AB VILKYŠKIŲ PIENINĖ

Separate financial statements for the year ended 31 December 2016

Content

Company details

AB Vilkyškių Pieninė

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Company code: 277160980
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Board of Directors

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

Management

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

Auditor

KPMG Baltics, UAB

Banks

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

Management's statement on the financial statements

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

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

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

Vilkyškiai, 6 April 2017

Management:

Gintaras Bertašius
General Director

Vilija Milaševičiutė
Economics and Finance Director

"VILKYŠKIŲ PIENINĖ" AKCINĖ BENDROVĖ JOINT STOCK COMPANY LIETUVOS RESPUBLIKA PAGĖGIŲ SAVIVALDYBĖ

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Independent Auditor's Report

To the Shareholders of AB VILKYŠKIŲ PIENINĖ

Opinion

We have audited the separate financial statements of AB VILKYŠKIŲ PIENINĖ ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate 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 financial statements give a true and fair view of the unconsolidated financial position of AB VILKYŠKIŲ PIENINĖ as at 31 December 2016, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We 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 Financial Statement 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of investments in subsidiaries

As at 31 December 2016, the carrying amount of the investments in subsidiaries: EUR 10,713 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 – Investments in Subsidiaries, Impairment (Non-financial assets)* and Note 12 *Investments in Subsidiaries.*

Key audit matter	*How the matter was addressed in our audit*
As at 31 December 2016, investments in subsidiaries are associated with the investments in the subsidiaries AB Kelmės Pieninė, AB Modest and AB Pieno Logistika. Relevant accounting standards require that investments in subsidiaries are tested, at least annually, for impairment. The assessment of the recoverability of investments is a process determining the forecast future performance of the cash generating units (CGUs). 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 12 *Investments in Subsidiaries.* 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.	Our procedures included, among others: • Evaluating the appropriateness of the determination of CGUs, to which the investments are allocated; • Assisted by our own valuation specialists, critically assessing the Company's assumptions and estimates used in value-in-use calculations to determine the recoverable amount of investments. This included, but was not limited to: - assessing the Company's discounted cash flow model for compliance with the relevant accounting standards; - 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; - management's approved budgets and assessing the reasonableness of these budgets by comparing historical information and business plan. • Comparing the Company'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 Company'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 investments.

Valuation of inventories

The carrying amount of inventories as at 31 December 2016: EUR 8,253 thousand; expense due to write-down of inventories to net realisable value in 2016: EUR 194 thousand.
We refer to the information presented in the following notes to the financial statements: *Summary of Significant Accounting Policies – Inventories* and Note 14 *Inventories*.

Key audit matter	*How the matter was addressed in our audit*
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.	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 Company 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 financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Separate statement of financial position

Thousand EUR	Note	31 December 2016	31 December 2015
Assets			
Property, plant and equipment	10	20,656	20,295
Intangible assets	11	93	111
Investment in subsidiaries	12	10,713	10,710
Long-term receivables	13	361	428
Non-current assets		**31,823**	**31,544**
Inventories	14	8,253	7,811
Trade and other receivables	15	14,148	8,437
Prepayments	16	335	432
Cash and cash equivalents	17	27	91
Current assets		**22,763**	**16,771**
Total assets		**54,586**	**48,315**
Equity			
Share capital		3,463	3,463
Share premium		3,301	3,301
Reserves		5,027	5,050
Retained earnings		16,822	9,681
Total equity	18	**28,613**	**21,495**
Liabilities			
Interest-bearing loans and finance lease liabilities	19	6,836	7,931
Derivative financial instruments	23	154	239
Government grants	20	1,861	1,903
Deferred tax liabilities	21	820	388
Non-current liabilities		**9,671**	**10,461**
Interest-bearing loans and financial lease liabilities	19	7,059	7,719
Profit tax payable		70	-
Derivative financial instruments	23	83	125
Trade and other payables	22	9,090	8,515
Current liabilities		**16,302**	**16,359**
Total liabilities		**25,973**	**26,820**
Total equity and liabilities		**54,586**	**48,315**

The notes, set out on pages 14 to 60, are an integral part of the separate financial statements.

Separate income statement

For the year ended 31 December

Thousand EUR	Notes	2016	2015
Revenue	1	102,260	97,404
Cost of sales	2	-91,306	-93,752
Gross profit		**10,954**	**3,652**
Other operating income	3	644	700
Distribution expenses	5	-4,514	-5,533
Administrative expenses	6	-2,396	-2,070
Other operating costs	4	-451	-409
Operating result		**4,237**	**-3,660**
Finance income		3,945	3,529
Finance costs		-689	-586
Net finance costs	7	**3,256**	**2,943**
Profit before tax		**7,493**	**-717**
Income tax expense	8	-502	634
Net profit (loss) for the year		**6,911**	**-83**
Basic and deluted earnings per share (EUR)	9	0.59	-0.01

The notes, set out on pages 14 to 60, are an integral part of the separate financial statements.

Separate statement of comprehensive income

For the year ended 31 December

Thousand EUR	Notes	2016	2015
Net profit (loss)		**6,991**	**-83**
Other comprehensive income for the year			
Items that will never be reclassified to income statement			
Difference on currency exchange due to translation of Litas into EUR		-	4
Items that are or can be reclassified to income statement			
Change in fair value of hedging instruments		127	120
Other comprehensive income for the year, net of income tax		**127**	**124**
Total comprehensive income		**7,118**	**41**

The notes, set out on pages 14 to 60, are an integral part of the separate financial statements.

Separate statement of changes in equity

Thousand EUR	Note	Share capital	Share premium	Hedging reserve	Reserve for acquiring own shares	Revalua-tion reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2015		3,459	3,301	-484	2,421	2,729	346	10,518	22,290
Profit for the year		-	-	-	-	-	-	-83	-83
Other comprehensive income									
Difference in share capital due to change of the nominal value from litas to euro		4	-	-	-	-	-	-	4
Allocated from PPE revaluation reserves		-	-	-	-	-169	-	169	
Change in fair value of hedging instruments		-	-	120	-	-	-	-	120
Total comprehensive income		4	-	120	-	-169	-	169	124
Contributions by and distributions to owners stated directly in equity									
Allocated to reserve for acquiring own shares	17	-	-	-	87	-	-	-87	-
Allocated to legal reserve		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-836	-836
Total contributions by and distributions to owners		-	-	-	87	-	-	-923	-836
Balance as at 31 December 2015		3,463	3,301	-364	2,508	2,560	346	9,681	21,495
Balance at 1 January 2016		3,463	3,301	-364	2,508	2,560	346	9,681	21,495
Profit for the year		-	-	-	-	-	-	6,991	6,991
Other comprehensive income									
Allocated from PPE revaluation reserves		-	-	-	-	-150	-	150	
Change in fair value of hedging instruments		-	-	127	-	-	-	-	127
Total comprehensive income		-	-	127	-	-150	-	150	127
Contributions by and distributions to owners stated directly in equity									
Allocated to reserve for acquiring own shares		-	-	-	-	-	-	-	-
Allocated to legal reserve		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance as at 31 December 2016		3,463	3,301	-237	2,508	2,410	346	16,822	28,613

The notes, set out on pages 14 to 60, are an integral part of the separate financial statements.

Notes to the financial statements

Separate statement of cash flows

For the year ended 31 December

Thousand EUR	Note	2016	2015
Cash flows from operating activities			
Profit (loss) for the period		6,991	-83
Adjustments:			
Depreciation of property, plant and equipment	10	2,026	2,104
Amortization of intangible assets	11	72	46
Amortization and write down of grants	20	-224	-267
(Profit) loss on disposal and write down of property, plant and equipment		6	28
Income tax expense	8	502	-634
Net finance costs		-3,256	-2,943
		6,117	**-1,749**
Change in inventories		-449	-821
Change in long-term receivables		67	-6
Change in trade and other receivables		-5,685	-350
Change in prepayments		97	36
Change in trade and other payables		4,364	1,439
		4,511	**-1,451**
Paid income tax		-	-
Paid interest		-470	-475
Net cash flows from operating activities		**4,041**	**-1,926**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-2,392	-647
Proceeds from sale of property, plant and equipment		4	30
Acquisition of shares of the subsidiary		-3	-
Acquisition of intangible assets		-54	-122
Loans granted		-	-12
Recovered loans		5	-
Net cash flow used in investing activities		**-2,440**	**-751**

Notes to the financial statements
Separate statement of cash flows (cont'd)

For the year ended 31 December

Thousand EUR	Note	2016	2015
Cash flows from financing activities			
Loans received		1,071	6,244
Repayment of borrowings		-2,861	-2,737
Dividends paid		-57	-887
Capital grants received	20	182	67
Net cash used in financing activities		**-1,665**	**2,687**
Increase (decrease) in cash and cash equivalents		-64	10
Cash and cash equivalents at 1 January		91	81
Cash and cash equivalents at 31 December	17	27	91

The notes, set out on pages 14 to 60, are an integral part of the separate financial statements.

Notes to the financial statements

Background information

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

AB VILKYŠKIŲ PIENINĖ is listed on the AB Nasdaq OMX Vilnius Stock Exchange. The Company‘s shareholders as at 31 December 2016 are as follows:

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
Total capital	**11,943,000**	0.29	**3,463,470**

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

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

Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region. The company also has a milk distribution station in Eržvilkas, Jurbarkas region.

The Company is the parent company governing the subsidiaries AB Modest, AB Kelmės Pieninė and AB Pieno Logistika.

AB Modest is mainly engaged in milk processing and production of dairy products. AB Modest produces cheese Mozzarella, blue cheese and other cheese products, and is also engaged in whey processing. The Company owns 99.7% voting rights in AB Modest.

AB Kelmės Pieninė is also engaged in milk processing and production of dairy products. AB Kelmės Pieninė produces fresh dairy products. The Company holds 100% voting rights of AB Kelmės Pieninė.

The main activity of AB Pieno Logistika includes lease of buildings. AB VILKYŠKIŲ PIENINĖ holds 58.74% shares of AB Pieno Logistika.

As at 31 December 2016, the Company had 552 employees (at 31 December 2015: 561 employees).

Notes to the financial statements

Basis for preparation of financial statements

Statement of compliance

These separate financial statements (financial statements or separate financial statements) of AB VILKYŠKIŲ PIENINĖ are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

The management of the Company is authorized to issue the separate financial statements of the Company after they are approved by the general shareholders meeting, which must be convened by 30 April 2017 as prescribed by the Law on Companies 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

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

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

Functional and presentation currency

These separate financial statements are presented in Euro (EUR). As of 1 January 2015, EUR is the official currency of the Republic of Lithuania and the Company's functional currency. All financial information presented in EUR has been 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 as prescribed by the Law on Accounting applying the exchange rate valid as at 31 December 2015.

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

Summary of significant accounting policies and practices

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

Property, plant and equipment

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

Notes to the financial statements

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

Property, plant and equipment (cont‘d)

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

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

Buildings are recognized at restated amounts, being the estimated fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment 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 the equity. Depreciation is calculated on the amount, which is equal to the acquisition cost/revaluated amount net of residual value of the asset.

In the event of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the latter is immediately reduced to the fair value and the impairment is deducted from the previous revaluation increases recognized in the revaluation reserve, to the extent it does not exceed the amount of such increases. Depreciation is calculated from the depreciable amount, which is equal to the acquisition value less the residual value.

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

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.

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

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

Investment property

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

Notes to the financial statements

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

Intangible assets

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

Investment in subsidiaries

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

Inventories

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

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

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

Cost of inventories is based on the FIFO principle.

Non-derivative financial assets and liabilities

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

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

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

Held-to-maturity investments

Non-derivative quoted financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Parent Company or subsidiaries have the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method. The effective interest rate method is the method used for estimation of amortized cost of financial assets and allocation of interest income or costs over a relevant period. An effective interest rate is the rate allowing to accurately discount the future payments in cash over the expected validity period of the financial liability or over a shorter period, where appropriate. Gains and losses are recognized in the income statement when the investments are derecognized or impaired.

Loans and receivables

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

Notes to the financial statements

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

Financial assets and liabilities (cont‘d)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value. Change in the fair value is recognized in the statement of comprehensive income until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

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

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized 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 categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

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

Note 10 **-** Property plant and equipment

Note 26 – Financial instruments and risk management

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, adding attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest rate method.

Notes to the financial statements

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

Financial assets and liabilities (cont'd)

Borrowing costs

Borrowing costs 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 recognized 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 recognized in profit or loss.

When the hedged asset is not financial, the amount accumulated under the equity is included in the carrying amount of the asset at the moment of recognition and accounting. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Other non-trading derivatives

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

Notes to the financial statements

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

Cash and cash equivalents

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

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

Impairment

Financial assets

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

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

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

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

An impairment loss in respect of receivables carried at amortized cost is reversed if due to subsequent events the recoverable amount of receivables objectively increases.

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

Notes to the financial statements

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

Impairment (cont’d)

Non-financial assets

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

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

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

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

Provisions

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

Employee benefits

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

Finance and operating leases

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

The Company as a lessee

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

Notes to the financial statements

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

Finance and operating leases (cont’d)

The Company as a lessee (cont'd)

Capitalized assets are depreciated over their useful lifetime or during the lease period, if there is no certainty that the Group will acquire ownership at the end of the lease period.

Acquisition of own shares

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

Dividends

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

Government grants

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

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

Revenue

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

Cost of sales

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

Costs are recognized based on accrual and matching principles.

Distribution and administrative expenses

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

Operating costs are 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, gain or loss from intercompany transactions as well as other income and costs not related to the primary activity.

Notes to the financial statements

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

Financial income and expenses

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

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

Income tax

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

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

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

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

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

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

Earnings per share

The Company provides information on basic earnings per share and diluted earnings per share. Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by adjusting the net profit attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding during the year by all potential ordinary shares. During the financial year, the Company did not issue any potential ordinary shares.

Notes to the financial statements

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

Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the chief executive body of the Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

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

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

The following new standards and amendments with effective date of 1 January 2016 did not have any impact on these 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 2012-20147 Cycle – various standards;
- Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);
- Disclosure Initiative (Amendments to IAS 1).

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 ended 1 January 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company 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.

Notes to the financial statements

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

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

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 assets 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 Company does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Company’s financial instruments are not expected to change under IFRS 9 because of the nature of the Company’s operations and the types of financial instruments that it holds. However the entity believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The Company 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.

Notes to the financial statements

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

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

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 Company’s financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company’s financial statements. The timing and measurement of the Company’s revenues are not expected to change under IFRS 15 because of the nature of the Company’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.*

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.

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

Notes to the financial statements

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

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

(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 Company 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 Company 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 for obtaining or losing control of subsidiaries, changes in fair value).

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

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

Notes to the financial statements

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

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

(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 Company does not expect that the amendments will have a material impact on the financial statements because the Company 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 Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company 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.

(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 are probable.

Notes to the financial statements

Summary of significant accounting policies (cont‘d)

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by their nature, seldom equal to 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 Company and counterparty when appropriate.

Determination of an effective hedge

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

Determining whether an arrangement contains a lease

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

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

Notes to the financial statements

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

Use of judgments and estimates (cont‘d)

Determining whether an arrangement contains a lease (cont'd)

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognized 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 recognized using the effective interest rate.

Impairment losses on property, plant and equipment

The carrying amounts of the Company's 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 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 Company reviews receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the receivables of the Company.

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

Useful lives for property, plant and equipment

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

Notes to the financial statements

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

Financial risk management

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

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

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

The note 26 *Financial Instruments Risk Management* includes quantitative information about each type of risk listed above as well as information about capital management. Disclosures are provided in the financial statements.

Risk management framework

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

Credit risk

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

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

In 2016, the Company also insured the foreign customers by credit insurance in the company Eurler Hermes. For each client making settlement not in cash, the credit risk is assessed on an individual basis. Trade receivables are regularly reviewed by the Finance Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will 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 Company's reputation.

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

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

Notes to the financial statements

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

Financial risk management (cont’d)

Market risk

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

The Company manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 27 Financial instruments and risk management. The Company’s income and operating cash flows are in general independent of changes in market interest rates. The Company does not have significant interest-bearing assets. The Company use derivative instruments to hedge the interest rate risk (refer to Note 23).

Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Notes to the financial statements

1 Segment reporting

The Company has several reportable segments, as prescribed below.

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

The following summary describes the products in each of the Company's reportable segments:

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

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

Segments results for the year 2016 are as follows:

Thousand EUR	Cheese and cheese products produced by the Company	Other products	Other dairy products acquired for resale	Total
Sales	33,516	40,783	27,961	102,260
Cost of sales	-31,795	-32,618	-26,893	-91,306
Gross profit	1,721	8,165	1,068	10,954

Segments results for the year 2015 are as follows:

Thousand EUR	Cheese and cheese products produced by the Company	Other products	Other dairy products acquired for resale	Total
Sales	32,419	35,193	29,792	97,404
Cost of sales	-33,065	-31,791	-28,896	-93,752
Gross profit	-646	3,402	896	3,652

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

The Company does not have any clients, for whom sales during the year exceeded 10% of the total sales.

Notes to the financial statements

1 Segment reporting (cont'd)

Geographical information

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

Segment information for 2016 per geographical zones:

Thousand EUR	Baltic countries except Lithuania	Poland	Ireland	Other Countries of European Union	Lithuania	Other countries	Total
Revenue	10,438	20,422	966	18,578	39,405	12,451	102,260
Segment receivables	780	594	367	304	11,608	830	14,483
Not allocated assets					40,103		40,103
Total assets	780	594	367	304	51,711	830	54,586
Not allocated liabilities							25,973
Not allocated cash flows from operating activities							4,041
Not allocated cash flows from investing activities							-2,440
Not allocated cash flows from financing activities							-1,665
Net cash flows							-64
Not allocated acquisitions of non-current assets							2,447

Notes to the financial statements

1 Segment reporting (cont'd)

Segment information for 2015 per geographical zones:

Thousand EUR	Baltic countries except Lithuania	Poland	Ireland	Other Countries of European Union	Lithuania	Other countries	Total
Revenue	11,062	12,205	102	15,224	44,350	14,461	97,404
Segment receivables	694	454	23	536	5,938	1,224	8,869
Not allocated assets					39,446		39,446
Total assets	694	454	23	536	45,384	1,224	48,315
Not allocated liabilities							26,820
Not allocated cash flows from operating activities							-1,926
Not allocated cash flows from investing activities							-751
Not allocated cash flows from financing activities							2,687
Net cash flows							10
Not allocated acquisitions of property plant and equipment							809

Thousand EUR	2016	2015
2 Cost of sales		
Raw materials	-56,301	-54,152
Cost of resold purchased from subsidiaries	-26,893	-29,129
Staff costs	-4,012	-4,034
Gas, electricity	-1,537	-1,574
Depreciation and grants amortization	-1,346	-1,328
Other	-1,217	-3,535
	-91,306	-93,752
3 Other operating income		
Income from services, including lease	391	362
Income from accounting services	98	98
Income from sale of other materials	85	52
Income from transportation services to other companies	42	40
Other income	28	148
	644	700

Thousand EUR	2016	2015

Notes to the financial statements

		2016	2015
4	**Other operating costs**		
	Staff costs	-214	-202
	Depreciation of leased assets and grants amortization	-103	-109
	Cost of materials sold	-87	-28
	Cost of services rendered	-43	-60
	Loss from disposal of non-current assets	-1	-6
	Other costs	-3	-4
		-451	-409
5	**Distribution expenses**		
	Transportation	-1,233	-1,090
	Logistics	-1,098	-1,404
	Marketing and advertising	-1,061	-1,992
	Staff costs	-611	-565
	Written down tare	-86	-54
	Depreciation and amortization	-41	-57
	Other costs to sell	-384	-371
		-4,514	-5,533

	Thousand EUR	**2016**	**2015**
6	**Administrative expenses**		
	Staff costs	-1,173	-976
	Depreciation and amortization	-193	-173
	Services received	-192	-142
	Taxes except for income tax	-143	-135
	Consultations	-85	-77
	Penalties and fines	-73	-71
	Write down of bad debts	-47	-
	IT costs	-41	-69
	Association membership fee	-33	-23
	Fuel	-30	-31
	Security	-30	-24
	Repair	-28	-22
	Bank charges	-18	-54
	Insurance	-15	-15
	Remuneration to Board members	-	-43
	Other	-295	-215
		-2,396	-2,070

Notes to the financial statements

Thousand EUR	2016	2015
7 Net financing costs		
Financing income		
Dividends	3,931*	3,489*
Interest	7	8
Other	7	32
Total financing income	3,945	3,529
Financing costs		
Interest	-471	-472
Factoring costs	-127	-32
Loss from currency exchange	-38	-25
Other	-53	-57
Total financing costs	-689	-586
	3,256	2,943

*All dividends receivable from the subsidiary AB Kelmės Pieninė were netted with the amounts payable to this company.

8 Income tax expense

Recognised in the income statement

	2016	2015
Current income tax expense		
Current period	-70	-
Deferred tax		
Change in deferred tax	-432	634
	-502	634

Reconciliation of effective tax rate

Thousand EUR	2016		2015	
Profit (loss) for the year		6,991		-83
Income tax expense		502		-634
Profit (loss) before tax		7,493		-717
Income tax applying the effective tax rate	*15.00%*	1,124	*15.00%*	-108
Non-deductible expenses	*1.35%*	115	*-7.67%*	55
Effect of non-taxable income	*-10.28%*	-774	*111.30%*	-798
Tax losses utilized	*-4.25%*	-325	*-118.69 %*	*851*
Incentive on investment applied	*-0.91%*	-70	-	-
Income tax expense	*-0,92 %*	*70*	*0 %*	*0*
Change in deferred tax		432		-634
		502		-634

Notes to the financial statements

9 Earnings per share

	2016	2015
Number of issued shares calculated based on weighted average method, in thousand	11,943	11,943
Net profit, attributable to ordinary shareholders of the Company, in thousand EUR	6,991	-83
Basic earnings per share, in EUR	0.59	-0.01

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
Cost/ Revalued amount					
Balance as at 1 January 2015	7,631	22,816	1,638	984	33,069
Acquisitions	-	229	72	501	802
Disposals	-	-706	-173		-879
Reclassification*	555	477	20	-1,168	-116*
Balance as at 31 December 2015	8,186	22,816	1,557	317	32,876
Balance as at 1 January 2016	8,186	22,816	1,557	317	32,876
Acquisitions	2	134	31	2,240	2,407
Disposals	-	-102	-58		-160
Reclassification*	-	16	24	-54	-14*
Balance as at 31 December 2016	8,188	22,864	1,554	2,503	35,109
Depreciation and impairment					
Balance as at 1 January 2015	207	9,875	1,214	-	11,296
Depreciation for the year	376	1,610	118	-	2,104
Disposals	-	-663	-156	-	-819
Reclassification	-	-	-	-	-
Transfer					
Balance as at 31 December 2015	583	10,822	1,176	-	12,581
Balance as at 1 January 2016	583	10,822	1,176	-	12,581
Depreciation for the year	370	1,544	112	-	2,026
Disposals	-	-102	-52	-	-154
Reclassification	-	-	-	-	-
Balance as at 31 December 2016	953	12,264	1,236	-	14,453
Carrying amounts					
1 January 2015	7,424	12,941	424	984	21,773
31 December 2015	7,603	11,994	381	317	20,295
31 December 2016	7,235	10,600	318	2,503	20,656

Notes to the financial statements

10 Property, plant and equipment (cont‘d)

*An amount of 14 thousand EUR relates to finished intangible assets transferred from construction in progress (31 December 2016 – 116 thousand EUR).

Pledged assets

To secure the bank loans, the Company has pledged its real estate (buildings and constructions), the book value of which as agreed, amounts to 7,028 thousand EUR. Equipment, the book value of which amounted to 7,932 thousand EUR as at 31 December 2016 (as at 31 December 2015: buildings and equipment by the value of 12,349 thousand EUR) have been pledged in favor of banks (refer to note 19).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 5,693 thousand EUR as at 31 December 2016 (as at 31 December 2015: 5,913 thousand EUR).

Leased property, plant and equipment

The Company has acquired transport vehicles by way of finance lease. The carrying amount of the leased assets amounted to 235 thousand EUR as at 31 December 2016 (as at 31 December 2015: 304 thousand EUR). The leasing liabilities are secured by pledging the leased assets (note 19).

Revaluation

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

In December 2014, the Company carried out an external evaluation of buildings. The results are stated in the financial statements.

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 separate financial statements for 2016.

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 is the comparative value and replacement method and their combination.

The net value of the revaluation reserve as at 31 December 2016 amounts to 2,410 thousand EUR (at 31 December 2015: 2,560 thousand EUR).

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2016 would be 4,067 thousand EUR (restated value – 6,792 thousand EUR) (at 31 December 2015: 4,209 thousand EUR and the restated value – 7,107 thousand EUR).

The category of land and buildings includes certain not movable assets, which are leased to a subsidiary. The carrying amount of these assets amounts to 2,054 thousand EUR as at 31 December 2016 (at 31 December 2015: 2,132 thousand EUR). Depreciation of the assets is provided on a straight-line basis over the useful lifetime of 40 years.

Depreciation

Depreciation is recorded in the following items:

Thousand EUR	**2016**	**2015**
Cost of finished goods	1,761	1,808
Distribution and administrative costs	161	184
Other operating costs	104	112
	2,026	2,104

Notes to the financial statements

11 Intangible assets

Thousand EUR	Software	Total
Cost		
Balance as at 1 January 2015	468	468
Acquisitions	7	7
Disposals	-3	-3
Reclassifications*	116	116*
Balance as at 31 December 2015	588	588
Balance as at 1 January 2016	588	588
Acquisitions	40	40
Disposals	-	-
Reclassification*	14	14*
Balance as at 31 December 2016	642	642
Amortization and impairment		
Balance as at 1 January 2015	433	433
Amortization for the year	46	46
Amortization of disposed assets	-2	-2
Balance as at 31 December 2015	477	477
Balance as at 1 January 2016	477	477
Amortization for the year	72	72
Amortization of disposals	-	-
Balance as at 31 December 2016	549	549
Carrying amounts		
1 January 2015	35	35
31 December 2015	111	111
31 December 2016	93	93

*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.

12 Investments in subsidiaries

Thousand EUR	31-12-2016	31-12-2015
Cost of shares of AB Modest	1,991	1,991
Cost of shares of AB Kelmės Pieninė	8,656	8,656
Cost of shares of AB Pieno Logistika	66	63
	10,713	10,710

The Company obtained control over AB Modest in 2006. Ownership in the subsidiary amounted to 99.7% as at 31 December 2016 (at 31 December 2015: 99.7%).

Based on the share sales-purchase agreement, on 30 April 2008 the Company acquired a shareholding in AB Kelmės Pieninė. As at 31 December 2015, the ownership was 100%, as at 31 December 2016 - 100%.

In 2016, the Company owned 58.7% shares of AB Pieno Logistika (as at 31 December 2015: 56.1%).

Notes to the financial statements

12 Investments in subsidiaries (cont‘d)

The key financial figures of AB Modest as at 31 December 2016 are as follows:

Thousand EUR	**31-12-2016**	**31-12-2015**
Total assets	19,886	12,189
Equity	785	1,567
Net profit (loss)	-782	831

Allocation of the acquisition price of AB Modest shares:

Net assets acquired (in 2006)	102	102
Increase of authorized capital	1,590	1,590
Goodwill	299	299
Cost of acquisition	1,991	1,991

In 31 December 2016, the recoverable amount of the investment in AB Modest, as a cash-generating unit, was reviewed by calculating the value in use. For estimation of the value in use, the calculated future cash flows were discounted to their present value applying an industry weighted average cost of capital rate, which was equal to 7.42%. The main assumptions used for calculation are as follows:

- Future cash flows are estimated based on historical experience and a 5-year business plan. The cash flows expected for the remaining useful lifetime of machinery and equipment were calculated by extrapolating the cash flow of the fifth year by the expected 5 percent growth rate.
- In order to increase revenues and improve operating results of the Company in 2017, it is planned to increase the production of „Mozzarela“ cheese and blue cheese. In 2017, the Company is planning to replace part of the „Mozzarela“ equipment facility, which will improve the cheese yield.
- The Company is actively expanding the „Mozzarela“ cheese target markets, started selling to China, Libya, and continues increasing sales to Saudi Arabia, Lebanon, Sout Europe and Korea.
- In 2017, the Group is planning to finish the whey processing (drying) project , which is being carried out in the territory of AB Modest. Therefore, AB Modest will become a key supplier of the dryer infrastructure (steam, cold, air) and the technical service provider. This will allow generating additional substantial cash flows for the company.
- work processes of production workers and logistics warehouse were analysed at the end of the year 2016, and decisions were taken regarding improvement of the process efficiency that will allow to decrease significantly the costs of the mentioned divisions.

The calculated recoverable amount revealed that the investment is not impaired as at 31 December 2016; therefore, no impairment has been recorded.

The key financial figures of AB Kelmės Pieninė as at 31 December 2016:

Thousand EUR	**31-12-2016**	**31-12-2015**
Total assets	26,983	7,870
Equity	3,211	4,959
Net profit (loss)	2,184	3,907

Notes to the financial statements

12 Investments in subsidiaries (cont‘d)

Allocation of the acquisition price of AB Kelmės Pieninė:

Thousand EUR	31-12-2016	31-12-2015
Net assets acquired (in 2008)	2,095	2,095
Separation of AB Pieno Logistika by way reorganization	-55	-55
Goodwill	6,616	6,616
Cost of acquisition	8,656	8,656

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

The key financial figures of AB Pieno Logistika as at 31 December 2016:

	31-12-2016	31-12-2015
Total assets	193	200
Equity	105	106
Net loss	-1	-1
Net assets acquired	60	60
Goodwill	-	-
Cost of acquisition	60	60

13 Long-term receivables

Thousand EUR	Note	31-12-2016	31-12-2015
Financial instruments			
Loans to related parties	26	122	127
Long-term receivables from farmers		52	84
Other receivable amounts		2	3
		176	214
Non-financial assets			
Prepayments to related parties	26	185	214
		361	428

A prepayment (185 thousand EUR) has been made to a related company ŪKB Šilgaliai. The planned repayment deadline is 31 December 2019. The outstanding balance is subject to an administration fee.

A loan (102 thousand EUR), issued to a related company ŪKB Šilgaliai, shall be repaid by 31 December 2019. The outstanding balance is subject to fixed interest.

A loan of 25 thousand EUR was issued to a subsidiary AB Pieno Logistika in 2014. According to an amendment of the agreement, signed in 2016, the repayment deadline has been extended until 30 June 2020. The outstanding balance is subject to fixed interest.

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

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

Notes to the financial statements

14 Inventories

Thousand EUR	31-12-2016	31-12-2015
Finished goods	7,470	6,855
	7,470	6,855
Raw materials	51	55
Auxiliary materials	732	901
	8,253	7,811

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

As at 31 December 2016, write down of inventories (finished goods) to net realizable value was recognized by an amount of 194 thousand EUR. As at 31 December 2015, there were no inventories (finished production) written down to net realisable value.

As at 31 December 2016, the inventories with the carrying amount of up to 4,048 million EUR (2015: up to 5,786 million EUR) have been pledged to financial institutions (note 19).

15 Trade and other receivable amounts

Thousand EUR	Note	31-12-2016	31-12-2015
Trade receivables		5,006	5,120
Impairment losses		-97	-114
Trade receivables due from related parties	25	7,264	2,508
Loans to related parties, including interest and administration fee	25	101	102
Other receivables		22	9
Sub-total: financial assets		12,296	7,625
Taxes receivable (excluding income tax)		1,852	812
Total trade and other receivables		14,148	8,437

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

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

As at 31 December 2016, receivable taxes mainly include receivable VAT of 1,822 thousand EUR (2015: 805 thousand EUR).

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

The receivable with the carrying amount of not less than 81 thousand EUR due from the clients has been pledged to Nordea Bank AB. As at 31 December 2016, the pledged receivable amount is 156 thousand EUR (as at 31 December 2015: 251 thousand EUR).

Notes to the financial statements

16 Prepayments

Thousand EUR	Note	31-12-2015	31-12-2014
Prepayments for goods and services		151	262
Prepayments to related parties	26	184	170
		335	432

17 Cash and cash equivalents

Cash at bank		11	16
Cash in hand		16	75
		27	91

All account balances as at 31 December 2016 have been pledged to secure bank loans (note 19). Furthermore, cash inflows in the bank accounts are pledged to secure bank loans (note 19).

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

18 Capital and reserves

Authorized capital of the Company as at 1 January 2016 and 31 December 2016 comprised 11,943,000 ordinary shares at par value of 0.29 EUR each. All the shares are fully paid.

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

Share premium

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

Legal reserve

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

Revaluation reserve

Revaluation reserve is related to revaluation of buildings and is stated net of deferred tax liability. The reserve is decreased annually for the depreciation in respect to revalued buildings and disposal of revalued assets. The decrease is recognized directly in equity. When depreciating the revaluated buildings, a transfer is made from the revaluation reserve to retained earnings. The amount for transfer is determined as a difference between depreciation, calculated from the restated value, and depreciation, calculated from the initial cost of the buildings.

Revaluation reserve can be used for an increase of authorized capital and cannot be used for coverage of accumulated losses.

Notes to the financial statements

18 Capital and reserves (cont'd)

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.

Reserve for acquiring own shares

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

As at the end of 2016, the reserve for acquiring own shares did not change and amounted to 2,508 thousand EUR (2015: 2,508 thousand EUR).

According to the Lithuanian legislation, the reserve will be retained for as long as the Company performs acquisition of own shares.

The Company did not acquire any own shares in 2016 and 2015.

19 Loans and finance lease liabilities

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

Credit institution	Ref.	Currency	Contractual amount, thousand EUR	Balance 31-12-2016	Balance 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
Bank loan	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
AB Kelmės pieninė*	9)	EUR	753	-	753
AB Modest*	10)	EUR	1,667	-	98
Loan*	11)	EUR	250	-	250
Factoring	12)	EUR	1,400	155	1,012
AB Kelmės pieninė*	13)	EUR	3,300	1,610	-
Finance lease liabilities	14)	EUR	222	119	198
Total liabilities				13,896	15,650
Less: current part				-7,059	-7,719
Loans and other liabilities payable after one year				6,836	7,931

* Note 25

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.

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.

19 Loans and finance lease liabilities (cont'd)

Notes to the financial statements

3) A business credit of 3,900 thousand EUR. The total credit amount shall be settled at the end of the 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 is 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 has been increased up to 2,870 thousand EUR to satisfy the working capital needs and the repayment deadline of 22 December 2016 has been 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) In 2008, AB VILKYŠKIŲ PIENINĖ signed a long-term credit agreement with AB Kelmės Pienine for an amount of 753 thousand EUR. The loan has been repaid before the final repayment deadline - 28 May 2018. The loan was subject to fixed interest rate.

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) On 16 November 2015, AB VILKYŠKIŲ PIENINĖ signed a loan agreement with a natural person for an amount of 250 thousand EUR bearing fixed annual interest. The loan has been repaid in December 2016.

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

13) On 2 May 2016, AB VILKYŠKIŲ PIENINĖ signed a long-term agreement with AB Kelmės Pieninė on the loan of 3,300 thousand EUR for reconstruction of the whey processing and production base, located at Gaurės 23, Tauragė and related construction works. Repayment of the loan shall start as of January 2018 in accordance with the repayment schedule. The final repayment deadline is 31 December 2021. The determined annual interest rate is 3 months EURIBOR+ margin

Notes to the financial statements

19 Loans and finance lease liabilities (cont‘d)

14) The financial lease agreements are signed with financial leasing companies. The last repayment term is April 2019.

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

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

Loan repayment schedules, except for finance lease liabilities:

Thousand EUR	31-12-2016	31-12-2015
Within one year	7,059	7,620
From 1 to 5 years	6,717	7,832
After 5 years	-	-
	13,776	15,452

The effective interest rate applied on loans and leasing liabilities in 2016 was 3.39% (2015: 3.02%).

20 Government grants

Thousand EUR	31-12-2016	31-12-2015
Carrying amount at the beginning of the period	1,903	2,103
Grants received	182	67
Amortization charge recognized in the income statement under cost of sales and other activity expenses	-224	-267
Carrying amount at the end of the period	1,861	1,903

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

Notes to the financial statements

21 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:

	Assets		**Liabilities**		**Net value**	
Thousand EUR	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 loss to be carried forward	-731	-1,057	-	-	-731	-1,057
Deferred tax (asset) / liabilities	-1,036	-1,306	1,856	1,694	820	388

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

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

Thousand EUR	01-01-2016	Recognized in profit or loss	Recognized 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	Recognized in profit or loss	Recognized 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

Notes to the financial statements

22 Trade and other payable amounts

Thousand EUR	Note	31-12-2016	31-12-2015
Financial instruments			
Trade payable amounts		6,532	7,495
Trade payables to related parties	25	4	2
Other payable amounts		31	31
		6,567	7,528
Non-financial instruments			
Employment related liabilities		957	887
Received prepayments		1,556	21
Payable dividends		-	57
Accrued costs		10	22
		2,523	987
		9,090	8,515

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

23 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. As at 31 December 2016, the Company had two interest rate swap transactions with the bank for the loans amounting to 2,317 thousand EUR and 3,900 thousand EUR. The loans were subject to variable interest rates related to 3 months and 6 months EURIBOR+ margin. The Company encounters expected volatility of cash flows related to forecasted interest payments, 3 months and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with the bank where fixed interest on loans has been determined:

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

The above hedging instruments were evaluated as being effective.

The liquidity risk related to derivative financial instruments is disclosed in note 27.

Notes to the financial statements

24 Contingencies and commitments

Material contractual liabilities as at 31 December 2015 were as follows:

Thousand EUR	31-12-2016	31-12-2015
Acquisition of non-current assets	1,554	221
Purchase of raw materials	2,949	4,041
	4,503	4,262

The following assets were pledged as at 31 December 2016 to secure the bank loans:
- Current and future cash inflows in the accounts at different banks;
- Property, plant and equipment with the carrying amount, as agreed by the parties, of 7,028 thousand EUR;
- Equipment by the carrying amount of 7,932 thousand EUR
- Inventories with the carrying amount up to 4,048 thousand EUR.
- Receivable from one trading network.
- Sub-lease right of the state land.
- Owned trademarks.
- 50,00% shares of AB Kelmės Pieninė owned by the Company.
- Guarantee of 16,792 thousand EUR (the loan balance as at 31 December 2016) to the bank for the liabilities of Kelmės pieninė.
- Guarantee of 1,230 thousand EUR (the loan balance as at 31 December 2016) to the bank for the liabilities of AB Modest.

The tax authorities have not performed a full scope tax review of the Company for the period from 2012 to 2016. Pursuant to the prevailing tax legislation, the tax authorities have the right at any time to check the accounting registers of the Company for a period of 5 years before the current taxable period and may charge additional taxes and penalties. The Company‘s management is not aware of any circumstances, which could result in additional material tax liabilities.

25 Transactions with related parties and financial relations with management

Parties are deemed related when one has an ability to control the other or make a significant influence while making financial and operational decisions. The related parties and transactions with Group companies during 2016 and 2015 are as follows (in thousand EUR):
AB Kelmės pieninė (a subsidiary);
AB Modest (a subsidiary);
AB Pieno Logistika (a subsidiary);
UKB Šilgaliai (the main shareholder of the Company is a shareholder of ŪKB Šilgaliai).

Staff costs include remuneration to management by an amount of 411 thousand EUR, including social security taxes (2015: 356 thousand EUR).

Notes to the financial statements

25 Transactions with related parties and financial relations with management (cont'd)

Thousand EUR	**2016**	**2015**
Payable amounts		
Loans		
Loan payable to AB Kelmės Pieninė	1,610	753
Loan payable to AB Modest	-	98
Loan payable to the Company's shareholder	-	250
	1,610	1,101
Trade payable		
AB Kelmės Pieninė	-	2
AB Modest	-	-
UKB Šilgaliai	4	-
	4	2
	1,614	**1,103**
Receivable amounts		
Prepayments		
ŪKB Šilgaliai (non-current receivable)	185	214
ŪKB Šilgaliai (current receivable)	184	170
	369	384
Trade receivables		
AB Kelmės Pieninė	5,202	-
AB Modest	2,061	2,508
AB Pieno logistika	1	-
	7,264	2,508
Loans granted, including interest and administration fee		
ŪKB Šilgaliai (non-current and current parts)	203	203
AB Pieno Logistika	20	25
	223	228
	7,856	**3,120**

Notes to the financial statements

25 Transactions with related parties and financial relations with management (cont'd)

Thousand EUR	2015	2014
Interest income		
ŪKB Šilgaliai	5	6
AB Pieno logistika	2	2
	7	**8**
Interest expenses		
AB Kelmės Pieninė	44	45
AB Modest	-	6
Main shareholder of the Company	6	1
	50	**52**
Sale of raw materials, goods and services		
AB Kelmės Pieninė	8,553	9,034
AB Modest	5,723	6,259
AB Pieno Logistika	1	1
ŪKB Šilgaliai	9	12
	14,286	**15,306**
Purchase of raw materials, goods and service		
AB Kelmės Pieninė	19,422	21,471
AB Modest	9,920	9,826
AB Pieno Logistika	-	-
ŪKB Šilgaliai	650	636
	29,992	**31,933**

ŪKB Šilgaliai is a supplier of raw milk.

26 Financial instruments and risk management

Credit risk

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

Thousand EUR		Carrying amount	
	Note	31-12-2016	31-12-2015
Non-current receivable amounts	13	361	428
Trade and other receivables	15	12,296	7,625
Cash and cash equivalents	17	27	91
		12,684	8,144

Notes to the financial statements

26 Financial instruments and risk management (cont'd)

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

	Carrying amount	
	31-12-2016	**31-12-2015**
Lithuania	9,421	4,694
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
	12,296	**7,625**

As at 31 December 2016, a significant credit risk concentration is related to four clients, the receivable from whom makes 30% of all trade receivables.

Impairment losses

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

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

Thousand EUR	Gross 31 December 2016	Impairment 31 December 2016	Gross 31 December 2015	Impairment 31 December 2015
Related parties:				
Not past due	6,524	-	3,023	-
Past due 0-30 days	1,234	-	1	-
Past due 31-60 days	1	-	1	-
More than 60 days	97	-	96	-
	7,856	**-**	**3,121**	**-**
Other parties:				
Not past due	6,232		5,224	-
Past due 0-30 days	662		578	-
Past due 31-60 days	70		152	-
More than 60 days *	121	-97	336	-114
	7,085	**-97**	**6,290**	**-114**
	14,941	**-97**	**9,411**	**-114**

Notes to the financial statements

26 Financial instruments and risk management (cont'd)

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	-97	-114

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

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	More than 5 years
Financial liabilities							
Loans from banks	12,011	(12,911)	(4,991)	(2,153)	(1,470)	(4,297)	-
AB Kelmės Pieninė loan	1,610	(1,848)	(27)	(27)	(393)	(1,401)	-
Finance lease liabilities	119	(123)	(51)	(39)	(31)	(2)	-
Factoring	155	(158)	(158)	-	-	-	
Derivative financial instruments	237	(237)	(59)	(59)	(119)	-	-
Trade payable amounts	6,536	(6,536)	(6,536)	-	-	-	-
	20,668	(21,813)	(11,822)	(2,278)	(2,013)	(5,700)	-

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 Company is planning to negotiate with the banks and agree on new maturity dates for the credit lines. The Company also expects to earn a sufficient cash flow from ordinary activity to cover the current liabilities.

Notes to the financial statements

26 Financial instruments and risk management (cont'd)

Liquidity risk (cont'd)

31 December 2015

Thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
Loans from banks	13,339	(13,758)	(5,219)	(1,224)	(3,759)	(3,556)	-
AB Kelmės Pieninė loan	753	(863)	(23)	(23)	(817)	-	-
AB Modest loan	98	(99)	(99)	-	-	-	-
Management loan	250	(256)	(3)	(253)	-	-	-
Finance lease liabilities	198	(207)	(56)	(48)	(103)	-	-
Factoring	1,012	(1,025)	(1,025)	-	-	-	
Derivative financial instruments	364	(364)	(63)	(63)	(238)	-	-
Trade payable amounts	7,497	(7,497)	(7,497)	-	-	-	-
	23,511	(24,069)	(13,985)	(1,611)	(4,917)	(3,556)	-

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

	2016	**2015**
Loans and finance lease liabilities	1.8% - 2.3%	1.8% - 6%

Currency risk

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

	2016 m. gruodžio 31 d.		
	USD	PLN	DKK
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	145	231	-

	2015 m. gruodžio 31 d.		
	USD	PLN	DKK
Long-term receivables	-	-	-
Trade and other receivables (excl. taxes)	126	160	-
Cash and cash equivalents	-	1	-
Loans and finance lease liabilities	-	-	-
Derivative financial instrument	-	-	-
Trade payables	-	(22)	(5)
Net exposure	126	139	(5)

Notes to the financial statements

26 Financial instruments and risk management (cont‘d)

Currency risk (cont‘d)

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

	Average	
	2016	**2015**
USD	1.1072	1.1060
PLN	4.3619	4,1834

The following exchange rates were applied as at 31 December:

	2016	**2015**
USD	1.0541	1.0926
PLN	4.4103	4.2400

Sensitivity analysis

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

Interest rate risk

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

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

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

Thousand EUR	Carrying amount	
	31-12-2016	**31-12-2015**
Fixed rate financial instruments		
AB Kelmės Pieninė loan	(1,610)	(753)
Loan to AB Pieno Logistika	20	25
Management loan	-	(250)
Non-current part of loans granted	102	103
Current part of loans granted	-	6
	(1,488)	(869)

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

Notes to the financial statements

26 Financial instruments and risk management (cont'd)

Interest rate risk (cont'd)

Thousand EUR	Carrying amount	
	31-12-2016	**31-12-2015**
Variable rate financial instruments		
Loans from banks	(12,011)	(13,339)
Factoring	(155)	(1,012)
AB Modest loan	-	(98)
Financial lease liabilities	(119)	(198)
	(12,285)	(14,647)
	(13,773)	**(15,516)**

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

Effect in thousand EUR	Profit (loss)	
	100 bp increase	100 bp decrease
31 December 2016		
Variable rate instruments	(138)	138
31 December 2015		
Variable rate instruments	(155)	155

Cash flow sensitivity analysis for variable rate instruments

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

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level valuation is used for listed equity securities quoted on stock exchange (e.g. National Stock Exchange, Stock Exchange of London, Stock Exchange of Frankfurt).
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Notes to the financial statements

26 Financial instruments and risk management (cont‘d)

Fair value hierarchy (cont’d)

- Lever 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company valuates its assets and liabilities based on the fair value hierarchy principles prescribed in Level 3, where the expected discounted cash flow is determined. The effective discount rate is based on financing costs of investments into these companies.

31 December 2016

Thousand EUR

	Level 1	Level 2	Level 3	Total
Investments in subsidiaries	-	-	10,713	10,713
Non-current receivables	-	-	361	361
Trade and other receivables	-	-	14,148	14,148
Cash and cash equivalents	27	-	-	27
Loans and financial lease liabilities	-	-	(13,895)	(13,895)
Derivative financial instruments	-	(237)	-	(237)
Trade and other payables	-	-	(6,567)	(6,567)
	27	(237)	4,760	4,550

As at 31 December 2015

Thousand EUR

	Level 1	Level 2	Level 3	Total
Investment in subsidiaries	-	-	10,710	10,710
Non-current receivables	-	-	428	428
Trade and other receivables	-	-	8,437	8,437
Cash and cash equivalents	91	-	-	91
Loans and financial lease liabilities	-	-	(15,650)	(15,650)
Derivative financial instruments	-	(364)	-	(364)
Trade and other payables	-	-	(7,528)	(7,528)
	91	(364)	(3,603)	(3,876)

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, 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.

Notes to the financial statements

26 Financial instruments and risk management (cont'd)

Capital management (cont'd)

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

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

Fair value of financial instruments

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

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

Cash

Cash are funds that are valued at fair value.

Receivable amounts and term deposits

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

Financial liabilities

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

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

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 and 31 December, include derivative financial instruments.

Notes to the financial statements

27 Subsequent events

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

AB Vilkyškių pieninė Annual Report 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 o one 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 Annual Report

This Annual 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	info@vilkyskiu.lt
Website	http://www.vilkyskiu.lt

3. Main Types of Activity

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

Dairy operations and cheese production (EVRK 10.51)

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

AB Modest makes fermented *Mozzarella* cheese, blue cheese and other cheese products. On 31 December 2016, the Company held a 99.7 percent voting interest in *AB Modest*.

AB Kelmės pieninė is specialised in the production of fresh dairy products. On 31 December 2016, the Company owned 100 percent of the *AB Kelmės pieninė* stock.

AB Pieno logistika's main area of activity is lease of buildings. *AB Vilkyškių pieninė* holds 58.7 percent of the voting shares of *AB Pieno logistika*.

4. Agreements with Brokerages for Public Issue

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

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

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

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

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

II. OVERVIEW OF OPERATIONS

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

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

Values:

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

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

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

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

6. Issuer's Jurisdiction

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

7. Brief History of Issuer

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

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

Key Events in Issuer's History

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

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

1997: 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 o *TetraPakTebel* cheese production facility. As a result, new fully computerised and automated cheese production line was installed, enabling the company to make EU-compliant products.

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

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

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

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

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

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

2006: *AB Vilkyškių pieninė* was allocated EUR 1m from EU structural funds, which was used to upgrade production facilities and achieve full compliance with EU requirements.

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

The second phase of implementation began in June 2007, when a new modern whey processing facility was launched. The total value of the whey processing facility was more than EUR 2.3m. The investment increased the Company's productivity, improved quality controls and reduced waste considerably. The Company had no whey processing until then. The new whey processing unit is almost completely automated and is manned by just two staff.

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

In January 2006: The Issuer acquired an 80.25-percent stake in *AB Modest*. *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.

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 the launch of the production of the *Prussia* brand of plastic-coated cheese, made using the latest technologies.

The 2007-2013 investment project "Improving the competitiveness of dairy processing" was completed. The project was worth EUR 9.5m, with EUR 1.9m coming from the EU structural funds. In 2010, the Company was allocated EUR 0.2m in EU support. Another EUR 1.6m was received in 2012.

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

Expansion of the whey produce workshop was completed. As a result, the capacities allowed to process 600 tons of the product per day. The Company started operating a tank truck washer, a garage, a warehouse, workshops with utility and auxiliary premises, administrative office, engineering network and landings and a truck entry point.

The Group was supplemented by a subsidiary AB Pieno Logistika.

2014: The Company implemented the whey untrafiltration project.

2015: *AB Vilkyškių pieninė* finished the industrial wastewater treatment modernization in order to improve efficiency of wastewater treatment.

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

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

8. Main Investments During Reporting Period

In 2016, a subsidiary of *AB Vilkyškių pieninė* started implementation the whey processing project. It is expected that the project will be finished in 2017 and the total value of the project amounts up to 26 million EUR. The project includes construction of a building. In 2016, investments in the construction amounted to 1.8 million EUR. The project is financed by own and borrowed means.

Supportive investments for the financial year amounted to 213 thousand EUR.

9. Patents & Licenses

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

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

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

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

The quality management and food safety systems are subject to continuous monitoring, review and improvements with a view to maintaining the high quality of the Company's products. The continual search for improvements and adherence to the top food safety standards has enabled to certify *AB Vilkyškių pieninė* 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.

At the last ISO 22000:2005 standard follow-up audit, Vilkyškių pieninė AB received a very favourable evaluation, stressing its good preparedness for the installation of the higher-level certification scheme.

In order to achieve customers' appreciation for our products in Islamic markets, AB Vilkyškių Pieninė continued with certification of the production process according to the requirements of the Halal rules. Halal products are associated with product safety, healthiness, quality and ecology. Therefore, these products are frequently consumed by people of other confessions as well.

10. Human Resources

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

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

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

Occupational safety and health is another key priority for the Company. Every year, employees are offered free health checkups and flu vaccination.

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.

11. Environmental Protection

Based on the European Parliament and Council IPPC Directive 2008/1/EC, *AB Vilkyškių pieninė* is attributable to the Annex I installations and is required to have an IPPC permit. The Company obtained its first IPPC permit from the Klaipėda Regional Environmental Protection Department on 10 August 2004, which was renewed on 28 December 2012. The Company has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels.

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

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

Production wastewater is treated at the Company's own combined biomechanical treatment facility. In 2016, *AB Vilkyškių pieninė* treated 458000 m3 of wastewaters. The resulting sludge is given to local waste managers and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be untill 99 percent range.

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.

12. Issuer's Results of Operations

Key financial indicators of *AB Vilkyškių pieninė*:

	2012	2013	2014	2015	2016
Revenue (EUR tho)	95,534	118,536	126,297	97,404	102,260
EBITDA (EUR tho)	3,275	4,380	1,702	-1,777	6,111
EBITDA margin, pct	3.4	3.7	1.3	-1.8	6.0
Operating profit (EUR tho)	-1,010	2,730	-68	-3,660	4,237
Operating profit margin, pct	-1.1	2.3	-0.05	-3.8	4.1
Profit before tax (EUR tho)	1,275	6,451	1,839	-717	7,493
Profit before tax margin, pct	1.3	5.4	1.5	-0.7	7.3
Net profit (EUR tho)	1,499	6,104	1,886	-83	6,991
Profit margin, pct	1.6	5.1	1.5	-0.09	6.8
Earnings per share (Eur)	0.12	0.51	0.16	-0.01	0.59
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2016, **sales** came to EUR 102.26 m, up 5 percent from EUR 97.4 m in 2015.

In 2016, **EBITDA** was EUR 6.1m, up from EUR 1.8 m loss the year before. EBITDA margin was 6 percent in 2016 (compared with -1.8 percent in 2015).

Operating profit (EBIT) was at EUR 4.2 m in 2016, with a 4 percent margin, up from EUR 3.7 m loss in 2015, when EBIT margin reached -3.8 percent.

In 2016, **net profit** reached EUR 7 million, in 2015 - a loss of EUR 83 thousand. The increase in profit was caused by rise in prices on export markets.

Key financial ratios of *AB Vilkyškių pieninė*:

	2012	2013	2014	2015	2016
Return on equity (ROE), pct	10.1	29.9	8.5	-0.4	24.4
Return on assets (ROA), pct	3.6	12.9	3.9	-0.2	12.8
Debt ratio	0.64	0.57	0.54	0.56	0.48
Deb/equity ratio	1.79	1.31	1.18	1.25	0.91
Quick liquidity ratio	0.72	0.95	0.95	1.03	1.40
Asset turnover ratio	2.30	2.51	2.60	2.02	1.87
Capital-to-assets ratio	0.36	0.43	0.46	0.44	0.52

In 2016, **assets totaled** to EUR 54.6 m, 13 percent more than in 2015.

In 2016, the carrying amount of **non-current assets** increased by 1 percent and totaled to EUR 31.8 m.

In 2016, **equity** was EUR 28.7 m, up by 33 percent from the previous year (EUR 21.5 m in 2015).

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

	2012	2013	2014	2015	2016
Fermented cheese	10,135	12,167	14,776	14,085	15,336
Cream	8,135	11,143	13,368	11,400	13,466
Whey products	39,376	45,446	43,713	47,391	50,879

In 2016, a total of 15,336 tonnes of cheese was produced, which is by 8 percent more than in 2015. Cream production increased by 15 percent against the previous year.

Raw milk purchases by *AB Vilkyškių pieninė*:

	2012	2013	2014	2015	2016
Raw milk, tonnes	181,280	193,469	251,772	237,065	243,633
Cost of raw milk, EUR thousand	41,282	56,093	64,151	44,883	45,683
Raw milk price, EUR/t	227.7	289.9	254.8	189.3	187.5

In 2016, a total of 244 thousand tonnes of milk was purchased, which shows an increase by 3 percent as compared with 2015. The price of raw milk in 2016 went down by 0.95 percent from the previous year.

13. Sales and Marketing

Core product sales, EUR thousand:

	2012	2013	2014	2015	2016
Fermented cheese	41,338	51,004	53,114	40,177	41,612
Cream	11,929	22,265	23,157	16,215	21,769
Other sales	41,951	45,267	50,026	41,012	38,879
Total revenue	**95,218**	**118,536**	**126,297**	**97,404**	**102,260**

In 2016, income from sales increased by 5%, compared to 2015. Income from sales in the domestic market contracted by 10%, and exports went up by 18%.

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 Arab countries, South Korea and Southern Europe, and the brand Vilvi has become even more conspicuous on the shelves of retail chains in Poland. The new markets gave notable results only as of the second half of 2016. As of June, the demand and supply of dairy products having balanced, prices in the export markets rose, determining an increase in turnover and margin, compared to 2015.

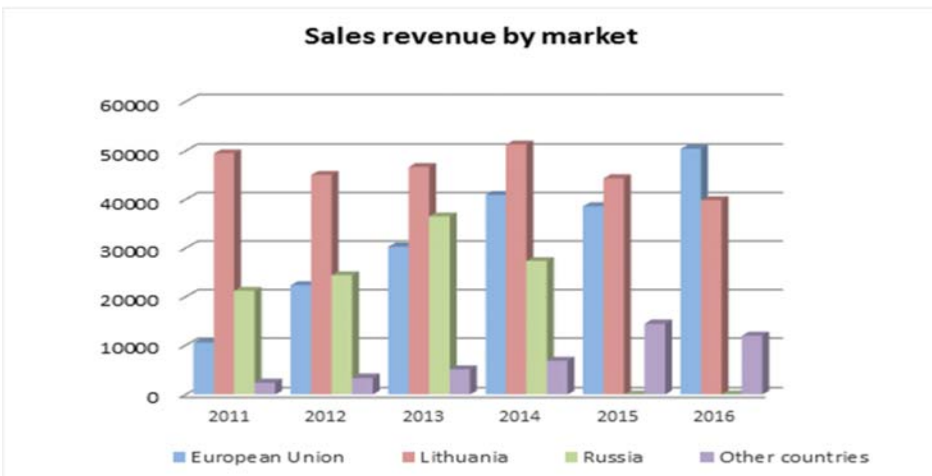
Exports in 2016 accounted for 61% of the total sales of Vilkyškių pieninė AB, up by 6% from 2015. However, in terms of quantity, the product amount sold in foreign countries stayed the same and was only redistributed among other markets.

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

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

Sales revenue by market, EUR tho:

	2012	2013	2014	2015	2016
European Union	22,376	30,285	40,932	38,593	50,404
Lithuania	45,056	46,692	51,311	44,350	39,850
Russia	24,394	36,514	27,350	0	0
Other countries	3,392	5,045	6,804	14,461	12,006
Total revenue	**95,218**	**118,536**	**126,297**	**97,404**	**102,260**



The marketing department within the Group is responsible for development of new products and implement 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's strategy to invest in innovative exclusive products has enabled the Company to deliver on its brand promise and continue surprising consumers with wider choices, new products, new taste sensations and new ways to enjoy dairy products, at the same time contributing to the brand's positions on the market .

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

14. Exhibitions and Awards

From 2011, *Vilkyškių pieninė* started participating in in one of the largest food industry exhibitions in Germany “Anuga”, SIAL in France

In 2014, AB *Vilkyškių pieninė* was 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 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.

15. Risk Factors Associated with Issuer‘s Business

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

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

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

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

The Company‘s credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. In 2016, the Company extended the credit insurance agreement with the insurer *Euler Hermes* for a period of 2 years in order to insure its overseas customers. 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 0.48. The balance of outstanding loans on 31 December 2016 was EUR 13,895 thousand. All loans are denominated in euro and are being repaid under the established schedule, without any delays. The interest on all largest loans is linked to the EUR LIBOR rate. In 2011, interest rate swaps for the amount of EUR 8m were concluded for a period of five years. By the end of 2016, there were two valid transactions amounting to EUR 4.646 million.

16. Competition

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

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

17. Key Events After Fiscal Year-End

There have been no significant events after 31 December 2016.

18. Business Plans and Forecasts

In 2017, *AB Vilkyškių pieninė* will continue focusing its efforts on food safety and quality. We will continue expanding our range of products and searching for new sales markets, which will be targeted actively once identified. In Group further investments are planned into whey processing in order to make this line of business even more profitable.

III. Other information about issuer

19. Structure of Issuer‘s Share Capital

Type of share	Number of share	Share face value, EUR	Total face value, EUR
Common registered shares	11,943,000	0.29	3,463,470

20. Information on Treasury Stock

The Company does not hold its own shares.

21. Rights of Shareholders

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

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

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

22. Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

23. Information About Shareholders

The total number of shareholders on 31 December 2016 was 821. The following are the major shareholders, who own more than 5 percent of the Issuer's stock:

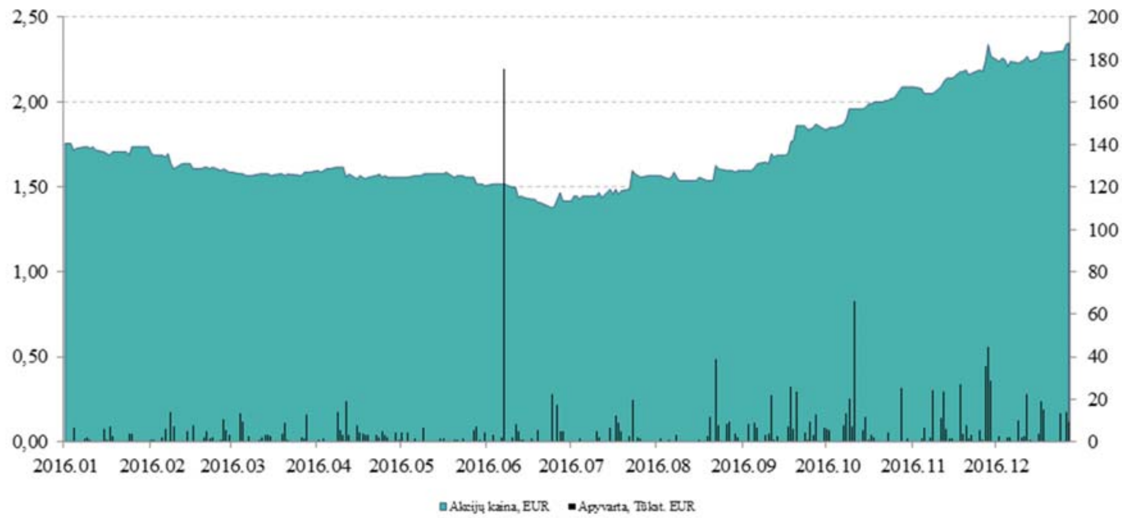
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Gintaras Bertašius	6,067,206	51%	51%
Multi Asset Selection Fund	2,035,729	17%	17%
Minority shareholders	3,840,065	32%	32%
Total stock	**11,943,000**	**100%**	**100%**

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

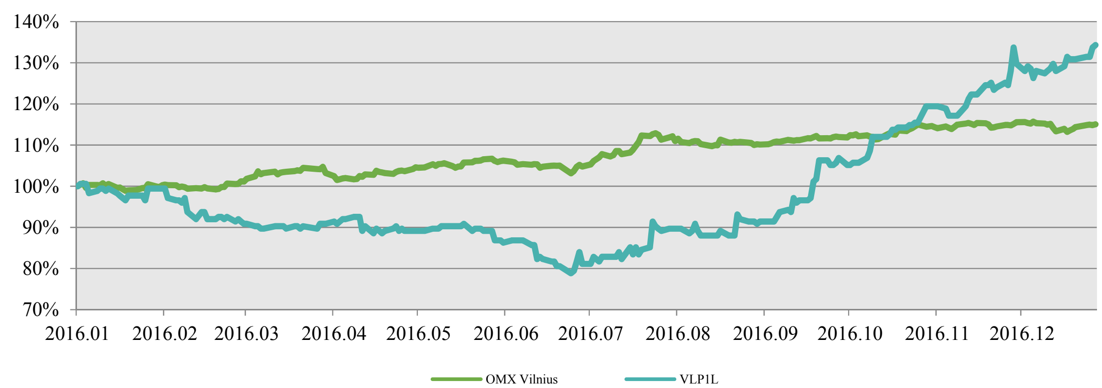
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

25. Trading in Issuer‘s Securities on Regulated Markets

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



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



26. Dividend

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

Dividend and amount of dividend

1. The Law on Public Companies of the Republic of Lithuania stipulates that the dividend constitutes a share of profit payable to a shareholder in proportion to the face value of the stock held by the shareholder.

2. The Company‘s shareholders cannot vote to pay a dividend at a general meeting of shareholders, if 1) the Company is insolvent 2) the distributed result for the fiscal year ended is negative 3) the Company‘s equity is smaller than the sum of its authorised capital and reserves, or in cases where it would become smaller following a dividend payout.

3. The Company‘s board shall submit to the General Meeting of Shareholders an amount of dividend based on the audited net profit result for the fiscal year ended.

4. If the Company has been profitable, the Company‘s board shall allocate a certain part of revenue for dividend as set out in Clause 2.6, reinvesting the rest of the revenue so as to increase the Company‘s capitalisation.

5. The Company shall pay dividend in cash.

6. The Company‘s board should establish the amount of dividend after taking into account the consolidated net profit of the Company for the year ended. The dividend amount must be not less than 25 percent of the consolidated net profit of the Company for the year ended, but not larger than the Company‘s annual consolidated net profit

7. The Company reserves the right to diverge from the criteria for the amount of dividend, provided it gives reasons for such divergence.

AB Vilkyškių Pieninė‘s dividend payments during 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	836,060	–
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

27. Employees

As at 31 December 2016, there were 550 employees working at *AB Vilkyškių Pieninė*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	7	5	2			3,617
Specialists	152	79	44	29		937
Workers	391	24	130	207	30	589
	550	**108**	**176**	**236**	**30**	**717**

On 31 December 2015, there were 561 employees working at *AB Vilkyškių Pieninė*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	6	4	2			3,505
Specialists	145	81	48	16		839
Workers	410	17	208	171	14	561
	561	**102**	**258**	**187**	**14**	**684**

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

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

The general meeting of shareholders has authorised the Company‘s Board to conduct acquisition of the Company‘s own shares. The Board 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.

29. Issuer‘s Governing Bodies

According to the Articles of Association of *AB Vilkyškių pieninė,* the Company‘s governing bodies are the General Meeting of Shareholders, the Board and the 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.

30. Procedure of Amendments to Company Articles

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

31. Activities of the Board

In the course of 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.

32. Board Members

Gintaras Bertašius (born1964) – 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 (born1964) – 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 Milaševičiutė (born 1965) – a Board Member since 30 April 2009, re-elected for a four-year term on 25 April 2014. Has higher education in finance and credit. 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.

Linas Strėlis (born 1968) – a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has higher education. 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 INVL Asset Management, Council chairman at IPAS „INVL Asset Management, Chairman of the board at UAB FMĮ INVL Finasta, CEO of *UAB GP1*, CEO of *UAB GP2*, CEO of *UAB Piola*. As of 31 December 2016, did not have any shares in *AB Vilkyškių pieninė.*

33. Members of Administration

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

Rita Juodikienė (born 1975) – Chief Management and Quality Officer, working at the Company since 2002. Has higher education – master's degree in business management. Has no seats in other companies' governing bodies.

A total of EUR 186,000 in remuneration were paid out to *AB Vilkyškių Pieninė* board members in 2016, on average EUR 31,000 per member. The remuneration to the CEO and CFO totaled EUR 101,1 or EUR 50,5 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.

34. Committees

Members of the Audit Committee: Aušra Lobinienė (Head of internal audit at Tauragė Credit Union), 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, four meetings of the Audit Committee were held. They discussed and approved the following: the Company's financial statements for 2015, the draft annual report for 2015, the draft profit distribution report for 2015, an internal audit plan for 2016, the budget for the year 2016 and salaries of the Company's employees. Each meeting was attended by all members of the Committee.

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

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

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

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

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

Information about transactions with parties that are related to the Company has been included in the *AB Vilkyškių pieninė* financial statements for the year ended 31 December 2016, in Chapter 26.

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

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

IV. Information About Compliance to Management Code

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

V. INFORMATION ON DISCLOSURES

On the 10th day of each month, sales figures for the preceding months are published. A report has been published on an ordinary meeting of shareholders, as well as reports on the annual and interim results and the following report 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 Vilkyškių Pieninė AB concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2016

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

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

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

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

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

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

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

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

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

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

interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member		

of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[6]. The general shareholders'	Yes	Members of the Management Board are paid tantjems for their service on the Management Board.

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

meeting should approve the amount of such remuneration.		
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting. The Board also submits recommendations and suggestions to the head of administration.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Basing on company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	In the year 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.
	Yes	

[7] See Footnote 3.

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

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

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.		The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes	In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion. Remuneration committee ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.
4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial	Yes	*Vilkyškių Pieninė* AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee.

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

body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The key objective of the Nomination and Remuneration Committee is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to	Yes	Each committee of the company is composed of 3 members.

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

ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The activity of Nomination and Remuneration Committee is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee is approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.	Yes	The functions of nomination committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

4.12.2. 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.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock	Yes	The functions of Remuneration committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation	Yes	The company substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control. Audit committee ensures effectiveness of internal audit function as well.

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 centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and	No	The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity.

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.		
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Board meetings are organised once per month.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12].	Yes	The chairperson of the Management Board heads up the meetings of the Management Board. The employee of the company organizes the work of the Management Board by order of the chairperson of the Management Board. Meetings of the Management Board are organised once per month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Each member of the management body may take the cognizance of the issues on the agenda of the meeting before the day of the meeting. Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and

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

		which may include specialists who are not the employees of the company.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary registered shares that grant the same personal property and not-property right to all holders of company's shares.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Important transactions are approved following the order set in the Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue,	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an agreement on the transfer

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

date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.		of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	No late that 21 day before the General Shareholders' Meeting, shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. If the shareholder requests in writing, chief executive office of the Company no later than 3 days from the receipt of a written request hands in all draft decisions of the meeting to the shareholder against the signature and sends by registered mail. The draft decisions should be referred to whose initiative they are involved. If the initiator of the draft decision submitted the explanations of the draft decision, these are attached to the draft decision. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ OMX Vilnius in Lithuanian and English languages: 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not apply the means of modern technologies.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within	Yes	The members of the Management Board avoid situations of a conflict of personal and company's interests.

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

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

attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	
	Not applicable	

8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.		
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
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.	Ne	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.13. Shares should not vest for at least three years after their award.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	The salary for the CEO is established by the decision of the Management Board.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant	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.

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

company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Each stakeholder may participate in the management of the company and have access to relevant information.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	Each stakeholder may participate in the management of the company as prescribed by legislation.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) The management structure and strategy of the company. This list should be deemed as a minimum recommendation, while the companies are	Yes, except for salary information provided in point 4	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company. When disclosing the information set in item 1 of Recommendation 10.1, a company, which is the parent of other companies, discloses the information regarding the

encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes Yes Not applicable	consolidated results of the whole group to which the company belongs. Except for information on salaries.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The company presents the information via the information disclosure system applied by NASDAQ OMX Vilnius simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavours to announce the information before or after a trading session on NASDAQ OMX Vilnius and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have an impact on the price of its issued stocks and does not disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users, and **in cases prescribed by law – a free-of-charge** access to the information. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The company publicly announces all the essential information (in Lithuanian and English languages) on the website of the company, thus ensuring fair, timely and cost-efficient access to relevant information.

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