal reserve		-	-	-	-	-	-	-	-	-	-
Allocated to reserve for acquiring own shares	17	-	-	-	-	87	-	-87	-	-	-
Dividends		-	-	-	-	-	-	-836	-836	-	-836
Total contributions by and distributions to owners		-	-	-	-	87	-	-923	-836	-	-836
<b>Changes in the Group without losing control</b>											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-	-	-
At 31 December 2015	17	3,463	3,301	2,667	-364	2,508	346	12,366	24,287	46	24,333

The notes on pages 15-63 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended 31 December

Thousand EUR	Note	2016	2015
<b>Cash flows from operating activities</b>			
Profit for the year		4,455	1,168
Adjustments:			
Depreciation of property, plant and equipment	10	3,047	3,138
Amortization of intangible assets	11	81	48
Amortization and write down of grants	19	-398	-447
Loss (profit) on disposal and write off of property, plant and equipment		5	39
Income tax expense		515	-623
Net financing expenses		713	592
		<b>8,418</b>	<b>3,915</b>
Change in inventories		1,667	-1,729
Change in non-current receivables		63	1
Change in trade and other receivables and prepayments		-908	809
Change in trade and other payables		39	-682
		<b>9,279</b>	<b>2,314</b>
Interest paid*		-756	-569
Income tax paid		-20	-11
Other financial expenses		-141	-105
<b>Net cash from operating activities</b>		<b>8,362</b>	<b>1,629</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		-16,443	-7,073
Acquisition of intangible assets		-53	-145
Proceeds from sale of property, plant and equipment		6	31
Acquisition of the subsidiary's shares		-3	-
Issued loans		-	-12
<b>Net cash flows used in investing activities</b>		<b>-16,493</b>	<b>-7,199</b>

## Consolidated statement of cash flows (cont'd)

For the year ended 31 December

Thousand EUR	Note	2016	2015
<b>Cash flows from financing activities</b>			
Loans received		24,708	11,173
Repayment of borrowings		-16,651	-5,139
Dividends paid		-57	-887
Government grants received	19	206	462
<b>Net cash flows used in financing activities</b>		<b>8,206</b>	<b>5,609</b>
<b>Increase (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		154	115
<b>Cash and cash equivalents at 31 December</b>	16	<b>229</b>	<b>154</b>

\*Interest, amounting to 268 thousand EUR, was capitalized under construction in progress.

The notes on pages 15-63 are an integral part of these consolidated financial statements.



## Notes to the consolidated financial statements

### Background information

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

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

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

AB VILKYŠKIŲ PIENINĖ is a Lithuanian company listed on AB Nasdaq OMX Vilnius Stock Exchange. As at 31 December 2016, the Company's shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in EUR	Total value in EUR
Gintaras Bertašius	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	2,035,729	0.29	590,361
Other minor shareholders	3,840,065	0.29	1,113,619
<b>Total</b>	<b>11,943,000</b>	<b>0.29</b>	<b>3,463,470</b>

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

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

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

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

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 99.7% of voting rights of the subsidiary. AB Modest specializes in production of cheese mozzarella, blue cheese and other cheese products.

The Parent Company has a subsidiary AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. The Company holds 100% of voting rights of AB Kelmės Pieninė. AB Kelmės Pieninė specializes in production of fresh dairy products.

From 2013, the Group includes a subsidiary AB Pieno Logistika. The authorized capital of the mentioned company amounts to 107 thousand EUR; the main activity is lease of buildings. AB VILKYŠKIŲ PIENINĖ holds 58.74% of shares of AB Pieno Logistika.

As at 31 December 2016, the Group had 957 employees (at 31 December 2015 - 975).

## **Notes to the consolidated financial statements**

### **Basis for preparation**

#### **Statement of compliance**

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

The management of the Parent Company is authorized to issue the consolidated financial statements of the Group after approval by the general shareholders meeting, which must be convened by 30 April 2017 as prescribed by the Companies Law of the Republic of Lithuania.

The shareholders have a statutory right to approve these financial statements or not to approve them and require preparation of new financial statements.

#### **Basis of measurement**

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

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

#### **Functional and presentation currency**

The financial statements are presented in Euro (EUR). As of 1 January 2015, EUR is the legal currency of Lithuania and the functional currency of the Parent Company and its subsidiaries. The financial information is presented in EUR and rounded to the nearest thousand.

#### **Foreign currency transactions**

Transactions in foreign currencies are translated into EUR 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 EUR at the exchange rate ruling at that date. All transactions made in foreign currencies have been translated to EUR in accordance with the provisions of the Law on Bookkeeping, applying the exchange rate ruling at the date of the transaction.

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 stated in EUR using the exchange rate at the date of the transaction.

#### **Basis of consolidation**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intra-group balances and transactions arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies**

#### **Basis of consolidation (cont'd)**

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

#### **Property, plant and equipment**

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

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

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

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

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

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

Residual value of an all property, plant and equipment groups' equals to EUR 0,29.

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

The estimated useful lives are as follows:

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Property, plant and equipment (cont'd)**

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

#### **Intangible assets**

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

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

#### **Goodwill**

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

Goodwill that arises on the acquisition of subsidiaries is presented under intangible assets.

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

Thousand EUR	<u>31-12-2016</u>	<u>31-12-2015</u>
AB Kelmės Pieninė	6,616	6,616
AB Modest	<u>299</u>	<u>299</u>
	<u>6,915</u>	<u>6,915</u>

Where goodwill forms part of a cash-generating unit, containing part of operation which is being disposed, the goodwill associated with the operation disposed is included in its carrying amount when determining the gain or loss on disposal of the operation. In this case, goodwill is measured based on the relative value of the disposed operation, compared to the rest of the cash-generating unit retained.

#### **Non-controlling interest**

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the parent. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interest without loss of control are based on a proportionate amount of the net assets of the subsidiary.

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Inventories**

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

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

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

The cost of inventories is estimated using the first-in first-out principle.

#### **Non-derivative financial assets and liabilities**

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

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

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

##### *Held-to-maturity investments*

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

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Non-derivative 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 with gains or losses, except impairment losses, being recognized through other comprehensive income as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

##### *Fair value*

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

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

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

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

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

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

Note 10 - Property plant and equipment

Note 25 – Financial instruments and risk management

##### *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 consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Non-derivative financial assets and liabilities (cont'd)**

##### *Borrowing costs*

Borrowing costs are interest and other costs that an entity or a Group incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include;

- Interest expense calculated using the effective interest method;
- Finance charges in respect of finance leases, and
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

The commencement date for capitalisation is the date when the entity first meets all three conditions:

- it incurs expenditure for the asset;
- It incurs borrowing costs, and
- It undertakes activities that are necessary to prepare the asset for its intended use or sale

Capitalizing of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

##### *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**

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.

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.

##### *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 consolidated financial statements**

### **Summary of significant accounting policies (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 Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

##### *Financial liabilities*

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

#### **Cash and cash equivalents**

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

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

#### **Impairment**

##### *Financial assets*

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

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

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

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



## Notes to the consolidated financial statements

### Summary of significant accounting policies (cont'd)

#### Impairment (cont'd)

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

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

#### *Non-financial assets*

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

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

#### *Non-financial assets (cont'd)*

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

#### Employee benefits

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Finance and operating leases**

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

##### *The Group as a lessee*

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as expenses in profit or loss on a straight-line basis over the lease term.

#### **Acquisition of own shares**

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

#### **Dividends**

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

#### **Government grants**

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

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

#### **Revenue**

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

#### **Cost of sales**

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

Costs are recognised based on accrual and matching principles.

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Distribution and administrative expenses**

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

Operating costs are recognized based on accrual principle.

#### **Other operating income and costs**

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

#### **Financial income and expenses**

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

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

#### **Income tax**

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

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

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

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

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

## **Notes to the consolidated financial statements**

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

#### **Segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group has 3 reportable segments and also has 4 distinguishable segments established on the basis of legal entities (AB VILKYŠKIŲ PIENINĖ, AB Kelmės Pieninė, AB Modest and AB Pieno Logistika).

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

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

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

The following new standards and amendments with effective date of 1 January 2016 did not have any impact on these consolidated financial statements:

- IFRS 14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Annual Improvements to IFRSs 2012-2014/7 Cycle – various standards;
- Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);
- Disclosure Initiative (Amendments to IAS 1).

## Notes to the consolidated financial statements

### Summary of significant accounting policies (cont'd)

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

The following new Standards, interpretations and amendments are not yet effective for the annual reporting period starting as of 1 January 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2014) (*Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.*)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity’s risk management and hedging activities are required.

The Group does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Group’s financial instruments are not expected to change under IFRS 9 because of the nature of the Group’s operations and the types of financial instruments

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Standards, interpretations and amendments to published standards that are not yet effective (cont'd)**

that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

*(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)*

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

*(iii) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)*

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group have not yet fully completed their initial assessment of the potential impact; however, the Group do not expect that the amendments, when initially applied, will have material impact on the financial statements.

*(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.*

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Standards, interpretations and amendments to published standards that are not yet effective (cont'd)**

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options,
- and leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will not have a significant impact on

The Group have not yet fully completed their initial assessment of the potential impact; however, the Group do not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group does not have significant operating leases contractual obligations.

*(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.*

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Group does not enter into share-based payment transactions.

*(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.*

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising from obtaining or losing control of subsidiaries, changes in fair value).

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Standards, interpretations and amendments to published standards that are not yet effective (cont'd)**

*(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.*

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group because the Group already measures future taxable profit in a manner consistent with the Amendments.

*(viii) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.*

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

*(ix) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.*

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group does not expect that the amendments will have a material impact on the financial statements because the Group does not have investment property.

*(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.*

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.



## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Standards, interpretations and amendments to published standards that are not yet effective (cont'd)**

##### *(xi) Annual Improvements to IFRSs*

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is 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 judgments and estimates**

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

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

#### ***Fair value of derivatives***

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Use of judgments and estimates (cont'd)**

##### ***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 Group concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

##### ***Impairment losses on goodwill and property, plant and equipment***

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

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

##### ***Valuation of buildings***

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

##### ***Impairment losses on receivables***

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Use of judgments and estimates (cont'd)**

from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the Parent Company and subsidiaries of the receivables.

The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### ***Useful lives for property, plant and equipment***

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

#### **Financial risk management**

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

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

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

The note 25 "Financial instruments and risk management" presents quantitative information about the Group's exposure to each of the risks and the Group's management of capital. Further quantitative disclosures are also included throughout these annual financial statements.

#### **Risk management framework**

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

#### **Credit risk**

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

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Financial risk management (cont'd)**

##### **Credit risk (cont'd)**

In 2016, the Parent Company insured foreign customers by credit insurance in the company Eurler Hermes.

For each client, the credit risk is assessed on an individual basis. Trade receivables are regularly reviewed by the Finance Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started. Ageing of trade and other receivables is disclosed in note 25.

##### **Liquidity risk**

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

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. Liquidity risk is disclosed in note 25.

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

##### **Market risk**

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

The Group manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 25 Financial instruments and risk management.

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

##### **Operational risk**

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

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

## **Notes to the consolidated financial statements**

### **Summary of significant accounting policies (cont'd)**

#### **Financial risk management (cont'd)**

##### **Operational risk (cont'd)**

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 consolidated financial statements

### 1 Segment reporting

The Company has several reportable segments, as prescribed below.

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

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

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

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

Segments results for the year ended 31 December 2016 are as follows:

Thousand EUR	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	41,705	20,840	27,945	90,490
Cost of sales	-39,685	-19,809	-18,387	-77,881
Gross profit	2,020	1,031	9,558	12,609

Segments results for the year ended 31 December 2015 are as follows:

Thousand EUR	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	40,880	22,214	21,351	84,445
Cost of sales	-39,843	-18,420	-17,332	-75,595
Gross profit	1,037	3,794	4,019	8,850

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

## Notes to the consolidated financial statements

### 1 Segment reporting (cont'd)

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

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

Segment information for 2016:

Thousand EUR	AB				Adjustment	Total
	VILKYŠKIŲ PIENINĖ	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika		
Revenue	102,260	21,289	9,816	9	-42,884	90,490
Interest income	7	44	-	-	-45	6
Interest expenses	-471	-32	-33	-1	45	-492
Depreciation and amortization, net of grants amortization	1,874	504	347	5	-	2,730
Profit before tax	7,493	2,183	-769	-1	-3,936	4,970
Income tax expense	-502	-	-13	-	-	-515
Profit for the year	6,991	2,183	-782	-1	-3,936	4,455
Other material non-cash items	-	-53	-88	-	-	-141
Segment assets	54,586	26,983	19,866	193	-27,266	74,362
Acquisition of property, plant and equipment and intangible assets	2,447	18,816	10,047	-	-14,400	16,910
Segment liabilities	25,973	23,772	19,082	89	-23,469	45,447

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

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

Segment information for 2016 per geographical zones:

Thousand EUR	Revenue	Assets
Lithuania	26,934	71,487
European Union, except Lithuania	50,545	2,045
Other	13,011	830
	90,490	74,362

## Notes to the consolidated financial statements

### 1 Segment reporting (cont'd)

Segment information for 2015:

Thousand EUR	AB				Adjustment	Total
	VILKYŠKIŲ PIENINĖ	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika		
Revenue	97,404	23,316	9,568	9	-45,852	84,445
Interest income	8	45	6		-52	7
Interest expenses	-472	-38	-52	-1	52	-511
Depreciation and amortization, net of grants amortization	1,913	503	348	5	-	2,769
Profit before tax	-717	3,907	842	-1	-3,486	545
Income tax expense	634	-	-11	-	-	623
Profit for the year	-83	3,907	831	-1	-3,486	1,168
Other material non-cash items	-	-	-105	-	-	-105
Segment assets	48,315	7,870	12,189	200	-7,208	61,366
Acquisition of property, plant and equipment and intangible assets	810	215	6,379	-	-	7,404
Segment liabilities	26,820	2,911	10,622	93	-3,413	37,033

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

Segment information for 2015 per geographical zones:

Thousand EUR	Revenue	Assets
Lithuania	31,391	58,435
European Union, except Lithuania	38,593	1,707
Other	14,461	1,224
	84,445	61,366

### Information about major clients

The Group did not have any customers, which sales would account for more than 10% of total sales.

Thousand EUR	2016	2015
<b>2 Cost of sales</b>		
Raw materials	-50,999	-48,480
Staff costs	-6,852	-6,717
Milk collection and transportation costs	-3,159	-3,409
Gas, electricity	-2,198	-2,274
Depreciation and amortization of grants	-2,186	-2,268
Other costs	-12,487	-12,447
	-77,881	-75,595



## Notes to the consolidated financial statements

Thousand EUR	2016	2015
<b>3 Other operating income</b>		
Transportation services	84	60
Services rendered	55	113
Gain from sales of materials	48	59
Accounting services	17	17
Not claimed arrears	1	115
Other	77	60
	<u>282</u>	<u>424</u>
<b>4 Other operating expenses</b>		
Cost of services rendered	-95	-128
Cost of sold materials	-66	-37
Loss from disposal of property, plant and equipment	-1	-
Other	-5	-
	<u>-167</u>	<u>-165</u>
<b>5 Distribution expenses</b>		
Logistics and transportation	-1,821	-2,245
Marketing and advertising	-1,074	-2,018
Staff costs	-611	-604
Depreciation	-66	-85
Other sales expenses	-543	-491
	<u>-4,115</u>	<u>-5,443</u>
<b>6 Administrative expenses</b>		
Staff costs	-1,274	-1,119
Depreciation and amortization, including grant amortization	-225	-200
Veterinary services	-105	-102
Consultations	-105	-99
Write off of inventories	-102	-
Security	-97	-82
Taxes except for income tax	-87	-82
Penalties	-73	-71
Write off of bad debts	-47	-
IT costs	-44	-69
Fuel	-38	-40
Repair	-35	-24
Membership fees	-34	-24
Security commission services	-29	-28
Insurance	-24	-20
Bank charges	-20	-56
Remuneration to Board members	-	-43
Other	-587	-470
	<u>-2,926</u>	<u>-2,529</u>

## Notes to the consolidated financial statements

Thousand EUR	2016	2015
<b>7 Net financing costs</b>		
<i>Financing income</i>		
Interest	6	7
Other	9	30
Total financing income	15	37
<i>Financing costs</i>		
Interest	-492	-511
Factoring costs	-127	-32
Loss from foreign exchange	-38	-25
Other	-71	-61
Total financing costs	-728	-629
	-713	-592
<b>8 Income tax expense</b>		
Thousand EUR	2016	2015
<i>Recognized in the income statement</i>		
<b>Current income tax expense</b>		
Current period	-83	-11
<b>Deferred tax</b>		
Change in deferred tax	-432	634
	-515	623
<i>Reconciliation of effective tax rate</i>		
Thousand EUR	2016	2015
Profit for the year	4,455	1,168
Income tax expense	515	-623
Profit before tax	4,970	545
Income tax applying the effective tax rate	15.00% 746	15.00% 82
Non-taxable result of subsidiary AB Kelmės		
Pieninė due to the social status of the subsidiary	-6.60% -328	-107.53% -586
Non-taxable income	-4.59% -228	- -
Non-deductible expenses	6.28% 312	106.06% 578
Utilized tax losses	-6.78% -337	-9.54% -52
Incentive on investment	-1.65% -82	-2.02% -11
Income tax expense	1.67% 83	1.97% 11
Change in deferred tax	432	-634
	515	-623

## Notes to the consolidated financial statements

### 9 Earnings per share

	2016	2015
Number of issued shares calculated based on weighted average method, in thousand units	11,943	11,943
Net profit, attributable to ordinary shareholders of the Parent Company, in thousand EUR	4,458	1,169
Basic earnings per share, in EUR	0.37	0.10

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

### 10 Property, plant and equipment

Thousand EUR	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
<b>Cost/revalued amount</b>					
Balance as at 1 January 2015	9,913	30,688	2,808	2,368	45,777
Acquisitions	15	779	230	6,351	7,375
Reclassification*	562	914	23	-1,615	-116*
Disposals	-	-725	-262	-	-987
Balance as at 31 December 2015	10,490	31,656	2,799	7,104	52,049
Balance as at 1 January 2016	10,490	31,656	2,799	7,104	52,049
Acquisitions	2	152	64	16,652	16,870
Disposals	-11	-141	-248	-	-400
Reclassification*	0	71	24	-109	-14*
Balance as at 31 December 2016	10,481	31,738	2,639	23,647	68,505
<b>Depreciation and impairment</b>					
Balance as at 1 January 2015	440	12,353	1,774	-	14,567
Depreciation for the year	458	2,472	208	-	3,138
Disposals	-	-674	-245	-	-919
Balance as at 31 December 2015	898	14,151	1,737	-	16,786
Balance as at 1 January 2016	898	14,151	1,737	-	16,786
Depreciation for the year	448	2,402	197	-	3,047
Disposals	-10	-141	-242	-	-393
Balance as at 31 December 2016	1,336	16,412	1,692	-	19,440
<b>Carrying amounts</b>					
1 January 2015	9,473	18,335	1,034	2,368	31,210
31 December 2015	9,592	17,505	1,062	7,104	35,263
31 December 2016	9,145	15,326	947	23,647	49,065

\*14 thousand EUR (2015: 116 thousand EUR) is related to completed intangible asset project which was directly transferred from construction in progress to intangible assets.

## Notes to the consolidated financial statements

### 10 Property, plant and equipment (cont'd)

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

#### *Pledges*

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

- buildings with book value, as agreed by the parties, of 8,577 thousand EUR as at 31 December 2016 (31 December 2015: 4.068 thousand EUR);
- machinery and equipment with a book value amounting to 13,237 thousand EUR as at 31 December 2016 (at 31 December 2015: property, plant and equipment amounting to 11,236 thousand EUR) (note 18).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 7,344 thousand EUR as at 31 December 2016 (at 31 December 2015: 7,232 thousand EUR).

#### *Vehicles under finance lease contracts*

The Group has acquired several transport vehicles under finance lease arrangements. The carrying amount of the leased assets amounted to 235 thousand EUR as at 31 December 2016 (at 31 December 2015: 310 thousand EUR).

#### *Depreciation*

Depreciation is provided for in the following items:

Thousand EUR	2016	2015
Cost of finished goods	2,836	2,899
Distribution expenses	66	85
Administrative expenses	145	154
	3,047	3,138

#### *Valuation of buildings*

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

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

As to the management, during 2014-2016 there were no significant changes in the real estate market and the management is of the opinion that there was no need to perform an evaluation of the buildings at the end of 2016 and to make any adjustments to the value of the buildings presented in the consolidated financial statements for 2016.

An increase in value of 1,152 thousand EUR (net of deferred tax liability) was recognized in equity. Total revaluation surplus amounted to 1,175 thousand EUR and is accounted under 2014 acquisition line in property, plant and equipment table..

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

## Notes to the consolidated financial statements

### 10 Property, plant and equipment (cont'd)

As at 31 December 2016, net value of the revaluation reserve amounts to 2,512 thousand EUR (at 31 December 2015: 2,667 thousand EUR).

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2016 would be 5,563 thousand EUR (the revalued value – 8,341 thousand EUR) (at 31 December 2015: 5,755 thousand EUR, the revalued value – 8,713 thousand EUR).

### 11 Intangible assets

Thousand EUR	Goodwill	Software	Total
<b>Cost</b>			
Balance as at 1 January 2015	6,915	521	7,436
Acquisitions	-	29	29
Disposals	-	-3	-3
Reclassification*		116	116*
Balance as at 31 December 2015	6,915	663	7,578
Balance as at 1 January 2016	6,915	663	7,578
Acquisitions	-	40	40
Disposals	-	-2	-2
Reclassification*		14	14
Balance as at 31 December 2016	6,915	715	7,630
<b>Amortization and impairment</b>			
Balance as at 1 January 2015	-	485	485
Amortization for the year	-	48	48
Disposals	-	-2	-2
Balance as at 31 December 2015	-	531	531
Balance as at 1 January 2016	-	531	531
Amortization for the year	-	81	81
Disposals	-	-2	-2
Balance as at 31 December 2016	-	610	610
<b>Carrying amounts</b>			
1 January 2015	6,915	36	6,951
31 December 2015	6,915	132	7,047
31 December 2016	6,915	105	7,020

\*14 thousand EUR is related to completed intangible asset project which was directly transferred from construction in progress (2015: 116 thousand EUR).

Amortization charge for the year is included in administrative expenses.

#### ***Recoverable amount of cash generating units to which goodwill is assigned***

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

## Notes to the consolidated financial statements

### 11 Intangible assets (cont'd)

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

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

Thousand EUR	31-12-2016	31-12-2015
AB Kelmės Pieninė	6,616	6,616
AB Modest	299	299
	6,915	6,915

An impairment test of these cash generating units was performed through calculating their recoverable value. For assessment of the value in use, the estimated future cash flows were discounted to their present value applying the pre-tax rate of the average weighted cost of capital in the industry which equalled to 7.42 %. The main assumptions used for the calculation of the value in use are as follows:

- The future cash flows have been calculated based on historical experience and the business plan for 5 years.
- For an increase of revenues and improvement of performance results, in 2017 the Group is planning: to increase sales not only of usual assortment of cheese, but also of the new product – whey; to increase production and sales of blue cheese using the new technological equipment, to find target markets for these products; to renew trade with South Korea and Arab countries for delivery of large amounts of Mozzarella cheese containing vegetable oil. To improve operation of the logistics warehouse; to review workload of the production employees and provide more services to Group companies.
- The Group’s management expects that prices for raw milk will not differ significantly from the prices in the second half of 2016;
- The Group’s management is planning to strengthen marketing of the Group and increase export sales;

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

### 12 Long term receivables

Thousand EUR	Note	31-12-2016	31-12-2015
<b>Financial instruments</b>			
Loans granted to related parties (b)	24	102	102
Long term receivables from farmers (c)		52	84
Other long term receivables		3	5
		157	191
<b>Non - Financial assets</b>			
Prepayments to related parties (a)	24	185	214
		342	405

## Notes to the consolidated financial statements

### 12 Long term receivables (cont'd)

a) A prepayment (185 thousand EUR) is made to a related company ŪKB Šilgaliai. The prepayment must be fully covered by supplying raw materials till 31 December 2019. The outstanding balance of the prepayment is subject to administration fee.

b) The loan (102 thousand EUR) issued to a related party ŪKB Šilgaliai, matures on 31 December 2019. The outstanding balance of the loan bears a fixed interest rate.

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

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 25.

### 13 Inventories

Thousand EUR	<u>31-12-2016</u>	<u>31-12-2015</u>
Finished production	8,193	9,478
	<u>8,193</u>	<u>9,478</u>
Raw materials	62	81
Auxiliary materials	1,891	2,381
Production in progress	227	107
Goods for re-sale	-	-
	<u>10,373</u>	<u>12,047</u>

Raw materials include milk and other materials used in production.

As at 31 December 2016, write down of inventories (finished goods) to net realisable value amounts to 1,554 thousand EUR. As at 31 December 2015, there were no inventories (finished production) written down to net realisable value.

As at 31 December 2016, write down of inventories (tare and packing materials, i.e. auxiliary materials) to net realisable value amounted to 123 thousand EUR (at 31 December 2015: 139 thousand EUR).

Write-off to net realisable value of inventories (finished production) and reversal of the write down is accounted for in cost of sales.

Write down of inventories (tare) and reversal of the write down is stated under administrative expenses.

As at 31 December 2016, the inventories with the carrying amount of up to 4,048 thousand EUR (2015: up to 5,786 thousand EUR) have been pledged to financial institutions (note 18).

## Notes to the consolidated financial statements

### 14 Trade and other receivables

Thousand EUR	Note	31-12-2016	31-12-2015
Trade receivables		5,039	5,138
Impairment losses		-97	-114
Loans issued to related parties, including calculated interest and administration fee	24	101	102
Other receivable		73	64
Total financial assets		5,116	5,190
Taxes receivable (excluding income tax)		1,852	812
Total trade and other receivables		6,968	6,002

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 25.

Taxes receivable mainly include receivable VAT.

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

The receivable of 101 thousand EUR is due from the related party ŪKB Šilgaliai. The amount includes interest on the loan and an administrative fee for prepayments.

The trade receivables with the carrying amount of not less than 81 thousand EUR have been pledged to Nordea Bank AB. As at 31 December 2016, the pledged amount is 156 thousand EUR (as at 31 December 2015 the pledged amount was 251 thousand EUR).

### 15 Prepayments

Thousand EUR	Note	31-12-2016	31-12-2015
Prepayments	a)	181	278
Prepayments to related parties	24	184	170
		365	448

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

### 16 Cash and cash equivalents

Thousand EUR	31-12-2016	31-12-2015
Cash at bank	209	69
Cash on hand	20	85
	229	154

All cash as at 31 December 2016, have been pledged to secure the bank loans (note 18). Furthermore, cash inflows in the bank accounts are pledged to secure the bank loans (note 18).

The interest rate risk of the Group, related to cash and cash equivalents, is disclosed in note 25.



## **Notes to the consolidated financial statements**

### **17 Capital and reserves**

Authorized capital of the Parent Company as at 31 December 2016 comprised 11,943,000 ordinary shares at par value of 0.29 EUR each. All shares are fully paid.

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

#### ***Legal reserve***

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. According to law, the reserve can be used only to cover the retained losses. As at 31 December 2016, legal reserve of the Company was 346 thousand EUR (at 31 December 2015: 346 thousand EUR).

#### ***Share premium***

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

#### ***Revaluation reserve***

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

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

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

#### ***Hedging reserve***

As at 31 December 2016, the hedging reserve comprises the effective part of the fair value of the derivative financial instrument in relation to hedging against interest rate fluctuations. The hedging reserve amount to 237 thousand EUR (as at 31 December 2015: 364 thousand EUR).

#### ***Reserve for acquiring own shares***

The general shareholders meeting, dated 29 April 2016, decided that the Company can acquire up to 10 % of own shares.

At the end of the year 2016, the reserve for acquiring own shares amounted to 2,508 thousand EUR as at 31 December 2015: 2,508 thousand EUR).

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

During the years 2016 and 2015, the Group did not acquire any own shares.

## Notes to the consolidated financial statements

### 18 Interest bearing loans and finance lease liabilities

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

Credit institution	Ref.	Currency	Contracted amount, thousand EUR	Balance at 31-12-2016	Balance at 31-12-2015
Bank loan	1)	EUR	4,996	2,610	3,753
Bank loan	2)	EUR	1,878	746	1,428
Bank loan	3)	EUR	3,900	3,900	3,900
Bank loan	4)	EUR	1,000	1,000	1,000
Overdraft	5)	EUR	900	830	-
Bank loan	6)	EUR	1,825	-	99
Bank loan	7)	EUR	1,039	59	298
Overdraft	8)	EUR	2,870	2,866	2,861
Loan*	9)	EUR	250	-	250
Bank loan	10)	EUR	1,767	-	110
Overdraft	11)	EUR	869	-	613
Bank loan	12)	EUR	20,800	15,795	-
Overdraft	13)	EUR	1,000	997	-
Bank loan	14)	EUR	1,740	-	103
Bank loan	15)	EUR	860	51	253
Bank loan	16)	EUR	1,900	1,180	1,533
Bank loan	17)	EUR	5,760	-	4,802
Factoring	18)	EUR	1,400	155	1,012
Finance lease liabilities	19)	EUR	222	119	198
Finance lease liabilities	20)	EUR	40	-	2
Total liabilities				30,308	22,215
Less: current portion				-8,697	-9,123
Payable after one year				21,611	13,092

\*note 24

1) A business credit of 4,996 thousand EUR, part of which (2,736 thousand EUR) has been granted. The remaining part (2,260 thousand EUR) was used to re-finance the liabilities and investments. The repayment of the credit, as to schedule, started on 20 July 2015 and shall be finished by 20 October 2018. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

## **Notes to the consolidated financial statements**

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

2) A business credit of 1,878 thousand EUR, part of which (633 thousand EUR) has been granted. The remaining part was meant for re-financing of liabilities. The repayment of the credit, as to schedule, started on 10 August 2015 and shall be finished by 20 June 2017. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

3) A business credit of 3,900 thousand EUR. The total amount shall be repaid by the end of the loan term. The final repayment deadline is 21 June 2020. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

4) AB VILKYŠKIŲ PIENINĖ has been granted a credit facility of 1,000 thousand EUR for working capital needs. The repayment deadline is 30 November 2017. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

5) AB VILKYŠKIŲ PIENINĖ has been granted an overdraft of 900 thousand EUR for working capital needs. An overdraft term is 30 days. The repayment deadline 30 November 2017. The determined interest rate is 3 months EURIBOR + margin.

6) On 28 April 2008, AB VILKYŠKIŲ PIENINĖ received a loan of 1,825 thousand EUR for acquisition of AB Kelmės Pieninė. The loan has been repaid.

7) On 23 February 2012, AB VILKYŠKIŲ PIENINĖ has been granted a loan (1,039 thousand EUR) for re-financing of the loan from the AB Bank Snoras. The repayment started from 28 February 2013 and will end on 23 February 2017 making monthly instalments. The loan is secured by pledged equipment and current and future cash inflows in all currencies. The determined interest rate is 1 month EURIBOR + margin.

8) On 17 April 2012, AB VILKYŠKIŲ PIENINĖ received an overdraft (1,868 thousand EUR) for working capital needs. Based on the amendment to the agreement, dated 23 April 2015, the overdraft limit was increased up to 2,870 thousand EUR to satisfy the working capital needs. Based on amendment to the agreement, dated 29 December 2016, the repayment deadline is extended until 29 December 2017. The credit is secured by pledging amounts receivable, current and future account inflows in all currencies, the inventories and equipment. The determined interest rate is 1 week EONIA + margin.

9) On 16 November 2015, AB VILKYŠKIŲ PIENINĖ signed a loan agreement with the main shareholder of the Company for a loan of 250 thousand EUR and fixed annual interest. The loan has been repaid.

10) During the financial year, AB Kelmės Pieninė repaid the total outstanding amount under the investment credit agreement, signed on 15 October 2008 with AB Swedbank.

11) Based on a supplement to the agreement, signed with AB Swedbank on 20 May 2016, AB Kelmės Pieninė repaid the credit amount under the overdraft agreement.

12) On 22 April 2016, AB Kelmės Pieninė signed an agreement on business credit with OP Corporate Bank Plc for acquisition of investments at the total amount of 20,8 million EUR. The repayment of the loan will start from 31 January 2018. The final repayment deadline is 31 December 2021. The determined interest rate is 3 months EURIBOR+ margin.

## Notes to the consolidated financial statements

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

13) On 22 April 2016, AB Kelmės Pieninė signed an overdraft agreement with OP Corporate Bank Plc. For an amount of 1 million EUR to be granted by 22 April 2017. The determined interest rate is 3 months EURIBOR+ margin.

14) On 20 January 2011, AB MODEST has been granted a business credit. The loan has been repaid.

15) On 10 February 2012, AB MODEST has been granted a business credit of 860 thousand EUR. According to the agreement, the company received part of the credit (332 thousand EUR) and the remaining part (528 thousand EUR) has been dedicated to re-finance the loan from AB Bank SNORAS. The repayment, according to the set schedule, started as of 28 February 2013. The final deadline is 23 February 2017. The determined interest rate is 1 month EURIBOR+ margin.

16) On 14 May 2014, AB MODEST has been granted a business credit of 1,900 thousand EUR. The repayment, according to the set schedule, started as of June 2015. The final deadline is 31 March 2019. The determined interest rate is 3 months EURIBOR+ margin.

17) On 2 June 2015, AB MODEST has been granted a business credit of 5,760 thousand EUR. The loan has been repaid.

18) On 2 July 2015, AB VILKYŠKIŲ PIENINĖ has been granted a factoring facility of 1,650 thousand EUR. Based on the amendment to the agreement, dated 11 July 2016, the factoring limit has been reduced to 1,400 thousand EUR. Based on the amendment, dated 2 December 2016, the final repayment deadline is not provided. The determined interest rate is 1 month EURIBOR+ margin.

19) Agreements of AB VILKYŠKIŲ PIENINĖ on financial lease are drawn up with leasing companies. The final deadline for repayment is April 2019.

20) Agreements of AB Kelmės Pieninė on financial lease are drawn up with leasing companies. The mentioned agreements have been closed.

As at 31 December 2016, the Company complied with all loan covenants.

#### *Loan repayment schedules, except for finance lease liabilities:*

Thousand EUR	<b>2016</b>	<b>2015</b>
Within one year	8,610	9,021
From 1 to 5 years	21,579	12,994
After 5 years	-	-
	30,189	22,015

The effective interest applied on the loans and finance lease liabilities in 2016 was 1.8 per cent (2015: 2.5 per cent).

## Notes to the consolidated financial statements

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

#### *Finance lease liabilities*

Thousand EUR	<b>2016</b>	<b>2015</b>
The finance lease is paid as follows:		
Within 1 year	87	101
From 1 to 5 years	32	99
	119	200

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

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

### 19 Government grants

Thousand EUR	<b>31-12-2016</b>	<b>31-12-2015</b>
Carrying amount at the beginning of the period	3,134	3,119
Grants received	206	462
Amortization and write down of grants recognized in the income statement	-398	-447
Carrying amount at the end of the period	2,942	3,134

The Group has received support from the EU Structural funds under the Lithuanian Rural Development Programme for 2007-2014 from the National Settlement Agency under the Ministry of Agriculture. The support was received for acquisition of property, plant and equipment. The grant is amortised in proportion to depreciation of the assets concerned.

### 20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate as at 31 December 2016 (31 December 2015: 15%), are attributed to the following items:

Thousand EUR	<b>Assets</b>		<b>Liabilities</b>		<b>Net value</b>	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Property, plant and equipment		-	1,856	1,694	1,856	1,694
Vacation reserve	-69	-59	-	-	-69	-59
Inventories	-29	-	-	-	-29	-
Government grants	-207	-190	-	-	-207	-190
Tax losses to be carried forward	-731	-1,057	-	-	-731	-1,057
Deferred tax (asset) / liabilities	-1,036	-1,306	1,856	1,694	820	388

## Notes to the consolidated financial statements

### 20 Deferred tax liabilities (continued)

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carry forward is lost if the Company changes its activities due to which these losses were incurred, except for cases, when activities are terminated due to reasons which do not depend on the Company itself. The Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the Company could cover up to 70% of current year taxable profit with the accumulated tax losses.

An increase in the deferred tax liability of 432 thousand EUR was recognized in the income statement.

Movements in temporary differences during the year can be presented as follows:

Thousand EUR	01-01-2016	Recognised in profit or loss	Recognised in equity	31-12-2016
Property, plant and equipment	1,694	162	-	1,856
Vacation reserve	-59	-10	-	-69
Inventories	-	-29	-	-29
Government grants	-190	-17	-	-207
Tax losses to be carried forward	-1,057	326	-	-731
Deferred tax (asset) / liabilities	388	432	-	820

Thousand EUR	01-01-2015	Recognised in profit loss	Recognised in equity	31-12-2015
Property, plant and equipment	1,555	139	-	1,694
Vacation reserve	-68	9	-	-59
Inventories	-92	92	-	-
Government grants	-173	-17	-	-190
Tax losses to be carried forward	-200	-857	-	-1,057
Deferred tax (asset) / liabilities	1,022	-634	-	388

Difference between the tax basis and the carrying amount of property, plant and equipment in the financial statements has occurred mainly due to revaluation of buildings.

## Notes to the consolidated financial statements

### 21 Trade and other payable amounts

Thousand EUR	Note	31-12-2016	31-12-2015
<b>Financial instruments</b>			
Trade payables	25	7,846	9,160
Trade payables to related parties	24	4	-
Other payable amounts		116	187
		7,966	9,347
<b>Non-financial instruments</b>			
Employment related liabilities a)		1,453	1,392
Prepayments received		1,556	21
Payable dividends		74	131
Accrued expenses		20	33
		3,103	1,577
		11,069	10,924

a) Employment related liabilities are payable salaries, related taxes and vacation reserve.

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 25.

### 22 Derivative financial instruments

Thousand EUR	31-12-2016	31-12-2015
Interest rate swap transaction to hedge against cash flow fluctuations (non-current part)	154	239
Interest rate swap transaction to hedge against cash flow fluctuations (current part)	83	125
	237	364

Derivatives are stated at fair value. The Group as at 31 December 2016 had two interest rate swap transactions with a bank relating to loans, which initially amounted to 2,317 thousand EUR and 3,900 thousand EUR. The loans are subject to variable interest rates related to 3 or 6 months EURIBOR+ margin. The Company expects some volatility of cash flows related to future interest payments, based on 3 and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with a bank where fixed interest on loans has been swapped for the variable interest:

- The Company pays fixed interest on the loan of 2,317 thousand EUR and receives a variable interest rate of 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 above hedging instruments were evaluated as being effective.

The liquidity risk related to derivative financial instruments is disclosed in note 25.

## Notes to the consolidated financial statements

### 23 Contingencies and commitments

Material contractual liabilities as at 31 December 2016 were as follows:

Thousand EUR	2016	2015
Acquisition of property, plant and equipment	4,591	10,621
Purchase of raw materials	4,127	4,041
	8,718	14,662

Assets pledged as at 31 December 2016 to secure the bank loans (note 18) are as follows:

- Current and future cash inflows in the accounts at different banks;
- Immovable assets with the carrying amount of 8,577 thousand EUR, as agreed by the parties;
- Movable assets with the carrying amount of 13,237 thousand EUR;
- Inventories with the carrying amount of up to 4,048 thousand EUR.
- Trade receivables from one of the retail chain.
- Sub-lease right of the state land.
- Owned trademarks;
- 50,00 percent shareholding of AB Kelmės Pieninė
- Surety of AB Kelmės Pieninė and AB MODEST for loans and overdraft agreements issued by SEB Bankas (on behalf of AB VILKYŠKIŲ PIENINĖ).
- Surety of AB VILKYŠKIŲ PIENINĖ and AB MODEST for loans and overdraft agreements issued by OP Corporate Bank (on behalf of AB Kelmės Pieninė).
- Surety of AB Kelmės Pieninė and AB VILKYŠKIŲ PIENINĖ for loans granted by NORDEA Bank (on behalf of AB MODEST).
- Surety of AB MODEST for loan granted by NORDEA Bank (on behalf of AB VILKYŠKIŲ PIENINĖ).
- Surety for the loan granted to Agricultural Cooperative by the value of 1 million EUR.

The tax authorities have not performed a full scope tax review of the Group for the period from 2011 to 2016. Pursuant to the prevailing tax legislation, the tax authorities have the right at any time to check the accounting registers of the Group for a period of 5 years before the current taxable period and may charge additional taxes and penalties. The Group's management is not aware of any circumstances, which could result in additional material tax liabilities.



## Notes to the consolidated financial statements

### 24 Transactions with related parties and financial relations with management

Thousand EUR	Note	2016	2015
<b>Amounts payable</b>			
<i>Loans</i>			
Loan payable to main shareholder		-	250
<i>Trade payables</i>			
ŪKB Šilgaliai		4	-
		4	250
<i>Prepayments</i>			
ŪKB Šilgaliai (non-current assets)	12	185	214
ŪKB Šilgaliai (current assets)	15	184	170
		369	384
<i>Loans granted, including interest and administration fee</i>			
ŪKB Šilgaliai	12, 14	203	204
		203	204
		<b>572</b>	<b>588</b>
<b>Interest income</b>			
ŪKB Šilgaliai		5	6
		<b>5</b>	<b>6</b>
<b>Interest expenses</b>			
Management		6	51
		6	51
<b>Sale of raw materials, goods and services</b>			
ŪKB Šilgaliai		9	12
		<b>9</b>	<b>12</b>
<b>Purchase of raw materials, goods and services</b>			
ŪKB Šilgaliai		650	636
		<b>650</b>	<b>636</b>

ŪKB Šilgaliai is a supplier of raw milk. The main shareholder and persons related to him have ownership rights in ŪKB Šilgaliai.

b) Staff costs, amounting to 538 thousand EUR (including social security), include remuneration to the Group management (2015: 426 thousand EUR).

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management

#### Credit risk

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

Thousand EUR	Note	Carrying amount	
		31-12-2016	31-12-2015
Long term receivable amounts	12	342	405
Trade and other receivables (excl. taxes)	14	5,116	5,190
Cash and cash equivalents	16	229	154
		5,687	5,749

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

Thousand EUR	Carrying amount	
	31-12-2016	31-12-2015
Lithuania	2,241	2,259
Poland	594	454
Latvia	472	542
Ireland	367	23
Estonia	308	152
Israel	262	510
Kazachstan	223	-
Portugal	172	156
Saudi Arabia	142	259
Albania	105	128
Jordan	2	126
Korea	-	193
Germany	-	80
Other	228	308
	<b>5,116</b>	<b>5,190</b>

As at 31 December 2016, a significant credit risk concentration is related to four customers, the receivables from which accounted for 30% of all trade receivables (as at 31 December 2015: 43%).

#### Impairment losses

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

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management (cont'd)

Ageing of trade and other receivables, prepayments and long term receivables as at the reporting date can be specified as follows:

Thousand EUR	Gross 31 December 2016	Impairment 31 December 2016	Gross 31 December 2015	Impairment 31 December 2015
<b>Related parties:</b>				
Not past due	473	-	506	-
Past due 0-30 days	1	-	1	-
Past due 31-60 days	1	-	1	-
More than 60 days	97	-	96	-
	<u>572</u>	<u>-</u>	<u>604</u>	<u>-</u>
<b>Other parties:</b>				
Not past due	6,343	-	5,295	-
Past due 0-30 days	664	-	579	-
Past due 31-60 days	70	-	152	-
More than 60 days	123	-97	339	-114
	<u>7,200</u>	<u>-97</u>	<u>6,365</u>	<u>-114</u>
	<u><b>7,772</b></u>	<u><b>-97</b></u>	<u><b>6,969</b></u>	<u><b>-114</b></u>

The impairment losses in relation to trade and other receivable amounts as at 31 December 2016 amount to 97 thousand EUR (2015: 114 thousand EUR).

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

Thousand EUR	Carrying amount	
	2016	2015
Balance as at 1 January	-114	-114
Impairment loss recognized	-47	-
Write down of doubtful receivable	2	-
Recovered impairment losses	62	-
Balance as at 31 December	<u>-97</u>	<u>-114</u>

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

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management (cont'd)

#### Liquidity risk

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

#### 31 December 2016

Thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank loans	30,034	(31,713)	(6,455)	(2,478)	(6,514)	(16,266)
Finance lease liabilities	119	(122)	(50)	(39)	(31)	(2)
Factoring	155	(156)	(156)	-	-	-
Derivatives	237	(237)	(59)	(59)	(119)	-
Trade payables	7,850	(7,850)	(7,850)	-	-	-
	<u>38,395</u>	<u>(40,078)</u>	<u>(14,570)</u>	<u>(2,576)</u>	<u>(6,664)</u>	<u>(16,268)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. In 2017, the Group is planning to negotiate with the banks on extension of overdrafts. The Company also expects to earn a sufficient cash flow from ordinary activity to cover the current liabilities.

#### 31 December 2015

Thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank loans	21,003	(21,758)	(5,850)	(2,495)	(8,361)	(5,052)
Finance lease liabilities	200	(208)	(57)	(48)	(78)	(25)
Factoring	1,012	(1,025)	(1,025)	-	-	-
Derivatives	364	(364)	(63)	(63)	(238)	-
Trade payables	9,160	(9,160)	(9,160)	-	-	-
	<u>31,739</u>	<u>(32,515)</u>	<u>(16,155)</u>	<u>(2,606)</u>	<u>(8,677)</u>	<u>(5,077)</u>

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

	<b>2016</b>	<b>2015</b>
Loans and finance lease liabilities	1.8% - 2.3%	1.8% - 2.5%

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management (cont'd)

#### Currency risk

The Company's currency risk (in thousand EUR), applying the exchange rates as at 31 December 2016, was as follows:

	<u>USD</u>	<u>PLN</u>
Long-term receivables	-	-
Trade and other receivables (excl. taxes)	145	232
Cash and cash equivalents	-	2
Loans and finance lease liabilities	-	-
Derivative financial instrument	-	-
Trade payables	-	(3)
Net exposure	<u>145</u>	<u>231</u>

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

	<b>Average</b>	
	<u>2016</u>	<u>2015</u>
USD	1.1072	1.106
PLN	4.3619	4.1834

The following exchange rates were applied as at 31 December:

	<u>2016</u>	<u>2015</u>
USD	1.0541	1.0926
PLN	4.4103	4.24

#### *Sensitivity analysis*

The functional currency of the Company is Euro (EUR). The Group 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 2016 year was denominated in EUR; therefore, the Company did not expose to significant foreign currency exchange risk.

#### **Interest rate risk**

The Group's borrowings bear variable interest rates related to EURIBOR + margin or EONIA+margin.

The Group has entered into two interest rate swap agreements with a bank, by which it partially hedges its exposure to interest rate fluctuations. The fair value of the interest rate swap agreements, amounting to 237 thousand EUR (2015: 364 thousand EUR) is included in derivative financial instruments.

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management (cont'd)

#### Interest rate risk (cont'd)

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

Thousand EUR	Carrying amount	
	31-12-2016	31-12-2015
<b>Fixed rate financial instruments</b>		
Non-current part of loans granted	102	103
Current part of loans granted	-	6
Loan from management	-	(250)
	<b>102</b>	<b>(141)</b>

Thousand EUR	Carrying amount	
	31-12-2016	31-12-2015
<b>Variable rate financial instruments</b>		
Bank loans	(30,034)	(20,753)
Factoring	(155)	(1,012)
Financial lease liabilities	(119)	(200)
	<b>(30,308)</b>	<b>(21,965)</b>
	<b>(30,206)</b>	<b>(22,106)</b>

#### *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 2015.

Effect in thousand EUR	Profit (loss)	
	100 bp increase	100 bp decrease
<b>31 December 2016</b>		
Variable rate instruments	(302)	302
<b>31 December 2015</b>		
Variable rate instruments	(221)	221

## Notes to the consolidated financial statements

### 25 Financial instruments – fair values and risk management (cont'd)

#### Fair value hierarchy

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

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

#### As at 31 December 2016

Thousand EUR

	Level 1	Level 2	Level 3	Total
Long term receivables	-	-	342	342
Trade and other receivables	-	-	6,968	6,968
Cash and cash equivalents	229	-	-	229
Loans and financial lease liabilities	-	-	(30,308)	(30,308)
Derivative financial instruments	-	(237)	-	(237)
Trade and other payables	-	-	(7,966)	(7,966)
	<u>229</u>	<u>(237)</u>	<u>(30,964)</u>	<u>(30,972)</u>

#### As at 31 December 2015

Thousand EUR

	Level 1	Level 2	Level 3	Total
Long term receivables	-	-	405	405
Trade and other receivables	-	-	6,002	6,002
Cash and cash equivalents	154	-	-	154
Loans and financial lease liabilities	-	-	(22,215)	(22,215)
Derivative financial instruments	-	(364)	-	(364)
Trade and other payables	-	-	(9,347)	(9,347)
	<u>154</u>	<u>(364)</u>	<u>(25,155)</u>	<u>(25,365)</u>

## **Notes to the consolidated financial statements**

### **25 Financial instruments – fair values and risk management (cont'd)**

#### **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.

#### **Capital management**

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

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

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

The Group is obligated to keep capital requirements set externally by banks. The requirement is that the ratio (equity– revaluation reserve) / (total assets) is not lower than 30 per cent. The management controls that the Group complies with the requirements.

#### ***Fair value***

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

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

#### **Cash**

Cash are funds that are valued at fair value.

#### **Receivable amounts and term deposits**

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



## **Notes to the consolidated financial statements**

### **25 Financial instruments – fair values and risk management (cont'd)**

#### **Financial liabilities**

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

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

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

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

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

#### **Financial instruments not stated at fair value**

The main financial instruments of the Group, not carried at fair value, are trade and other receivables, term deposits, trade and other payables, non-current and current borrowings. The Group's management is of the opinion that the carrying amounts of these financial instruments approximate their fair values because the borrowing costs are related to an interbank lending interest rate 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 2016 include derivative financial instruments

### **26 Subsequent events**

There were no events subsequent to the end of the reporting period that could materially affect the consolidated financial statements as at and for the year ended 31 December 2016.

## **Consolidated report of AB VILKYŠKIŲ PIENINĖ for 2016**

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

The year 2016 was very interesting and eventful. We started the year with great concentration, focus and commitment to huge challenges. We have passed a number of phases requiring firm solutions and flexibility; therefore, I firmly believed that we shall not only survive through this difficult stage but it bring us even more valuable experience that will be useful in the future when new opportunities arise

Let us recall how this year started: we experienced a global overproduction in the dairy industry, lost the Russian market, faced fierce competition in the local market. New potential contacts, from which we expected long-term relationships, were evolving; however, development of long-term partnership needs time. Realising the importance of business contacts, we did not reduce, but even intensified our participation in foreign exhibitions – we went to Dubai, New York; especially, it was important for us to introduce ourselves in the Chinese market, and, of course, in autumn we participated in the most significant international event in the world of food industry – SIAL Paris. Moreover, in Paris, our cheese packaging and positioning were recognised as one of the most innovative in the world, our yogurt and coated sweet cheese won recognition as well. Once again, we ascertained that search for innovative solutions is an important element of our company philosophy.

I can note even several most important events of the year. A huge and promising event is emergence of the Chinese market. We have something to offer to this market; therefore, there is no doubt that we open worthwhile opportunities. Such opportunities open for many food industry players in Lithuania, and exhaustion of these opportunities will depend only on us.

The year 2017 will be a historical year for us in the sense of realisation of a huge project – whey powder drying plant. The project is immense in several aspects. First of all, the implementation will require advanced technological solutions. As a result, we will become one of the most advanced and qualitative producers of this kind of products in Eastern Europe. Furthermore, the project is very important for the whole region of Tauragė – both, for development of infrastructure and for creation of new work places. And finally, this is a huge investment project – one of the largest in the history of our Company.

No less important events are internal processes and structural changes in the Company. Before entering the complex year 2016, we firmly knew that operational efficiency will require much attention and how important is to work effectively in all the spheres and levels of the Group –from raw materials to sales of product realisation, and that efficient organisation of production has a decisive influence on the final product cost. Therefore, we have established a separate strategic division – of Management and Quality. The newly formed team will have to face major challenges.

So, the year that started in tension, ended in great results. Output prices in the global markets have increased, allowing us to realise our production successfully. Our turnover grew by approximately 7 percent. I am pleased that the year was profitable.

Yours Sincerely,

Gintaras Bertašius

## **I. ISSUER OVERVIEW**

### **1. Reporting Period for this Consolidated Report**

This Consolidated Report is for 2016.

### **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	<a href="mailto:info@vilkyskiu.lt">info@vilkyskiu.lt</a>
Website	<a href="http://www.vilkyskiu.lt">http://www.vilkyskiu.lt</a>

### **3. Information on Subsidiaries and Contact Details:**

#### **AB Modest**

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

#### **AB Kelmės pieninė**

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

## **AB Pieno logistika**

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

## **4. Main Types of Activity**

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

Dairy operation and cheese production (EVRK 10.51).

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

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

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

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

## **5. Agreements with Brokerages for Public Issue**

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

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

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

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

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

The securities of the subsidiary companies are not publicly traded.

## **II. OVERVIEW OF OPERATIONS**

*AB Vilkyskių 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.

**Our Values:**

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

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

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

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

## 7. Issuer's Jurisdiction

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

## 8. Brief History of Issuer

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

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

### Key Events in Issuer's History

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

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

**1997:** EUR 0.8m was invested in the company, approximately EUR 0.1m 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 EUR 0.4m was invested in vehicles, buildings, milk refrigerators, production equipment, a new cheese production unit and other major facilities.

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

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

**2001:** The Company acquired the Tauragė dairy facility of the Mažeikiai branch of *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 new type of fuel.

**As of 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 Vilnius exchange. As of 1 January 2008, the shares are listed in the Official list of NASDAQ Vilnius exchange.

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

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

In **2007**, a new modern whey processing facility was launched. The total value of the whey processing facility was more than EUR 2.3m. The investment increased the Company's productivity, improved quality controls and reduced waste considerably. The Company had no whey processing until 2017. The Company used the support from the EU funds.

**2007:** *AB Modest*, controlled by *AB Vilkyškių pieninė*, was allocated EUR 0.6m in support from EU structural funds. *AB Modest* used the funds to upgrade its fleet of refrigerated vans for product transportation and to modernise its production processes. It installed new milk processing technologies and a packaging line for its main product, Mozzarella cheese. The EU support accounted for 44 percent of project value.

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

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

**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:** EUR 0.5m was invested into new cold store equipment, and another EUR 0.2m was invested to expand the existing wastewater treatment and equipment washing capacities.

**2012:** a new cheese production line was assembled (EUR 4.6m in value), increasing output by 30 percent, in addition to the launch of a EUR 2.7m packaging and plastic-coating line. This enabled manufacturing the *Prussia* brand of plastic-coated cheese *Prussia* using the latest technologies.

**2013:** the trademark of Vilkyškiai was elected as the most successful *Trademark of the year 2013*.

**2013:** investments were made in auxiliary facilities: a tank truck washer, a garage, a utility room, a mechanical workshop with utility premises, administrative offices, utility services, landings and a truck entry point. Another EUR 1.5m was invested to expand the whey processing unit's daily capacity to 600 tonnes. By the end of the year, the whey ultrafiltration project was also completed — it is a new

technology that breaks whey proteins into their basic components, which results in new profitable products. *AB Vilkyškių pieninė* implemented the whey ultrafiltration project

In **2013**, *AB Kelmės pieninė* installed a new *TetraTop* packaging line for liquid dairy products. This innovative environment-friendly packaging provides great protection for the product and is very convenient.

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

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

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

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

**In 2015**, *AB Vilkyškių pieninė* signed a contract on connection to a gas distribution system with *AB Lietuvos dujos*.

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

**In 2015:** the trademark of *Vilkyškiai* was elected as the most successful *Trademark of the year 2015*.

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

In June 2016, *Kelmės pieninė AB* together with the national Settlement Agency under the Ministry of Agriculture signed a support agreement No. 17PP-KS-15-2-07565-PR001 for an amount of EUR 4 million for implementation of the whey processing project. The project is in the process of implementation and is expected to be finished in 2017. The value of the project amounts up to EUR 26 million. The project is financed from own funds as well as borrowings. *AB Vilkyškių pieninė*, in the project, performs construction of the building.

Supportive investments in the Group during the financial year amounted to EUR 413 thousand.

## **10. Patents & Licenses**

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

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

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

In 2013, *AB Vilkyškių pieninė's* management system was re-certified in accordance with the ISO 9001:2008 and ISO 22000:2005 standards.

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

During the last review of the standard ISO 22000:2005, auditors gave a very positive evaluation of *AB Vilkyškių pieninė* and noted a very good preparation for implementation of the higher level certification scheme.

Having operated in accordance with ISO 22000:2005/FSSC 22000 standards since 2013, Kelmės pieninė AB has also enlarged the scope of certification to include the handling and processing of all products. In 2015, the company was awarded the certificates of International food safety standards ISO 22000:2005 and FSSC 22000 for all its products – production and storing of packed and loose dairy products.

In 2016, food safety and management system of Kelmės pieninė AB was re-certified in accordance with ISO 22000:2005 and FSSC 22000 standards. After the certification, the validity of the certificates have been extended for 3 years.

On 19 June 2015, AB Modest was awarded the certificates of International food safety standards ISO 22000:2005 and FSSC 22000 for all its products. The standards shall be valid for 3 years, and are subject to annual reviews.

In 2015, AB Modest for the first time certified the production process as to Halal rules so that the products of the Group could be favourably accepted in the Islamic markets. Halal products are associated with product safety, healthiness, quality and ecology. Therefore, these products are frequently consumed by people of other confessions as well. Certification shall be extended on annual basis.

For our products to be welcomed by the customers in the Islamic markets, *AB Vilkyškių pieninė* is also continuing certification of the production process as to Halal rules.

The laboratory operating at Modest AB has been supplied with modern equipment FOOS FoodScan LAB Dairy this year. The equipment includes a near infrared analyser that helps to perform analysis of the required parameters more accurately and quickly, which allows improving product quality and yield and optimising costs.

The modern laboratory equipment also offers new information management and analysis opportunities. This has enabled the Group companies to launch a project on document digitisation and transfer to the electronic environment this year. This project is very important for the activities of both the laboratory as a corporate structural unit and the whole group of Vilkyškių pieninė AB. The project has improved the procedure of product traceability and ensured quality control of laboratory test results.

In 2015, in order to increase the efficiency of the food safety management system, an attestation of the laboratory as to ISO 17025 was performed in the Group companies.

## **11. Human Resources**

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

In order to promote the team spirit, the Group has adopted a number of traditions. Each working day starts with a general discussion of staff at the cup of coffee. Employees are congratulated on their birthdays. Each year the staff celebrates the company's birthday, Christmas, organizes education trips. Various achievements and smaller events are announced in the intranet.

In order to maintain its collaborative and highly motivated workforce, the Group implements regular trainings, occupational safety and health measures, as well as promoting a favourable work environment.

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



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

Occupational safety and health is another key priority for the Group. Every year, employees are offered free health checkups and flu vaccination. It is planned to introduce common health and invigorating exercises to be performed at the working place.

One of *AB Vilkyškių pieninė Group companies - AB Kelmės pieninė* has the status of a social enterprise. The aim of the company is social influence by involving employees of specific groups for supply of goods to a market in an ordinary an innovative manner. Approximately 40 percent of its staff are people with disabilities. The company creates all conditions to maximise their vocational potential. Lectures, excursions, festivals, etc. are organized for the employees.

We seek to be an active member of the community, to contribute to more active social life in our county and to strengthen mutual relationship and communication. There is a shortage of cultural and educational events in regions; therefore, we do our best to promote the dissemination of culture in our region, and first of all we take care of people living close to us.

## **12. Environmental Protection**

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

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

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

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

Production wastewater is treated at the Company's own combined biomechanical treatment facility. In 2016, *AB Vilkyškių pieninė* treated 458.000 m<sup>3</sup> 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 till 99 percent range. *AB Kelmės pieninė* and *AB Modest* do not have their own wastewater treatment facilities and deliver their waste to Kelmė and Tauragė municipal treatment plants.

### 13. Group Results of Operations

#### Key financial consolidated indicators of *AB Vilkyškių pieninė Group*:

	2012	2013	2014	2015	2016
Revenue (EUR tho)	85,658	105,547	109,660	84,445	90,490
EBITDA (EUR tho)	4,661	6,978	6,218	3,876	8,413
EBITDA margin, pct	5.4	6.6	5.7	4.6	9.3
Operating profit (EUR tho)	2,669	4,723	3,766	1,137	5,683
Operating profit margin, pct	3.1	4.5	3.4	1.3	6.3
Profit before tax (EUR tho)	1,999	4,115	3,176	545	4,970
Profit before tax margin, pct	2.3	3.9	2.9	0.6	5.5
Net profit	2,223	3,768	3,212	1,168	4,455
Profit margin, pct	2.6	3.6	2.9	1.4	5.0
Earnings per share (EUR)	0.18	0.31	0.27	0.10	0.37
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2016, **sales** amounted to EUR 90.5m, up by 7 percent from EUR 84.4m in 2015.

In 2016, **EBITDA** was EUR 8.4m, up by 2.2 times from EUR 3.9m the year before. In 2016, EBITDA margin was 9.3 percent (compared with 4.6 percent in 2015).

**Operating profit (EBIT)** was EUR 5.7m in 2016, with 6.3 percent margin, up from EUR 1.1m in 2015, when EBIT margin reached 1.3 percent. In 2016, operating profit was five times larger than in 2015.

In 2016, **net profit** reached EUR 4.5m, a rise from EUR 1.2m the year before, showing an increase of 3.8 times. The increase in profit was caused by the balance between demand and supply of dairy products in export markets, an increase in prices and changes in cheese production technologies.

#### Key financial ratios of *AB Vilkyškių pieninė Group*:

	2012	2013	2014	2015	2016
Return on equity (ROE), pct	12.8	18.3	13.5	4.8	15.4
Return on assets (ROA), pct	4.7	7.2	5.7	1.9	6.0
Debt ratio	0.63	0.61	0.58	0.60	0.61
Deb/equity ratio	1.70	1.55	1.36	1.52	1.57
Quick liquidity ratio	0.85	0.88	0.86	0.88	0.90
Asset turnover ratio	1.82	2.01	1.95	1.38	1.22
Capital-to-assets ratio	0.37	0.39	0.42	0.40	0.39

In 2016, **assets totaled** EUR 74.4 m, 21 percent more than in 2015.

In 2016, **property, plant and equipment** grew by 32 percent due to acquisition of property, plant and equipment and totaled EUR 56.4m.

In 2016, **equity** was EUR 28.9m, up by 19 percent from the previous year 2015 (EUR 24.2m).

As at 31 December 2016, the total value of **loans** was EUR 30.3m, up by 36 percent than at 31 December 2015.

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

	2012	2013	2014	2015	2016
Fermented cheese	12,857	13,796	17,436	16,875	16,958
Cream	9,595	12,514	15,384	13,454	15,123
Whey products	39,376	45,446	43,713	47,391	50,879
Cream	4,546	3,928	3,090	2,766	2,110
Yogurt products	3,259	5,416	5,565	4,979	4,764
Cottage cheese products	4,697	4,360	4,009	3,741	3,629

A total of 16,958 tonnes of fermented cheese were produced during 2016, the amount remaining in the level of 2015. Cream production amounted to 15.123 tonnes and went up by 13 percent against the previous year.

**Raw milk purchases by AB Vilkyškių pieninė Group:**

	2012	2013	2014	2015	2016
Raw milk, tonnes	204,898	208,380	253,947	237,065	243,633
Cost of raw milk, EUR	47,733	59,876	63,254	44,883	45,683
Raw milk price, EUR/t	232.9	287.3	249.0	189.3	187.5

In 2016, a total of 244 thousand tons of milk was purchased, an increase by 3 percent as compared with 2015. Meanwhile, the price of raw milk in 2016 went down by 1 percent from the year 2015.

**14. Sales and Marketing****Core product sales, EUR thousand:**

	2012	2013	2014	2015	2016
Fermented cheese	41,714	49,809	52,262	40,244	41,705
Cream	12,505	22,956	21,099	16,944	22,558
Whey products	3,965	5,481	6,563	3,666	5,306
Cream	5,839	5,233	4,230	3,528	2,662
Yogurt products	2,830	5,300	5,409	4,786	4,461
Cottage cheese products	10,666	10,551	10,737	9,506	8,411
Other sales	8,139	6,217	9,360	5,771	5,387
<b>Total revenue</b>	<b>85,658</b>	<b>105,547</b>	<b>109,660</b>	<b>84,445</b>	<b>90,490</b>

In 2016, income from sales increased by 7% year-on-year. Income from sales in the domestic market contracted by 14.7%, and exports went up by 20.3%.

The year 2016 has provided proof once again of dairy exports being an activity far beyond a stable and predictable one. All dairy producers and processors down to the smallest ones felt price instability, market stagnation and constant competition. In 2016, we launched new projects in Scandinavian and Arab countries and Southern Europe, and the brand Vilvi has become even more conspicuous on the shelves of retail chains in Poland. The new markets generated a significant result only in the second half of 2016. As of June, the balanced supply and demand in dairy products resulted in an increase of the price level in export markets. This fact determined the growth of turnover and profit, compared to the year 2015.

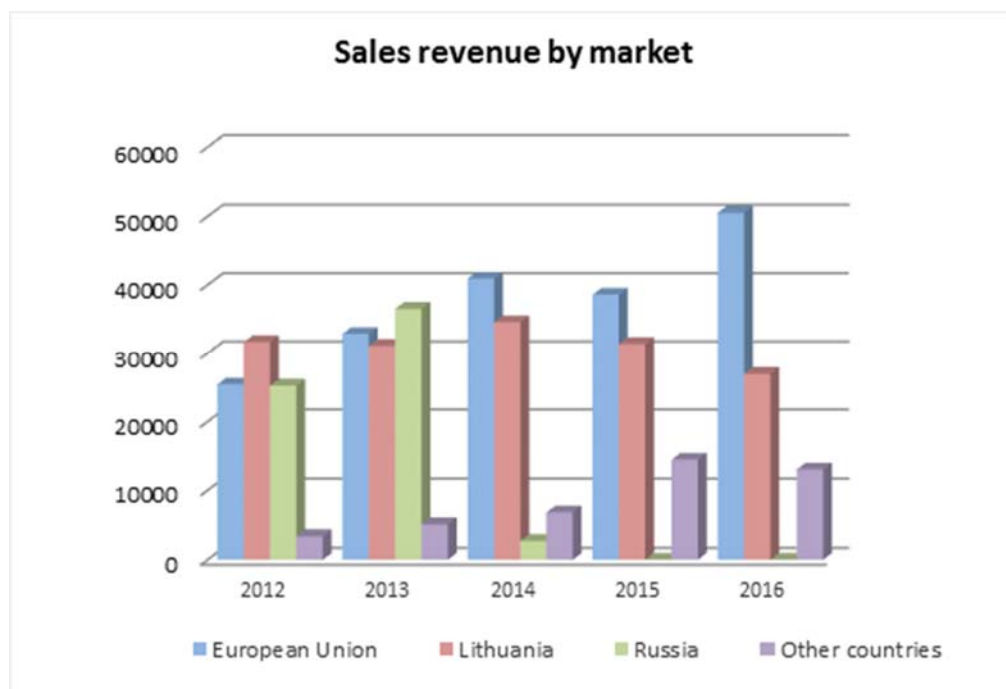
Exports in 2016 accounted for 61% of the total sales of Vilkyškių pieninė AB, up by 6 percentage points from 2015.

Sales in the European Union states were the largest and increased from 40% to 49% as the volumes grew in Poland, Germany, Cyprus, Moldova, Ukraine, and Bulgaria.

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

**Sales revenue by geographical segments, EUR thousand:**

	2012	2013	2014	2015	2016
European Union	25,409	32,870	40,932	38,593	50,545
Lithuania	31,644	31,118	34,574	31,391	26,934
Russia	25,213	36,514	27,350	0	0
Other countries	3,392	5,045	6,804	14,461	13,011
<b>Total revenue</b>	<b>85,658</b>	<b>105,547</b>	<b>109,660</b>	<b>84,445</b>	<b>90,490</b>



The marketing department within the Group is responsible for development of new products and implementation of branding and marketing strategies. The first priority is 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.

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

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

**15. Exhibitions and Awards**

Since 2011, the Company takes part in exhibitions "Anuga" in Germany and SIAL in France, which are among the largest exhibitions organized in food industry. 2012: *AB Vilkyškių pieninė* was named among global innovation leaders at the SIAL international exhibition in Paris, with the *Vilkyškių* gooseberry yogurt and chocolate-glazed cottage cheese bars winning the *SIAL Innovation* award.

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

**In 2015,** *Vilkyškių Pieninė* introduced a unique new dairy additive, viz. crispy roasted buckwheat, and was recognised by World Dairy Innovation Awards, which took place in Amsterdam as part of the ninth Global Dairy Congress, as one of the best in the category “Best dairy ingredient”, i.e. it became one of the three finalists. The judging panel considered as many as 220 entries from 30 countries in 18 categories. In each category the winner and three finalists have been announced.

In October 2015, *Vilkyškių pieninė AB* took part in one of Europe’s leading international food fairs, ANUGA, in Cologne, Germany. The spacious stand featured presentations of fresh products, cheese and ingredients (concentrate of whey proteins) used in the food industry.

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

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

In May 2016, *Vilkyškių Pieninė AB* participated in the exhibition *SIAL China 2016* in Shanghai, China. It is the largest exhibition of food innovations held in Asia. The Company introduced cheese products, the whey protein concentrate (WPC 80) and the permeate. The Company established valuable contacts with potential clients not only from China, but also from Western Europe and Malaysia; and held meetings with existing customers.

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

In October 2016, *Vilkyškių Pieninė AB* traditionally took part in the International exhibition of food industry *SIAL 2016*, held in Paris. It is the largest and most important exhibition of food innovations in the world. In 2016, the exhibition attracted more than 7000 participants from 104 countries. In the International exhibition of food industry *SIAL 2016* *Vilkyškių Pieninė AB* ranked among among the most innovative representatives of food industry in the world and evaluated several categories of dairy products. The yogurt drink *Yoga* with lemon and aloe, new flavours of coated cheeses Murr – mascarpone and pistachio won recognition for advanced recipes. Cheeses of *Vilkyškių Pieninė AB* won a reward for packaging – for its informative and educational nature.

## **16. Risk Factors Associated with Issuer’s Business**

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

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

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

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

The Group's credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. In 2016, for 1 year, 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 2016, the Company's debt-to-assets ratio was 0.61. The balance of outstanding loans on 31 December 2016 was EUR 30.308. Repayment is performed under the established schedule, without any delays. The interest on all largest loans is linked to the EUR LIBOR rate. As at 31 December 2016, there were two valid transactions amounting to EUR 4.646 m. The repayment deadline is 9 November 2018.

## 17. Competition

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

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

## 18. Key Events After Fiscal Year-End

There have been no significant events after 31 December 2016.

## 19. Business Plans and Forecasts

In 2017, *AB Vilkyškių pieninė* Group will further exert effort on safety and quality of food. We will expand assortment of products, seek new markets and increase sales therein. We will strive to achieve maximum production efficiency and decrease demand for new employees by reviewing the production processes and automating them. In 2017, we are planning to finish the whey dryer project. The realized investment in whey processing will allow producing more profitable whey products.

## III. OTHER INFORMATION ABOUT ISSUER

### 20. Structure of Issuer's Share Capital

*AB Vilkyškių pieninė* Group's Share Capital:

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

### 21. Information on Treasury Stock

The Company does not hold its own shares.

## 22. Rights of Shareholders

### Shareholders have these non-proprietary rights:

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

### Shareholders have the following proprietary rights:

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

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

## 23. Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

## 24. Information About Shareholders

The total number of shareholders of **AB Vilkyškių pieninė** on 31 December 2016 was 821. 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%
Multi Asset Selection Fund	2,035,729	17%	17%
Minority shareholders	3,840,065	32%	32%
<b>Total stock</b>	<b>11,943,000</b>	<b>100%</b>	<b>100%</b>

### **AB Kelmės pieninė shareholders**

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

### **AB Modest shareholders**

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

#### AB Pieno logistika shareholders

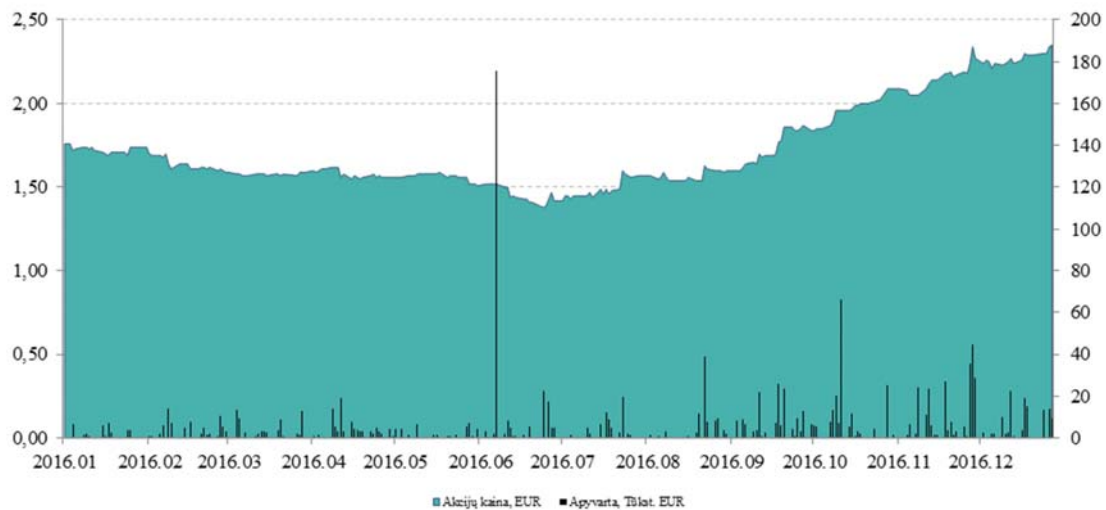
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
AB Vilkyškių pieninė	218,127	58.7%	58.7%
Minority shareholders	153,206	41.3%	41.30%
<b>Total stock</b>	<b>371,333</b>	<b>100%</b>	<b>100%</b>

#### 25. 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.

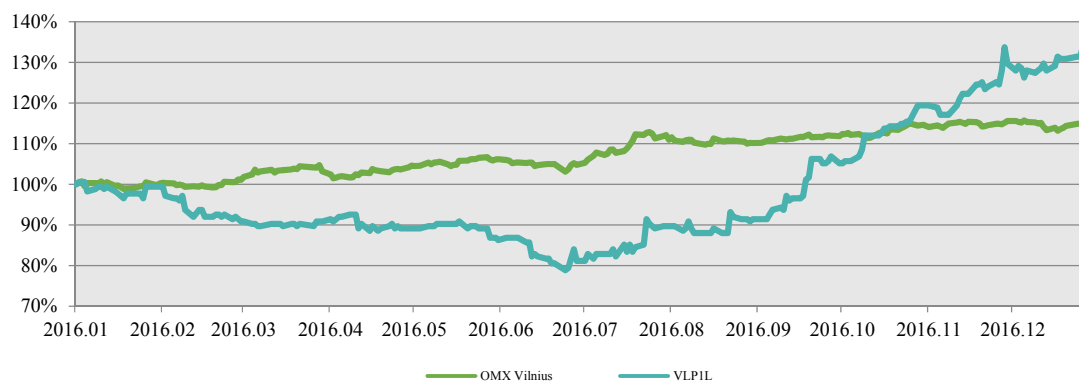
#### 26. Trading in Issuer's Securities on Regulated Markets

The change of price of *AB Vilkyškių pieninė* shares and trade volume in 2016.



Comparison of *AB Vilkyškių pieninė* share price and Nasdaq OMX Vilnius Index, 2016.





## 27. 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	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)
Dividend (EUR)	864,733	726,376	1,037,680	836,010	-
Dividend per share (EUR)	0.07	0.06	0.09	0.07	-
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

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

<b>Dividend</b>	<b>2012 (for 2011)</b>	<b>2013 (for 2012)</b>	<b>2014 (for 2013)</b>	<b>2015 (for 2014)</b>	<b>2016 (for 2015)</b>
Dividend (EUR)	2,890,185	4,269,700	2,419,497	3,489,039	3,931,312
Dividend per share (EUR)	1.16	1.74	0.98	1.42	1.60
Number of shares	2,494,808	2,457,070	2,457,070	2,457,070	2,457,070

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

## 28. Employees

On 31 December 2016, there were 953 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	11	8	3			3,019
Specialists	296	120	70	102	4	845
Workers	646	33	163	401	49	560
	<b>953</b>	<b>161</b>	<b>236</b>	<b>503</b>	<b>53</b>	<b>654</b>

On 31 December 2015, there were 975 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	10	7	3			2,886
Specialists	232	116	74	42		799
Workers	733	38	262	407	26	539
	<b>975</b>	<b>161</b>	<b>339</b>	<b>449</b>	<b>26</b>	<b>648</b>

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.

## 29. 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 has been granted the right 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.

## 30. AB Vilkyškių pieninė's Group Governing Bodies

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

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

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

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

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

### **31. Procedure of Amendments to Company Articles**

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

### **32. Activities of the Board**

In the course of 2016, a total of 13 Board meetings were held, with the required quorum present at each of them. The Board approved the 12-month financial accounts for 2015, the 2016 three-month, six-month and nine-month interim financial statements, the 2015 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2015 profit for an ordinary meeting of shareholders, and proposed the procedure of treasury stock purchase.

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

### **33. Board & Administration Members**

#### **AB Vilkyškių pieninė Board Members**

**Gintaras Bertašius** (born 1964) – a Board Chairman since 30 January 2006, re-elected for a four-year term on 25 April 2014, CEO 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 2016, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

**Sigitas Trijonis** (born 1964) – a Board Member since 30 January 2006, re-elected for a four-year term on 25 April 2014, Chief Technology Officer of *AB Vilkyškių pieninė*. Has a higher education degree in mechanical engineering. As of 31 December 2016, 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, Chief Purchasing Officer at *AB Vilkyškių pieninė*. Has a college diploma as livestock engineer. As of 31 December 2016, he held 277,023 shares of *AB Vilkyškių pieninė*, 2.3 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

**Vilija Milaševičiūtė** (born 1965) – a Board Member since 30 April 2009, re-elected for a four-year term on 25 April 2014. Has higher education in finance and credit. Chief Economics and Financial Officer of *AB Vilkyškių pieninė*. Membership in other companies' governing bodies: A board member of *AB Modest*. As of 31 December 2016, 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.

**Linus Strėlis** (born 1968) – a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has higher education. 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 2016, he did not have any shares in *AB Vilkyškių pieninė*.

**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. Business development manager at UAB INVIL Asset Management, Council chairman at IPAS „INVIL Asset

Management, Chairman of the board at UAB FMĮ INVL Finasta, CEO of *UAB GPI*, CEO of *UAB GP2*, CEO of *UAB Piola*. As of 31 December 2016, did not have any shares in *AB Vilkyškių pieninė*.

#### **AB Vilkyškių pieninės Members of Administration**

**Gintaras Bertašius** (born 1964) – CEO 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 2016, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights

**Vilija Milaševičiūtė** (born 1965) – Chief Financial Officer, 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 2016, 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) – Executive Officer, working at the Company since 2010. Has a degree in IT. As of 31 December 2016, he held 250 shares of *AB Vilkyškių pieninė*, 0.002 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

**Sigitas Trijonis** (born 1964) – Chief Technology Officer, a Board Member, working at the Company since 1993. Has higher education as mechanical engineer. As of 31 December 2016, 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) – Chief Purchasing Officer and a Board Member, working at the Company since 1996. Has a college diploma as livestock engineer. As of 31 December 2016, held 277,023 shares of *AB Vilkyškių pieninė*, 2.3 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

**Arvydas Zaranka** (born 1966) – Chief Production Officer, 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 2016, 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 EUR 212,000 in bonuses were paid out to *AB Vilkyškių pieninė* board members in 2015, on average EUR 35,300 per member. The bonuses to the CEO and CFO totaled EUR 112,500, or EUR 56,000 per person on average. In 2016, the Company did not issue any loans, guarantees or letters of credit to members of its governing bodies. In 2016, the Company did not pay its board members or employees any salaries, bonuses or other payments from the profits of the Company's subsidiaries.

#### **Members of AB Kelmės pieninė board and administration**

**Gintaras Bertašius** (born 1964) – Chairman of the Board, last re-elected for a four-year term on 28 April 2016. Participation in the governing bodies of other companies: board chairman and CEO of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2016, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

**Arvydas Zaranka** (born 1966) – a member of the board, re-elected for a four-year term on 28 April 2016. Participation in the governing bodies of other companies: Chief Production Officer of *AB Vilkyškių pieninė*, board member of *AB Modest*. Has a college degree in dairy technology. As of 31 December 2016, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

**Algirdas Žukauskas** (born 1958) – a member of the board, re-elected for a four-year term on 28 April 2016, CEO of *Kelmės pieninė*. Working at the company since 2008. Has a degree in livestock engineering. Holds no positions in other companies. .

In 2016, *AB Kelmės pieninė* did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

#### **Members of AB Modest board and administration**

**Gintaras Bertašius** (born 1964) – Chairman of the Board, last re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: board chairman and CEO of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2016, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

**Arvydas Zaranka** (born 1966) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Chief Production Officer of *AB Vilkyškių pieninė*, board member of *AB Kelmės pieninė*. Has a college degree in dairy technology. As of 31 December 2016, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

**Vilija Milaševičiūtė** (born 1965) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Chief Financial Officer of and board member *AB Vilkyškių pieninė*, a member of *AB Kelmės pieninė* board. Holds a university degree in finance and credit. As of 31 December 2016, held 7,813 shares in *AB Vilkyškių pieninė*, i.e. 0.07 percent of the stock and voting rights.

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

In 2016, *AB Modest* did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

#### **34. Committees**

Members of the Audit Committee: Ausra Lobinienė (Tauragės Kredito Unijos Vidaus audito tarnybos vadovė), 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 2016, three meetings of the Audit Committee were held. They discussed and approved the following: the Company's 2015 financial statements, the draft 2015 annual report, the draft 2015 profit distribution report, the 2016 internal audit plan and the 2017 budget. Each meeting was attended by all members of the Committee.

No committees are formed in subsidiary companies.

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

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

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

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

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

Information about transactions with parties that are related to the Company has been included in the *AB Vilkyškių pieninė* financial statements for the year ended 31 December 2016, in Chapter 24.

### **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 Consolidated Report.

## **V. INFORMATION ON DISCLOSURES**

On the 10th day of each month, sales figures for the preceding months are published. A report has been published on an ordinary meeting of shareholders, as well as reports on the annual and interim results and the following report regarding the announcement of interim financial information:

Amended Securities Act in force since 4 December 2015 foresees that issuers can decide whether to prepare interim financial information (3, 9 and 12 months interim financial statements) or not. *Vilkyskiu pienine*, AB announces that instead of interim financial statements the company will publish key performance indicators review. Interim financial statements for 12 months of 2015 will be published on February 29, 2016, later will be published key performance indicators review.

## Annex

### Announcement of Vilkyškiu pienine AB Group concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2016

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b> <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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 ( <a href="http://www.vilkyskiu.lt/investuotojams/">www.vilkyskiu.lt/investuotojams/</a> ).
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the company act in furtherance of the declared strategic objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The company has set up the Management Board (with the exception of AB Pieno logistika) which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the AB Vilkyškiu pienine.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.
<b>Principle II: The corporate governance framework</b> <b>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.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer. AB Pieno logistika's governing bodies are a General Meeting and the head of company. No Management Board is set up in this Company.  The company does not set up a supervisory board as a collegial management body. The Management Board is responsible for the supervision of company's activity and management (except for AB Pieno logistika).

<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.</p>	<p>Yes</p>	<p>The functions that are indicated in this recommendation are implemented by the Management Board.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.<sup>1</sup></p>	<p>Yes</p>	<p>These principles are applied to the Management Board as long as they do not contradict the essence and purpose of the Board.</p>
<p>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.<sup>2</sup></p>	<p>Yes</p>	<p>At present, in accordance with the Articles of Association, the Management Board of AB Vilkyškių Pieninė is composed of 6 members who are appointed for the period of four years. The Management Board of AB Modest is composed of 3 members. The Management Board of AB Kelmės Pieninė is composed of 3 members. No Management Board is set up at AB Pieno logistika. The number of members of the collegial body is sufficient to dominate decision-making.</p>
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Yes</p>	<p>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.</p>
	<p>No</p>	

<sup>1</sup> 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.

<sup>2</sup> Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.



<p>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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>AB Vilkyškių Pieninė does not follow the Recommendation 2.7 because the chairman of the Management Board is Director General of the Company. The independence of supervision is guaranteed by other five members of the Management Board.</p> <p>AB Modest and AB Kelmės Pieninė follow the recommendation.</p>
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>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.<sup>3</sup></b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. The company follows all provisions that are indicated in this recommendation, moreover, the company could additionally mention the document (such as the operating regulation of that body), if any, which determines the specific order of data exchange among the member of that collegial body.</p>	<p>Yes</p>	<p>While electing the collegial body of the company, the shareholders may take the cognizance of comprehensive information about the candidates early enough before the meeting of the shareholders and during it as well.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. The company could comprehensively comment the implemented practice (for instance, prior to the announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year).</p>	<p>Yes</p>	<p>The company accumulates and discloses the entire information about the members of collegial body, their professional education, qualification and conflicts of interest, following the order set out in these recommendations.</p> <p>The Company does not have any regulation on the Management Board's activity.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is</p>	<p>Yes</p>	<p>During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education, professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.</p>

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

<p>further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>		
<p>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.</p>	Yes	<p>The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly.</p> <p>The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit.</p> <p>No audit committee has been formed AB Modest and AB Kelmės Pieninė. and AB „Pieno logistika“</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	Yes	<p>Members of the Management Board and the members of Audit Committee of AB Vilkyškių Pieninė constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient<sup>4</sup> number of independent<sup>5</sup> members.</p>	No	<p>The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of “sufficiency” concept of independent members.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p>	No	<p>The Company has not defined independence criteria for Management Board members. However, AB „Vilkyškių pieninė“ has two Board members who meet the independence criteria specified herein.</p>

<sup>4</sup> 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.

<sup>5</sup> 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.

<ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>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);</li> <li>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);</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</li> <li>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.</li> </ol>		
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3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
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. <sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the Management Board of AB Vilkyškių Pieninė are paid tantjems for their service on the Management Board. not remunerated for their service on the Management Board. Members of the Management Boards of AB Modest and AB Kelmės Pieninė are not paid for their service on the Management Board.
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>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<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. <sup>8</sup>	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting. The Board also submits recommendations and suggestions to the head of administration.

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

<sup>7</sup> See Footnote 3.

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

<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>Based on the company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>In the year 2016, the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.</p>
	<p>Yes</p>	

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

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

<sup>10</sup> 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.

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

<p>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.</p>		<p>executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers.</p> <p>Audit Committee of AB Vilkyškių Pieninė exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.</p> <p>Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes</p>	<p>Each committee of AB Vilkyškių Pieninė is composed of 3 members.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes</p>	<p>The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board.</p> <p>The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders.</p> <p>Both committees on a regular basis inform the collegial body on their activities and performance.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p>	<p>Yes</p>	<p>The functions of Nomination committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.</p>

<p>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;</p> <p>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;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.</p>		
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <p>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</p> <p>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;</p> <p>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.</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body,</p>	<p>Yes</p>	<p>The functions of Remuneration committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.</p>



<p>including the policy regarding share-based remuneration, and its implementation.</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p>	<p>Yes</p>	<p>AB Vilkyškių Pieninė substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control. The Audit Committee ensures effectiveness of internal audit function as well.</p>

4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;

5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial

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

<sup>12</sup> 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.

<p>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.</p>		<p>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.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Not applicable</p>	<p>The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>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.</b></p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.</p>
<p>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.<sup>13</sup> 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.</p>	<p>Yes</p>	<p>Important transactions are approved following the order set in the Articles of Association.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal</p>	<p>Yes</p>	<p>The Articles of Association provide that all persons, who are shareholders of the company on the day of the General</p>

<sup>13</sup> 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.

<p>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.</p>		<p>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.</p>
<p>6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>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.</p> <p>No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ Vilnius in Lithuanian and English languages:</p> <ol style="list-style-type: none"> <li>1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting</li> <li>2. Audited annual financial statements and auditor's report</li> <li>3. Annual Report</li> </ol>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>Company has not applied the means of modern technologies.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>  <b>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.</b></p>		
<p>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</p>	<p>Yes</p>	<p>The members of the Management Board avoid situations of a conflict of personal and company's interests.</p>

situation of a conflict of interest, indicate the nature of the conflict and value, where possible.		
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.	Yes	The members of the Management Board do not mix the company's assets with his/her personal assets.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	Any member of the Management Board may conclude a transaction with the company. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Management Board abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
<b>Principle VIII: Company's remuneration policy</b>		
<b>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.</b>		
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;	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.

<p>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</p> <p>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</p> <p>5) Sufficient information on deferment periods with regard to variable components of remuneration;</p> <p>6) Sufficient information on the linkage between the remuneration and performance;</p> <p>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	No	
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</p> <p>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</p> <p>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</p>	No	

<p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>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;</p> <p>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;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	Not applicable	
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	Not applicable	
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Not applicable	
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	Not applicable	
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual</p>	Yes	



remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.		
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.13. Shares should not vest for at least three years after their award.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	According to the Company's Articles of Association, the salaries of management fixed by the Management Board (except for AB Pieno logistika, where the salary for the company head is fixed by the General Meeting.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.

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



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