

**Pieno Žvaigždės, AB**

Financial statements for the  
year ended 31 December 2017

## **Table of contents**

Company details	1
Management's Statement on the Financial Statements	2
Independent Auditor's Report	3
Statement of Comprehensive Income for the Year Ended 31 December	11
Statement of Financial Position at 31 December	12
Statement of Changes in Equity	13
Statement of Cash Flows	14
Notes to the Financial Statements	15
Confirmation of the Management	56
ANNUAL MANAGEMENT REPORT FOR THE YEAR 2017	57

## **Company details**

### **Pieno Žvaigždės, AB**

Telephone: +370 5 246 1414  
Telefax: +370 5 246 1415  
Company code: 124665536  
Registered at: Perkūnkiemio St. 3, Vilnius, Lithuania

### **Board**

Vitalis Paškevičius  
Voldemaras Klovas  
Julius Kvaraciejus  
Aleksandr Smagin  
Gžegož Rogoža  
Regina Kvaraciejienė  
Artiom Smagin

### **Management**

Aleksandr Smagin, General Director

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas  
Swedbank, AB  
AB Luminor Bankas

## **Management's Statement on the Financial Statements**

The Board and Management have today discussed and authorized for issue the financial statements and signed them on behalf of the Company.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the financial statements present fairly the Company's financial position, financial performance and cash flows as to International Financial Reporting Standards as adopted by the European Union.

We recommend the financial statements to be approved at the General Shareholders' Meeting.

Vilnius, 25 April 2018

### **Management:**



-----  
Aleksandr Smagin  
General Director



-----  
Audrius Statulevičius  
Finance Director



**KPMG Baltics, UAB**  
Konstitucijos Ave 29  
LT-08105, Vilnius  
Lithuania

Phone: +370 5 2102600  
Fax: +370 5 2102659  
E-mail: vilnius@kpmg.lt  
Website: kpmg.com/lt

# Independent Auditor's Report

To the Shareholders of Pieno Žvaigždės, AB

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Pieno Žvaigždės, AB ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its 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 Audit of Financial Statements 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. Each audit matter and our respective response are described below.

## Impairment of property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2017: EUR 44,839 thousand; impairment loss recognized in 2017: nil; accumulated impairment loss as at 31 December 2017: nil.

We refer to the financial statements: Significant accounting policies – „Property, plant and equipment“, Significant accounting policies – „Impairment“ and Note 8 „Property, plant and equipment“.

### *The key audit matter*

During 2015-2017, the Company faced a number of challenges in the markets in which its primary business activities are conducted. These challenges, primarily related to the trade sanctions imposed by Russia, which were still in effect in 2017, resulted in export sales significantly below their levels prior to trade sanctions, and decreasing domestic sales. The Company's profitability also depressed as a result.

The above represented an indication that certain of Company's assets may be impaired. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or its cash-generating unit) exceeds the recoverable amount.

Determining the recoverable amounts is a process which requires a number of significant judgments and estimates, especially in respect of the amounts of future cash flows and associated discount rates and growth rates based on management's projections of future performance and prospects.

The projected operating cash flows from the Company's activities are influenced primarily by assumptions concerning sales volumes and prices of sold products as well as level of main production costs, primarily in respect of raw materials. These projections are exposed to significant variability due to changing market conditions.

Given the above, we consider the area being a key audit matter.

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

Our procedures included, among others:

- Assessing design and implementation of internal controls designed for identification of impairment indicators;
- Evaluating the appropriateness of the Company's judgments regarding identification of individual assets or cash generating units which may be impaired;
- Evaluating the appropriateness of allocation of assets to cash generating units based on our understanding of the Company's operations and business units;
- Critically assessing the Company's assumptions and estimates used to determine the recoverable amount of property, plant and equipment, using our own valuations specialists. This included:
  - assessing the reasonableness of key macroeconomic assumptions applied (including those relating to discount rates and inflation rate) against market data derived from analyst and industry reports;
  - comparing non-market model inputs, such as forecasts of revenue and costs to actual performance currently being achieved;
  - testing the Company's discounted cash flows model, in terms of its compliance with the relevant accounting standards;
- 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.

## Valuation of inventories

The carrying amount of inventories as at 31 December 2017: EUR 16,078 thousand; expense due to write-down of inventories recognized in 2017: EUR 1 219 thousand.

We refer to the financial statements: Significant accounting policies – „Inventories“ and Note 11 “Inventories”.

### *The key audit matter*

The Company is primarily engaged in production and distribution of dairy products to customers in Lithuania and other EU countries. Prior to 2015, one of the largest markets for the Company’s products was that of the Russian Federation. Since that year, however, due to the trade sanctions imposed, this market has no longer been available. Development in the new markets poses greater risk that packaging materials specifically designed and acquired for the new market will not be fully utilized. Also, certain products, such as milk powder, are commodities which can be subject to significant market price volatility.

At each reporting date, as required by relevant accounting standards, the Company 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 and sales projections. In addition, all of the Company’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 movements recognized in profit or loss.

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

Our procedures included, among others:

- Testing design and implementation of internal controls over inventory valuation, including those over the identification of obsolete and slow moving inventory items and the estimation of their expected net realizable values;
- 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 utilization projections for slow moving and obsolete inventory, by reference to our knowledge of the Company’s business and industry, which included, among others, evaluation of management’s plans for alternative use of packaging materials earmarked for the specific market, in products sold in other markets;
- Challenging any significant aged inventory items in order to assess completeness of the write down;
- Evaluating management’s historical ability to estimate the required inventory obsolescence write down by comparing write-offs during the year to the prior period write down;
- For a sample of products, assessing 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, as evidenced by product inventories delivery to customers expenses;
- Assessing the adequacy of the Company’s disclosures about the degree of estimation involved in arriving at the net realizable value of inventory and the related write down.

## Customer incentive arrangements

We refer to the financial statements: Significant accounting policies – „Revenue“ and Note 1 “Operating segments”.

### *The key audit matter*

Revenue is measured taking account of rebates and incentives earned by customers on the Company’s sales. Accordingly, the amount of revenue for the year ended 31 December 2017 of EUR 167,753 thousand is reported net of these customer incentives whose effects are significant to the profit or loss for the period.

Due to the multitude and variety of contractual terms involved, the estimation of such discounts, incentives and rebates recognized based on sales made during the year is considered to be complex. There is a large number of individual customer arrangements for the Company to monitor and there is a risk over the incorrect inclusion or non-inclusion of sales incentives in the current period and year-end accruals, or incorrect calculation of the amounts recorded. Accruals for incentives are not all confirmed by customers at the reporting date, albeit rebate measurement periods are retrospective and in most cases coterminous with the 31 December year-end.

Significant audit effort was therefore required to obtain sufficient evidence that there was no material misstatement in this regard.

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

Our procedures included, among others:

- Assessing design and implementation of internal controls over the process of estimating and accounting for customer rebates and incentives;
- For a sample of key customers, inspecting respective contractual terms and independently recalculating the amounts of incentives due by reference to those terms, and also considering post year-end credit notes and payments;
- Through representations obtained from the Company’s management and inspection of minutes of the Board of directors meetings, assessing the completeness of the list of agreements with customers provided to us by the Company;
- Obtaining confirmations of amounts due with a sample of customers, and investigating any significant differences between confirmations received and the Company’s records;
- Selecting a sample of rebate and incentive payments made after the period end and checking that, where appropriate, they were accrued in the financial statements.



## Going concern basis of accounting

We refer to the financial statements: Significant accounting policies – „Basis of preparation“ and Note 16 “Interest bearing loans and borrowings”.

### *The key audit matter*

The Company’s financial statements are prepared on a going concern basis. In 2017, mostly due to a significant increase in raw milk purchase price and resulting decrease of profitability of products in all markets, the Company has incurred net loss in the amount of EUR 1.7 million. Furthermore, the Company as at 31 December 2017 has not complied with one of the financial covenants stated in the agreements with banks. Due to this, all bank loans have been reclassified to current liabilities as at 31 December 2017 which resulted in a net current liability position in the amount of EUR 20.5 million. Therefore the management prepared an assessment of the going concern basis of accounting.

The Company’s going concern assessment was based on cash flow forecasts, which, in management’s view, support the assertion that the Company will have sufficient resources to continue as a going concern in the foreseeable future. The preparation of these forecasts incorporated a number of assumptions and significant judgment. On 12 April 2018 the Company obtained a waiver from the banks that no sanctions prescribed in the loan agreements will be applied for the above mentioned non-compliance with the financial covenant as at 31 December 2017. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The Company’s use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Company’s plans for future actions and their financial impact.

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

Our procedures included, among others:

- discussing with the management board members their plans for future actions in relation to the going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management’s plans are feasible in the circumstances;
- analysing the Company’s net working capital position as at 31 December 2017 to assess the availability of liquid funds to settle short-term financial obligations;
- evaluating the reliability of the cash flow forecasts used by the Company in its going concern assessment by, among others, comparing the forecast cash operating costs with those incurred historically, analysing actual results in the first quarter 2018 and comparing them to those stated in the forecasts for the same period, and challenging the key assumptions and judgements with most significant impact on these forecasts, including:
  - forecast income by product category;
  - forecast operating costs;
  - forecast financing cash flows.
- considering whether any additional facts or information have become available since the date on which the Company made its assessment;
- assessing the existence of the Company’s undrawn credit facilities by inspecting agreements with the banks and re-performing the Company’s calculations which indicated that the forecasts involved no breaches of the covenants;
- evaluating whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about the events or conditions that had been identified that may cast significant doubt on the entity’s ability to continue as a going concern.

## Other Information

The other information comprises the information included in the Company's annual management report, including Corporate Governance statement, and the Social Responsibility report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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.

In addition, our responsibility is to consider whether information included in the Company's annual report, including Corporate Governance statement, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report, including Corporate Governance Statement, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Company's annual report, including Corporate Governance statement, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Company's annual report, including Corporate Governance statement, has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, 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 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 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 scepticism 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 have to 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.

## Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed in 2003 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed every two years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 15 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and its Audit Committee together with this independent auditor's report.

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of financial statements.

On behalf of KPMG Baltics, UAB



Domantas Debulis  
Partner pp  
Certified Auditor

Vilnius, the Republic of Lithuania  
25 April 2018

## Statement of Comprehensive Income for the Year Ended 31 December

thousand EUR	Note	2017	2016 Restated*
Revenue	1	167,753	150,126
Cost of sales	3	(140,478)	(118,627)
<b>Gross profit</b>	1	<b>27,275</b>	<b>31,499</b>
Other operating income	2	436	490
Other operating expenses	2	(140)	(297)
Selling and distribution expenses	3	(18,017)	(17,360)
Administrative expenses	3	(12,221)	(11,564)
<b>Operating profit (loss)</b>		<b>(2,667)</b>	<b>2,768</b>
Finance income	4	196	34
Finance expenses	5	(918)	(1,028)
<b>Finance expenses, net</b>		<b>(722)</b>	<b>(994)</b>
<b>Profit (loss) before taxes</b>		<b>(3,389)</b>	<b>1,774</b>
Income tax expenses	6	1,661	63
<b>Profit (loss) for the year</b>		<b>(1,728)</b>	<b>1,837</b>
<b>Total other comprehensive income, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>(1,728)</b>	<b>1,837</b>
Basic earnings per share (EUR)	7	(0.04)	0.04
Diluted earnings per share (EUR)	7	(0.04)	0.04

\*Refer to Note 26.

The Notes, set out on pages 15 to 55, are an integral part of these financial statements.

## Statement of Financial Position at 31 December

thousand EUR	Note	31-12-2017	31-12-2016 Restated*	01-01-2016 Restated*
<b>Assets</b>				
Property, plant and equipment	8	44,839	46,230	48,352
Intangible assets	9	101	93	72
Investments available for sale	10	22	22	80
Long-term receivables	12	636	282	290
Deferred income tax	18	441	280	234
<b>Total non-current assets</b>		<b>46,039</b>	<b>46,907</b>	<b>49,028</b>
Inventories	11	16,078	12,629	14,293
Current tax assets	12	440	845	-
Receivables and other assets	12	12,463	13,682	12,609
Cash and cash equivalents	13	256	841	551
<b>Total current assets</b>		<b>29,237</b>	<b>27,997</b>	<b>27,453</b>
<b>Total assets</b>		<b>75,276</b>	<b>74,904</b>	<b>76,481</b>
<b>Equity</b>				
Share capital		13,089	13,089	14,394
Share premium		7,891	7,891	7,891
Reserves		2,200	2,130	9,030
Treasury shares		-	-	(6,660)
Retained earnings		752	6,495	5,479
<b>Total equity</b>	14	<b>23,932</b>	<b>29,605</b>	<b>30,134</b>
<b>Liabilities</b>				
Government grants	15	593	689	930
Interest-bearing loans and borrowings	16	37	22,450	26,200
Employee benefits	17	784	784	784
Deferred income tax	18	-	-	-
Trade and other payable amounts	19	227	-	-
<b>Total non-current liabilities</b>		<b>1,641</b>	<b>23,923</b>	<b>27,914</b>
Derivatives	20	208	330	187
Interest-bearing loans and borrowings	16	32,484	6,013	4,600
Trade and other amounts payable	19	17,011	15,033	13,578
Income tax payable		-	-	68
<b>Total current liabilities</b>		<b>49,703</b>	<b>21,376</b>	<b>18,433</b>
<b>Total liabilities</b>		<b>51,344</b>	<b>45,299</b>	<b>46,347</b>
<b>Total equity and liabilities</b>		<b>75,276</b>	<b>74,904</b>	<b>76,481</b>

\*Refer to Note 26.

The Notes, set out on pages 15 to 55, are an integral part of these financial statements.

## Statement of Changes in Equity

thousand EUR		Share capital	Share premium	Legal reserve	Treasury shares	Revaluation reserve	Other reserves	Retained earnings (losses)	Total equity
	Note								
As at 1 January 2016 as previously presented		14,394	7,891	1,570	(6,660)	3,088	7,460	4,437	32,180
Effect of changes in accounting policy	26	-	-	-	-	(3,088)	-	1,042	(2,046)
<b>Restated balance at 1 January 2016</b>		<b>14,394</b>	<b>7,891</b>	<b>1,570</b>	<b>(6,660)</b>	<b>-</b>	<b>7,460</b>	<b>5,479</b>	<b>30,134</b>
<b>Comprehensive income for the period (restated)</b>									
Net profit for 2016		-	-	-	-	-	-	1,837	1,837
Other comprehensive income		-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period (restated)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,837</b>	<b>1,837</b>
<b>Transactions with owners recognized directly in equity</b>									
Transfer to/from reserves		-	-	-	-	-	(1,545)	1,545	-
Dividends		-	-	-	-	-	-	(2,482)	(2,482)
Other income	23	-	-	-	-	-	-	116	116
Decrease in share capital	14	(1,305)	-	-	6,660	-	(5,355)	-	-
<b>Total transactions with owners</b>		<b>(1,305)</b>	<b>-</b>	<b>-</b>	<b>6,660</b>	<b>-</b>	<b>(6,900)</b>	<b>(821)</b>	<b>(2,366)</b>
<b>At 31 December 2016 (restated)</b>	14	<b>13,089</b>	<b>7,891</b>	<b>1,570</b>	<b>-</b>	<b>-</b>	<b>560</b>	<b>6,495</b>	<b>29,605</b>
As at 1 January 2017		13,089	7,891	1,570	-	-	560	6,495	29,605
<b>Comprehensive income for the period</b>									
Net loss for 2017		-	-	-	-	-	-	(1,728)	(1,728)
Other comprehensive income		-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,728)</b>	<b>(1,728)</b>
<b>Transactions with owners recognized directly in equity</b>									
Transfer to/from reserves		-	-	-	-	-	70	(70)	-
Dividends		-	-	-	-	-	-	(4,062)	(4,062)
Other income	23	-	-	-	-	-	-	117	117
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70</b>	<b>(4,015)</b>	<b>(3,945)</b>
<b>At 31 December 2017</b>	14	<b>13,089</b>	<b>7,891</b>	<b>1,570</b>	<b>-</b>	<b>-</b>	<b>630</b>	<b>752</b>	<b>23,932</b>

The Notes, set out on pages 15 to 55, are an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 31 December

thousand EUR	Note	2017	2016
<b>Cash flows from operating activities</b>			
Profit (loss) for the year		(1,728)	1,837*
Adjustments for:			
Depreciation and amortization	8, 9	7,390	7,618*
Amortization of government grants	15	(159)	(241)
Gain (loss) on disposal and write-off of property, plant and equipment		(33)	52*
Loss on disposal of available-for-sale investments		-	25
Doubtful and written down receivables	12	4	-
Change in vacation reserve	19	33	(16)
Expense related to write-down of inventories		1,219	539
Change in fair value of derivatives	20	(122)	143
Interest income/expenses, net	4,5	755	724
Income tax expense	6	(1,661)	(63)*
		<b>5,698</b>	<b>10,618</b>
Change in inventories		(4,668)	1,126
Change in receivables		1,200	(1,073)
Change in payables		2,916	861
<b>Cash flows from operating activities</b>		<b>5,146</b>	<b>11,532</b>
Interest paid		(789)	(740)
Income tax paid/received		650	(929)
<b>Net cash flow from operating activities</b>		<b>5,007</b>	<b>9,863</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	8	(5,563)	(5,172)
Acquisition of intangible assets	9	(59)	(65)
Proceeds from disposal of property, plant and equipment		136	382
Proceeds from disposal of available-for-sale investments		-	33
Issued/repaid loans		(339)	8
Interest received		34	9
<b>Net cash flow used in investing activities</b>		<b>(5,791)</b>	<b>(4,805)</b>
<b>Cash flows from financing activities</b>			
Loans received		10,070	4,600
Repayment of loans		(6,000)	(7,000)
Leasing payments		(12)	(9)
Government grants received		63	-
Dividends paid		(3,922)	(2,359)
<b>Net cash flow used in/from financing activities</b>		<b>199</b>	<b>(4,768)</b>
Change in cash and cash equivalents		(585)	290
Cash and cash equivalents at 1 January		841	551
<b>Cash and cash equivalents at 31 December</b>		<b>256</b>	<b>841</b>

\*Refer to Note 26.

The Notes, set out on pages 15 to 55, are an integral part of these financial statements.



## **Notes to the Financial Statements**

### **Background information**

The head office of Pieno Žvaigždės, AB (hereinafter “the Company”) is located in Perkūnkiemio St. 3, Vilnius, Lithuania. Pieno Žvaigždės, AB was established in 1998 by way of a merger of stock companies Mažeikių Pieninė, Pasvalio Sūrinė and Kauno Pienas.

The main office of the Company is located in Vilnius and the branches are in Mažeikiai, Pasvalys, Kaunas and Panevėžys.

All ordinary shares of the Company are quoted in the Vilnius Stock Exchange. There is no controlling entity or individual among the shareholders of Pieno Žvaigždės, AB.

The Company is engaged in production and sales of dairy products to retail stores directly and through distributors.

The average number of employees in 2017 was 1,735 (in 2016: 1,768 employees).

### **Significant accounting policies**

#### ***Statement of compliance***

The financial statements of Pieno Žvaigždės, AB have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The Board of the Company approved these financial statements on 25 April 2018. 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 preparation***

The financial statements are presented in the euro being the functional currency of the Company, and are prepared on the historical cost basis.

These financial statements have been prepared based on a going concern basis of accounting which assumes that the Company will be able to meet the contractual loan repayment obligations to creditors as disclosed in Note 16.

The Company in 2017 incurred a net loss of EUR 1,728 thousand. Main reason for incurring the net loss in 2017 is significantly higher purchase price of raw milk and resulting decrease of profitability of products in all markets. Gross margin in 2017 decreased to 16.3% as compared with gross margin of 21.0% in 2016.

As disclosed in note 16 the Company as at 31 December 2017 is not complying with the financial covenant set in the agreements with banks. Due to this, in the statement of financial position as at 31 December 2017 all bank loans are presented as current liabilities and this resulted in an excess of current liabilities over current assets by the amount of EUR 20,466 thousand.

On 12 April 2018 the Company obtained from banks a waiver confirmation that banks for the above stated violation of agreements agree not to impose sanctions prescribed in the loan agreements. Based on the results of the first quarter 2018, the Company complies with the financial covenants as at 31 March 2018.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Basis of preparation (continued)***

As disclosed in note 21, financial liabilities and related interest payable in 2018 according to contractual terms amount to EUR 8,569 thousand. The management of the Company believes that forecasted 2018 operating cash flows will be sufficient for the timely settlement of the mentioned obligations. Based on contracts signed with banks, the Company as at 31 March 2018 has available undrawn credit facilities of approximately 6 million EUR.

Liquidity management plans are based on improvement of the Company's financial results and agreements with banks regarding compliance with financial ratios.

In 2018 the Company expects to increase sales and profitability. Higher sales amount is related mainly with the sales growth in export markets. In 2017 installation of mocarela cheese production line was completed. During the year 2018 fine processing line of this cheese will be installed and it is expected that the new product will be sold with higher additional value.

In the first quarter 2018 the Company's EBITDA is higher than planned for this period. The result represents growing sales profitability in export markets and also in domestic market. In 2018 gross profitability is improving and the gross margin in the first quarter 2018 was 16% as compared to 13.5% gross margin for the same period in 2017.

Based on the above, the Company's management is of the opinion that going concern basis of accounting is appropriate and there are no material uncertainties related to going concern.

The preparation of financial statements in conformity with IFRSs, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management in the application of IFRSs as adopted by the EU that have significant effect on the financial statements are discussed on page 30.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Foreign currency transactions***

Transactions in foreign currencies are translated to the euro at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the euro at the foreign exchange rate ruling at the date of the statement of financial position. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the euro at foreign exchange rates ruling at the dates the fair value was determined.

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

##### *Owned assets*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Land is stated at cost less impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to asset acquisition and condition necessary for it to be capable of operating.

Borrowing costs that are directly attributable to the acquisition, construction or production of an item of property, plant and equipment where substantial period of time is necessary to get ready the asset for its intended use, are capitalized as part of cost of the asset.

Cost of self-constructed property, plant and equipment includes costs related to materials and direct labour costs as well as related indirect costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their expected useful lifetime.

Useful lives, residual amounts and depreciation methods are reviewed at each reporting date.

##### *Leased assets*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are recognized as assets of the Company and are stated at the lower of their fair value in the beginning of the lease and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

##### *Subsequent expenditure*

Costs incurred when replacing a component part of an item of property, plant and equipment are capitalized only upon write-off of the carrying amount of the component and if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the component part can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Property, plant and equipment (continued)***

##### *Depreciation*

Depreciation (except for land which is not depreciated) is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buildings 20–40 years;
- machinery and equipment 5–12 years;
- vehicles and other non-current asset 4–20 years.

##### ***Intangible assets***

Intangible assets with a definite useful life acquired by the Company are stated at cost less accumulated amortization and impairment losses.

Costs related to internally generated goodwill and trademarks are recognized in profit or loss as costs when incurred.

##### *Subsequent expenditure*

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

##### *Amortization*

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives are 1 to 3 years.

##### ***Financial instruments***

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

##### *Derivative financial instruments*

The Company holds derivative financial instruments to hedge its interest rate risk exposure. Derivatives are recognized initially at fair value: attributable transaction costs are recognized in profit or loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit and loss.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### *Financial instruments (continued)*

##### *Investments in equity securities*

Investments in equity securities are classified as available-for-sale and at initial recognition are stated at fair value plus attributable transaction costs. Subsequently the investments are revalued to fair value carrying the gain or loss on their revaluation through other comprehensive income to equity. Impairment losses, if any, are included in profit or loss if the fair value decline is considered to be prolonged or significant. When the investments are sold, the accrued gain or loss previously recognized under equity, is recognized in the profit or loss. If the fair value cannot be determined reliably, the investments in equity securities are stated at cost less impairment losses.

The fair value of financial instruments available for sale is their quoted price at the reporting date.

Financial instruments classified as available-for-sale are recognized / derecognized by the Company on the date it commits to purchase/sell the instruments.

##### *Other financial instruments*

Trade receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables and other receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or origination of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method, less impairment, if any. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to carrying amount of the financial asset and liability. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less transaction costs. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Other liabilities are initially recognized at fair value less any directly attributable transaction costs and are subsequently measured at amortized cost. Short-term liabilities are not discounted.

##### *Fair value of financial instruments*

The fair value of financial instruments traded in financial markets is established considering the quoted market prices. Bid prices are used for valuation of assets and ask prices are used for liabilities. The Company uses other methods to establish fair value for all other financial instruments.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Financial instruments (continued)***

##### *Fair value of financial instruments (continued)*

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). This category includes: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not that active and other valuation techniques for which all significant inputs are directly or indirectly based on observable market data.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) and that significantly affect valuation of instruments. Unobservable inputs include instruments valued based on quoted prices for similar instruments; for the purpose of reflecting the differences between the instruments, significant unobservable adjustments or assumptions are required.

The fair value of interest-bearing financial instrument is established after valuation of cash flows discounted using market interest rates applied to similar instruments. If fair value of a financial asset and liability differs significantly from their carrying amount, it is disclosed separately in the notes to the financial statements.

The Company uses valuation techniques maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs for prices that are not quoted in active market. The chosen technique includes all the factors to be considered by market participants when estimating the price at which a transaction would take place.

Usually, the best source for the fair value of a financial asset or liability on initial recognition is the transaction price, i.e. the fair value of a payment made or received. If the Company finds that on initial recognition the fair value differs from the transaction price and that it cannot be confirmed neither by the quoted price in active market for identical assets and liabilities nor by the valuation technique using observable inputs, on initial recognition the financial instrument is valued at fair value adjusted with deferred difference between the fair value on initial recognition and transaction price. Subsequently, the difference is recognized in profit or loss over the life of the instrument, but not after valuation is fully based on observable market data or transaction is completed.

#### ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

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

Cash includes cash on hand and cash in 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 purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in banks, and deposits, the term of which on the contract conclusion date is 3 months or less.

#### ***Impairment***

##### *Impairment of non-financial assets*

The carrying amounts of the Company's assets, other than inventories and deferred tax asset, are reviewed at each reporting date in order to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognized in profit (loss).

##### *Impairment of financial assets*

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognized through other comprehensive income to equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in equity is recognized in profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

##### *Calculation of recoverable amount*

The recoverable amount of 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).

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset reasonably belongs. The Company has the following cash-generating units:

- assets related to operating segments of dry dairy products and cheese,
- assets related to operating segments of fresh dairy products and other undisclosed segments

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Impairment (continued)***

##### *Reversals of impairment*

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

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of comprehensive income.

Impairment of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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, net of depreciation or amortization, if no impairment loss had been recognized.

#### ***Acquisition of treasury shares***

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a separate line item in equity.

#### ***Dividends***

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

Withholding taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

#### ***Provisions***

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognized. When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognized as financial expenses.

#### ***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, payable holidays and other benefits. All pension obligations are borne by the State.



## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Employee benefits (continued)***

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is firmly committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Under the remuneration plans employees are entitled to jubilee bonuses as well as retirement benefits. Each employee of the Company leaving the Company on the normal retirement date is entitled to a benefit equal to 2 monthly wages, as stipulated in the legal acts of the Republic of Lithuania. The jubilee bonuses are paid to employees who have reached 50 and 60 years old.

Provisions for jubilee bonuses and retirement benefits are calculated individually for each entitled individual. The base for the calculation of provision for an employee is expected benefit which the Company is obliged to pay in accordance with internal policy and regulation. The present value of these obligations is estimated at the end of each reporting year.

The Company recognizes the liability in the statement of financial position under non-current liabilities and reflects the current value of the benefits at the date of the statement of financial position.

#### ***Revenue***

##### ***Goods sold and services rendered***

Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed on the basis of work done. Rental income is recognized in profit or loss on a straight-line basis over the term of the lease.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods exists or where substantial risks and rewards cannot be considered as transferred to the buyer.

##### ***Government grants***

A government grant is recognized in the statement of financial position when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Government grants intended to compensate the Company for expenses incurred are recognized as other income in profit or loss in the same periods in which the expenses are incurred. Government grants that compensate the Company for the cost of an asset are recognized in other income on a systematic basis over the useful life of the asset.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Costs***

##### *Operating lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

##### *Other operating income and expenses*

Other operating income and charges comprise gains and losses from sale of property, plant and equipment, and other items, which are not directly related to the primary activities of the Company.

##### *Finance income and finance expenses*

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses (net value). The interest expense component of finance lease payments is recognized in profit or loss using the effective interest rate method. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income comprises interest receivable on funds invested, dividend income and foreign exchange gains (net value). Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized in profit or loss on the date the right to receive payments is established.

#### ***Income tax***

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is 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.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Basic and diluted earnings per share***

Basic earnings per share are calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares. As there are no instruments that dilute equity, the basic and diluted earnings per share do not differ.

#### ***Segments***

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including transactions with other segments), whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segmentation principles are presented in Note 1.

#### ***Financial risk management***

In its activities the Company is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. General risk management policy establishment and supervision is the responsibility of the Board. Risk management policy was set up in order to identify and analyse risks facing the Company, and determine risk acceptance limits. Risk management policy and processes are reviewed regularly considering changes in the markets and activities of the Company. The Company, applying learning and management standards and procedures, aims to establish constructive control environment where all employees clearly realize their functions and responsibilities. The Company's management pays the greatest attention to unpredictability of financial markets and aims to decrease its eventual impact on the Company's financial performance. From time to time the Company can use derivative financial instruments in order to hedge certain risks.

##### ***a) 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.

##### **Currency risk**

Currency risk relates to sales and receivables, purchases and payables, borrowings and borrowing costs denominated in currencies other than EUR. There are no material monetary items denominated in currencies other than the EUR.

##### **Interest rate risk**

The Company's borrowings are subject to variable interest rates, related to EURIBOR. The cash flow sensitivity analysis is presented in Note 21.

The Company does not hold significant issued loans or receivable amounts with fixed interest rates presented at fair value. However, the Company faces the fair value interest rate risk arising from interest swap transactions, refer to Note 20.

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Financial risk management (continued)***

##### ***b) Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company has established procedures ensuring that sales are made to customers having a proper credit history without exceeding the limit of credit risk set by management. The company has a significant concentration of credit risk on the basis of individual customers, which is disclosed in Note 21. The carrying amount of financial assets represents the maximum credit exposure, refer to Note 21.

##### ***c) Liquidity risk***

A conservative management of liquidity risk enables the company to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities. Liquidity risk analysis is presented in Note 21.

#### ***Capital management***

The Board's policy is to keep the shareholders' equity over borrowings at the level to maintain the confidence of investors, creditors and the market and to fund business development opportunities in the future. The Board keeps track on the ratios of capital return and makes suggestions regarding proposed dividends.

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

According to the Companies Law of the Republic of Lithuania, the Company's equity shall be not less than 50% of its share capital.

#### ***Impact of the new standards, new interpretations and amendments on the financial statements***

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

As of 1 January 2017, the Company has adopted new standards and amendments to standards, including any consequential amendments to other standards.

#### ***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 started on 1 January 2017 and have not been applied in preparing these financial statements. The Company is planning to adopt these standards when enforced.

## Notes to the Financial Statements

### Significant accounting policies (continued)

*Standards, interpretations and amendments to published standards that are not yet effective (continued)*

***IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) (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 recognize revenue, and at what amount. The new model specifies that revenue should be recognized 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 recognized:

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

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

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognized at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognizing the cumulative effect of initially applying the standard at the date of initial application).

Upon completion of analysis, the management considers that on initial application of the standard there will be no significant impact on the financial statements. Possible impact is related to marketing services which the Company purchases from its clients. Total value of these services in 2017 amounted to approximately EUR 1,482 thousand and which starting from 1 January 2018 will be presented as reduction of revenue and not as sales and distribution expenses. Upon first application of this accounting principle the decision may still be reviewed.

## Notes to the Financial Statements

### Significant accounting policies (continued)

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

**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 until the standard resulting from the IASB's project in macro hedge accounting is effective.

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

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

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

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

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognized in profit or loss in the same manner as for amortized cost assets. Other gains and losses are recognized 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 a forward-looking 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognized. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

## Notes to the Financial Statements

### Significant accounting policies (continued)

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

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 to have material impact on the financial statements. The classification and measurement of the Company's financial instruments are not expected to change significantly under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds.

***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.)

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 recognize 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, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

The Company has made an initial assessment of the new Standard, but has not yet completed a detailed analysis. The impact of IFRS 16 on the financial statements in the first period of application will depend on future economic environment, including the borrowing costs of the Company as at 1 January 2019, the structure of the lease portfolio at that date and the Company's decisions on application of practical expedients and recognition exemptions.

So far, it has been determined that the Company will have to recognize new assets and liabilities, related to operating lease of premises and transport vehicles, loaders and other assets. As at 31 December 2017, the future minimum not discounted lease payments of the mentioned assets under non-cancellable lease agreements amount to 1,656 thousand EUR (refer to Note 16).

## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

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

In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's finance leases.

#### ***Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)***

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 recognized 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 recognized 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 Company does not expect that the amendments, when initially applied, will have impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

#### ***IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)***

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company expects that the amendments, when initially applied, will not have any impact on the presentation of the financial statements because the Company does not operate in the insurance industry.

#### ***Critical accounting estimates and judgments***

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 definition, seldom equate to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.



## **Notes to the Financial Statements**

### **Significant accounting policies (continued)**

#### ***Critical accounting estimates and judgments (continued)***

##### *Impairment of property, plant and equipment*

The Company at the end of each reporting period assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

##### *Fair value of financial instruments*

As at 31 December 2017 and as at 31 December 2016, the Company's financial instruments at fair value consisted of interest rate swap with a bank. Principles for determination of the fair value are presented in Note 21.

##### *Impairment of receivables*

The Company reviews its receivables individually to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognized, 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 an individual debtor, e.g. adverse change in the payment status of the debtor, etc.

##### *Valuation of inventories*

At least on a quarterly basis, the Company 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 and sales projections. In addition, all of the Company's product inventories are tested for potential decline of their expected selling prices below cost.

##### *Useful lives of intangible assets and property, plant and equipment*

Useful lives of the assets are reviewed at least annually. They are adjusted, if necessary, considering technological changes, expected future use of the asset and its present condition.

##### *Deferred income tax assets*

The Company recognizes deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits is probable. Management's judgments are based on internal budgets and forecasts.

##### *Long term employee benefits*

Recognition of provision for employee benefits requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the financial statements are disclosed in Note 17.

## Notes to the Financial Statements

### 1. Operating segments

#### *Basis for segmentation*

The Company produces and sells various types of dairy products. Financial performance is analyzed as per different types of dairy products.

Certain types of dairy products have similar economic characteristics. Given the fact, the dairy product types have been aggregated to reportable segments. Aggregation also includes evaluation of similarities of the dairy product types in respect to production process, customer type and geographical areas, methods of product distribution.

The Company has identified the following reportable segments: cheese, dry dairy products and fresh dairy products.

Management of the Company reviews internal management reports of reportable segments at least on a quarterly basis. Other operations include production of ice-cream, other produce and goods, and services. None of these segments met the quantitative thresholds for reportable segments in 2016 and 2017.

#### *Information about reportable segments*

Information on each reportable segment is presented below. The segment performance assessment is based on the segment's gross profit, since the management believes that this information is the most relevant for performance evaluation of respective segments. Segment information is prepared in accordance with the same accounting principles as used in the financial statements of the Company. Expenses related to write down of inventories are not included in the gross profit indicator (refer to Note 3).

#### **2017, in thousand EUR**

	Cheese	Dry dairy products	Fresh dairy products	<b>Total reportable segments</b>	All other segments	<b>Total</b>
Revenue	36,095	9,076	114,986	<b>160,157</b>	7,596	<b>167,753</b>
Gross profit	3,082	(771)	22,977	<b>25,288</b>	1,987	<b>27,275</b>
Depreciation and amortization	(1,458)	(390)	(3,716)	<b>(5,564)</b>	(422)	<b>(5,986)</b>
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	-	-	-
Revaluation and write down of inventories	37	(1,001)	(247)	<b>(1,211)</b>	(8)	<b>(1,219)</b>
Capital expenditure	2,948	-	1,941	<b>4,889</b>	1,222	<b>6,111</b>

## Notes to the Financial Statements

### 1. Operating segments (continued)

2016, in thousand EUR

	Cheese	Dry dairy products	Fresh dairy products	Total reportable segments	All other segments	Total
Revenue	29,157	9,131	105,491	143,779	6,347	150,126
Gross profit	3,168	(1,346)	28,057*	29,879*	1,620	31,499*
Depreciation and amortization	(1,384)	(434)	(3,973)*	(5,791)*	(483)	(6,274)*
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	-	-	-
Revaluation and write down of inventories	(114)	163	(418)	(369)	(170)	(539)
Capital expenditure	437	-	4,569	5,006	947	5,953

*Reconciliations of information on reportable segments to amounts specified in financial statements*

Revenue and gross profit of segments coincide with the amounts specified in the financial statements. Reconciliations of other items are presented below:

2017, in thousand EUR

	Total reportable segments	All other segments	Adjustments	Amounts as to financial statements
Depreciation and amortization	(5,564)	(422)	(245)	(6,231)
Impairment of property, plant and equipment	-	-	-	-
Revaluation and write down of inventories	(1,211)	(8)	-	(1,219)
Capital expenditure	4,889	1,222	-	6,111

2016, in thousand EUR

	Total reportable segments	All other segments	Adjustments	Amounts as to financial statements
Depreciation and amortization	(5,791)*	(483)	(215)	(6,489)*
Impairment of property, plant and equipment	-	-	-	-
Revaluation and write down of inventories	(369)	(170)	-	(539)
Capital expenditure	5,006	947	-	5,953

\*Restated. Refer to Note 26.

## Notes to the Financial Statements

### 1. Operating segments (continued)

#### *Geographic information*

Geographic information specifies revenues and non-current assets of the Company as per Company's country and other countries. Revenue is presented based on the geographic location of customers, and non-current assets are presented according to their location.

<b>Revenue, in thousand EUR</b>	<b>2017</b>	<b>2016</b>
Lithuania	93,833	95,752
Italy	21,509	15,157
Latvia	9,716	8,502
Germany	6,699	3,902
Great Britain	3,306	3,306
USA	2,980	2,390
Other countries	29,710	21,117
<b>Total revenue</b>	<b>167,753</b>	<b>150,126</b>

<b>Non-current assets, in thousand EUR</b>	<b>31-12-2017</b>	<b>31-12-2016</b>
Lithuania	44,477	46,169*
Poland	463	154
Other countries	-	-
<b>Total non-current assets</b>	<b>44,940</b>	<b>46,323</b>

Financial instruments are excluded from the non-current assets.

\*Restated. Refer to Note 26.

#### *Major customers*

The Company has one customer from whom revenue related to cheese and fresh dairy products segments in 2017 made 19% of the total revenue.

The Company has one customer from whom revenue related to cheese and fresh dairy products segments in 2016 made 20.5% of the total revenue.

### 2. Other operating items

Other operating income:

thousand EUR	<b>2017</b>	<b>2016</b>
Income from rent and other services/goods	395	489
Net gain on disposal of property, plant and equipment	38	-*
Other	3	1
	<b>436</b>	<b>490*</b>

Other operating expenses:

thousand EUR	<b>2017</b>	<b>2016</b>
Expenses related to rent and other services/goods	(140)	(250)
Net loss from disposal of property, plant and equipment	-	(47)*
	<b>(140)</b>	<b>(297)*</b>

\*Restated. Refer to Note 26.

## Notes to the Financial Statements

### 3. Cost of sales, sales and distribution and administrative expenses

*Cost of sales:*

thousand EUR	2017	2016
Raw materials and consumables	(110,921)	(86,861)
Staff costs	(10,502)	(10,650)
Depreciation and amortization	(6,231)	(6,489)*
Other costs	(16,589)	(16,354)
Changes in finished goods and work in progress	3,765	1,727
	<b>(140,478)</b>	<b>(118,627)*</b>

*Sales and distribution and administrative expenses*

thousand EUR	2017	2016
Staff costs	(11,529)	(11,369)
Marketing and advertising	(2,656)	(2,663)
Depreciation and amortization	(1,159)	(1,129)*
Production delivery costs	(1,946)	(1,645)
Fuel	(1,655)	(1,590)
Various services	(1,482)	(1,281)
Materials and spare parts	(1,137)	(1,192)
Write down of inventories	(1,219)	(539)
Written off receivables	(4)	-
Development of new products	(505)	(415)
Taxes, except income tax	(477)	(538)
Utilities	(765)	(765)
Support	(531)	(481)
Insurance	(667)	(597)
Security costs	(562)	(591)
Repair	(534)	(658)
Operating lease (cars and equipment)	(860)	(762)
Other rent expenses	(696)	(625)
Communications	(178)	(175)
Payments to board members	(345)	(210)
Transport	(36)	(29)
Other	(1,295)	(1,670)
	<b>(30,238)</b>	<b>(28,924)*</b>
Sales and distribution expenses	(18,017)	(17,360)*
Administrative expenses	(12,221)	(11,564)*
	<b>(30,238)</b>	<b>(28,924)*</b>

## Notes to the Financial Statements

### 4. Finance income

thousand EUR	2017	2016
Interest	34	16
Currency exchange gain	-	18
Change in fair value of interest rate swap (gain)	122	-
Other finance income	40	-
<b>Total finance income</b>	<b>196</b>	<b>34</b>

### 5. Finance expenses

thousand EUR	2017	2016
Interest on loans	(789)	(740)
Change in fair value of interest rate swap (loss)	-	(143)
Loss from disposal of available-for-sale investments	-	(25)
Currency exchange losses	(32)	-
Other	(97)	(120)
<b>Total finance expenses</b>	<b>(918)</b>	<b>(1,028)</b>

### 6. Income tax expense

thousand EUR	2017	2016
Income tax for the current year	-	(356)
Adjustment of income tax for prior years	1,500	373
Change in deferred tax	161	46*
<b>Total income tax expenses</b>	<b>1,661</b>	<b>63*</b>

Income tax adjustments for prior years, recognized during the years 2017 and 2016, are mainly related to the tax incentive applied on investment projects.

#### *Reconciliation of effective tax rate*

Thousand EUR	2017		2016	
Profit before tax		<b>(3,389)</b>		<b>1 774*</b>
Income tax using the prevailing tax rate	(15%)	508	15%	(266)*
Non-deductible expenses	5.3%	(181)	6.5%	(115)
Non-taxable income	(0.5%)	18	-	-
Tax incentive (support)	-	-	(3.9%)	71
Adjustment of income tax for prior years	(44.3%)	1,500	(21.1%)	373
Current year tax losses, for which the deferred tax asset was not recognized	5.4%	(184)	-	-
	<b>(49.0%)</b>	<b>1,661</b>	<b>(3.5%)</b>	<b>63*</b>

\*Restated. Refer to Note 26.

## Notes to the Financial Statements

### 7. Earnings per share

Basic earnings per share is calculated dividing the net profit for the year by the average number of ordinary shares outstanding during the year.

	2017	2016
Number of shares in issue calculated using weighted average method, thousand units	45,134	45,134
Net result for the year, in thousand EUR	(1,728)	1,837*
Basic earnings per share, in EUR	(0.04)	0.04
Diluted earnings per share, in EUR	(0.04)	0.04

\*Restated. Refer to Note 26.

### 8. Property, plant and equipment

thousand EUR	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
<b>Cost</b>					
Balance at 1 January 2016, as previously presented	23,870	94,297	23,501	147	141,815
Effect of changes in accounting policy*	12,494	-	-	-	12,494
Acquisitions	-	4,702	728	458	5,888
Disposals and write-offs*	(1,565)	(1,254)	(1,058)	-	(3,877)
Re-classification	2,906	(2,394)	5	(517)	-
<b>Balance at 31 December 2016*</b>	<b>37,705</b>	<b>95,351</b>	<b>23,176</b>	<b>88</b>	<b>156,320</b>
Balance at 1 January 2017	37,705	95,351	23,176	88	156,320
Acquisitions	312	1,536	1,246	2,959	6,053
Disposals and write-offs	(116)	(848)	(1,416)	-	(2,380)
Re-classification	1,427	(451)	(976)	-	-
Transferred from construction in progress	-	1,688	-	(1,688)	-
<b>Balance at 31 December 2017</b>	<b>39,328</b>	<b>97,276</b>	<b>22,030</b>	<b>1,359</b>	<b>159,993</b>
<b>Depreciation and impairment loss</b>					
Balance at 1 January 2016, as previously presented	2,215	71,147	17,700	-	91,062
Effect of changes in accounting policy*	14,895	-	-	-	14,895
Depreciation for the year*	1,227	5,187	1,160	-	7,574
Depreciation of disposals*	(1,149)	(1,236)	(1,056)	-	(3,441)
Re-classification	1,615	(1,615)	-	-	-
<b>Balance at 31 December 2016*</b>	<b>18,803</b>	<b>73,483</b>	<b>17,804</b>	<b>-</b>	<b>110,090</b>
Balance at 1 January 2017	18,803	73,483	17,804	-	110,090
Depreciation for the year	1,372	4,808	1,159	-	7,339
Depreciation of disposals	(81)	(828)	(1,366)	-	(2,275)
Re-classification	1,223	(1,241)	18	-	-
<b>Balance at 31 December 2017</b>	<b>21,317</b>	<b>76,222</b>	<b>17,615</b>	<b>-</b>	<b>115,154</b>
<b>Carrying amounts</b>					
1 January 2016, as previously presented	21,655	23,150	5,801	147	50,753
1 January 2016*	19,254	23,150	5,801	147	48,352
31 December 2016*	18,902	21,868	5,372	88	46,230
<b>31 December 2017</b>	<b>18,011</b>	<b>21,054</b>	<b>4,415</b>	<b>1,359</b>	<b>44,839</b>

\*Restated. Refer to Note 26.

## Notes to the Financial Statements

### 8. Property, plant and equipment (continued)

#### *Pledges of property, plant and equipment*

Property, plant and equipment with a carrying amount of EUR 15,726 thousand as at 31 December 2017 (in 2016: EUR 17,300 thousand) have been pledged to secure the bank loans (Note 16).

#### *Depreciation*

Depreciation is included in the following items:

thousand EUR	2017	2016
Cost of sales	6,231	6,489*
Sales and distribution and administrative expenses	1,108	1,085*
	<b>7,339</b>	<b>7,574*</b>

\*Restated. Refer to Note 26.

Acquisition cost of fully depreciated property, plant and equipment still in use amounts to EUR 63,807 thousand as at 31 December 2017 (in 2016: EUR 61,546 thousand).

#### *Impairment of property, plant and equipment*

In 2017, due to ongoing trade sanctions, imposed by Russia, as well as a decrease in the Company's gross and net profit, the Company performed an impairment test for assets related to dry dairy products and cheese operating segments. The testing did not reveal any impairment of the mentioned assets.

The recoverable amount of the assets was based on their value in use, determined by discounting the forecasted future cash flows to be generated from continuing use of the assets. The recoverable amount of the assets was determined to be higher than their carrying amount.

The key assumptions used in the estimation of value in use were as follows: revenue growth per year (2018 to 2022) - 5%, discount rate – 8%, terminal growth rate – 1%. The budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

The management assessed impact of individual change of certain key assumptions on the amount of recoverable value. An increase of discount rate from 8% to 9% would result in the asset's value in use to be lower than carrying amount by 1.5 million EUR. A decrease of annual revenue growth from 5% to 3% during the forecasted period (2018 to 2022) would result in the asset's value in use to be lower than carrying amount by 4.7 million EUR.



## Notes to the Financial Statements

### 9. Intangible assets

thousand EUR	Software, etc.	Total
<b>Cost</b>		
Balance at 1 January 2016	1,107	1,107
Acquisitions	65	65
Write-offs	-	-
<b>Balance at 31 December 2016</b>	<b>1,172</b>	<b>1,172</b>
Balance at 1 January 2017	1,172	1,172
Acquisitions	58	58
Write-offs	(3)	(2)
<b>Balance at 31 December 2017</b>	<b>1,227</b>	<b>1,228</b>
<b>Amortization and impairment loss</b>		
Balance at 1 January 2016	1,035	1,035
Amortization for the year	44	44
Amortization of written-off assets	-	-
<b>Balance at 31 December 2016</b>	<b>1,079</b>	<b>1,079</b>
Balance at 1 January 2017	1,079	1,079
Amortization for the year	51	51
Amortization of written-off assets	(3)	(3)
<b>Balance at 31 December 2017</b>	<b>1,127</b>	<b>1,127</b>
<b>Carrying amounts</b>		
1 January 2016	72	72
<b>31 December 2016</b>	<b>93</b>	<b>93</b>
1 January 2017	93	93
<b>31 December 2017</b>	<b>100</b>	<b>101</b>

Amortization is included in the administrative expenses.

Acquisition cost of fully amortized intangible assets still in use amounts to EUR 958 thousand as at 31 December 2017 (in 2016: EUR 923 thousand).

### 10. Investments available for sale

thousand EUR	2017	2016
Investments available for sale	22	22
	<b>22</b>	<b>22</b>

The major part of investments available for sale as at 31 December 2017 represents part in VŠĮ Žaliasis Taškas.

## Notes to the Financial Statements

### 11. Inventories

thousand EUR	31-12-2017	31-12-2016
Raw materials	5,030	5,229
Work in progress	4,243	2,459
Finished goods	6,775	4,874*
Goods for re-sale	30	67
	<b>16,078</b>	<b>12,629*</b>

During the year 2017, EUR 1,219 thousand expenses relating to the write down of inventories were recognized (in 2016: EUR 539 thousand) under sales and distribution and administrative expenses. The revaluation and write down of the inventories relates to allowance for obsolete inventory items as well as write down to net realizable value. The cumulative write down of inventories as at 31 December 2017 amounts to EUR 1,897 thousand.

Raw materials include milk and other materials used in production.

Inventories recognized as costs during the year can be specified as follows:

thousand EUR	2017	2016
Cost of sales (manufactured goods sold)	(140,478)	(118,627)*
Sales, distribution and administrative expenses (consumption of inventories)	(2,792)	(2,782)
Other operating expenses (sold raw materials, spare parts)	(62)	(116)
	<b>(143,332)</b>	<b>(121,525)*</b>

Sales and administrative expenses include consumed fuel and materials and spare parts.

Other operating costs include cost of re-sold goods and cost of sold raw materials and other inventories.

Inventories with the carrying amount of up to EUR 16,078 thousand as at 31 December 2017 (in 2016: EUR 12,629 thousand) have been pledged to secure the bank loans (Note 16).

\*Restated. Refer to Note 26.

### 12. Receivables and other assets

thousand EUR	2017	2016
<b>Financial instruments</b>		
Trade receivables	10,536	11,825
Other receivables	157	112
Loans	616	282
	<b>11,309</b>	<b>12,219</b>
Impairment of receivables	-	-
	<b>11,309</b>	<b>12,219</b>
<b>Non-financial assets</b>		
Excess of income tax	440	845
Receivable VAT	210	-
Prepayments	749	953
Deferred expenses	831	792
	<b>2,230</b>	<b>2,590</b>
	<b>13,539</b>	<b>14,809</b>
Less: long-term part	(636)	(282)
	<b>12,903</b>	<b>14,527</b>

## Notes to the Financial Statements

### 12. Receivables and other assets (continued)

Specification of prepayments may be presented as follows:

thousand EUR	2017	2016
Prepayments for delivery of raw milk	465	609
Other prepayments	284	344
	<u>749</u>	<u>953</u>
Less: long-term part of prepayments	(20)	-
	<u>729</u>	<u>953</u>

According to agreements with raw milk suppliers, prepayments for milk shall be covered during the period of up to 2 years as milk is delivered. A fixed rate interest, varying from 3% to 5%, is calculated on the outstanding prepayment amount.

Specification of loans may be presented as follows:

thousand EUR	2017	2016
Loans to management	600	261
Loans to employees	16	21
	<u>616</u>	<u>282</u>
Less: long-term part	(616)	(282)
Current loans to management and employees	<u>-</u>	<u>-</u>

As at 31 December 2017, a loan amounting to EUR 600 thousand is granted to a member of the management. The repayment deadline, as prescribed in the agreement, is 1 July 2020. Interest charged comprise 1 month EURIBOR and fixed margin.

### 13. Cash and cash equivalents

thousand EUR	2017	2016
Cash at bank	129	764
Cash in hand	127	77
	<u>256</u>	<u>841</u>

As at 31 December 2017, part of cash at bank, comprising EUR 19 thousand is pledged to secure the bank loans.

### 14. Equity

As at 31 December 2017, the authorized capital comprised 45,134,419 ordinary registered shares at par value of EUR 0.29 each. All shares are fully paid. There were no changes in authorized capital during 2017. In 2016 authorized capital was reduced by EUR 1,305 thousand due to cancellation of 4,500,000 units of treasury shares.

Holders of ordinary shares have one voting right per share at the shareholders meeting and the right to dividends when they are declared, as well as the right to capital repayment in case of a decrease of share capital. There are no controlling entities or individuals among the shareholders of Pieno Žvaigždės, AB.

## Notes to the Financial Statements

### 14. Equity (continued)

#### *Treasury shares*

As at 31 December 2015 the Company had 4,500,000 units of treasury shares with the acquisition cost of EUR 6,600 thousand stated as a change in equity. On 28 April 2016, the general shareholders meeting decided to cancel 4,500,000 treasury shares. The mentioned cancellation resulted in a loss of EUR 5,355 thousand, which was recognized directly in equity by decreasing the reserve for acquisition of treasury shares.

When treasury shares are purchased, the amount paid, including direct costs, is accounted for as a change in equity. The purchased treasury shares are presented by deducting the amount from the equity. Any profit or losses from disposal of treasury shares are recognized in equity.

#### *Legal reserve*

Under Lithuanian legislation, an 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 losses. As at 31 December 2017, legal reserve was fully formed.

#### *Other reserves*

Other reserves amount to EUR 630 thousand as at 31 December 2017 (in 2016: EUR 560 thousand).

Part of other reserves as at 31 December 2017, amounting to EUR 350 thousand (in 2016: EUR 350 thousand) has been allocated for support, charity and bonuses, and remaining EUR 280 thousand (in 2016: EUR 210 thousand) for remuneration to Board members.

Dividends per share paid in 2017 were EUR 0.09 (in 2016: EUR 0.055).

### 15. Government grants

thousand EUR	2017	2016
Government grants as at 1 January	2,289	3,308
Additions during the period	63	-
Written-off	-	(1,019)
<b>Government grants as at 31 December</b>	<b>2,352</b>	<b>2,289</b>
Amortization as at 1 January	1,600	2,378
Amortization for the year	159	241
Written-off	-	(1,019)
<b>Amortization as at 31 December</b>	<b>1,759</b>	<b>1,600</b>
Net carrying amount at 1 January	689	930
<b>Net carrying amount at 31 December</b>	<b>593</b>	<b>689</b>

## Notes to the Financial Statements

### 16. Interest bearing loans and borrowings

The Company's loans and borrowings are as follows (in thousand EUR):

<b>Creditor</b>	<b>Ref.</b>	<b>Maturity*</b>	<b>Currency</b>	<b>31-12-2017</b>	<b>31-12-2016</b>
AB SEB, AB Luminor banks	a)	January 2022	EUR	11,789	14,200
AB SEB, AB Luminor banks	b)	January 2022	EUR	11,789	14,200
UAB Nordea Finance Lithuania	c)	July 2019	EUR	51	63
AB SEB, AB Luminor banks	d)	April 2019	EUR	2,500	-
AB SEB, AB Luminor banks	e)	April 2019	EUR	2,500	-
AB Luminor Bankas	f)	June 2018	EUR	1,917	-
AB SEB Bankas	g)	June 2019	EUR	1,975	-
<b>Total liabilities</b>				<b>32,521</b>	<b>28,463</b>
Less: current part*				(32,484)	(6,013)
<b>Total non-current part</b>				<b>37</b>	<b>22,450</b>

\* According to agreements signed by 31 December 2017 with AB SEB bank and AB Luminor bank, AB Pieno Žvaigždės has obliged that as at 31 December 2017 net financial debt and EBITDA ratio shall not exceed 6,50. However, due to decreased production market prices and having calculated higher than expected write-down of inventories, operating expenses increased and actual net financial debt and EBITDA ratio became 7,12.

According to loan agreements this means that the Company is not fulfilling requirements of agreements with banks and the banks have a right to demand early repayment of all outstanding loans. As a consequence, at 31 December 2017 all bank loans are classified in the statement of financial position as short-term liabilities.

On 12 April 2018 the Company obtained from the mentioned banks a confirmation that banks for the above stated violation of agreements agree not to impose sanctions prescribed in the loan agreements. Considering this, the above specification of loans and borrowings provides contractual loan repayment maturities.

a, b) the syndicated loan was received from AB Luminor Bankas and AB SEB Bankas for financing investments in property, plant and equipment.

d, e) the syndicated credit facility was received from AB Luminor Bankas and AB SEB Bankas to finance the working capital needs.

c) financial lease of transport vehicles.

f, g) overdraft received from AB Luminor Bankas and AB SEB Bankas to finance the working capital needs.

#### ***Interest bearing loans and borrowings movement reconciliation***

thousand EUR	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>28 463</b>	<b>30 800</b>
Received loans	10 070	4 600
Loans repayment	(6 000)	(7 000)
Assets acquisitions under finance lease	-	72
Repayment of leasing	(12)	(9)
<b>Balance at 31 December</b>	<b>32 521</b>	<b>28 463</b>

## Notes to the Financial Statements

### 16. Interest bearing loans and borrowings (continued)

The bank loans and other financial liabilities as at 31 December 2017 are denominated in EUR. All interest rates on loans and borrowings are variable and consist of EURIBOR plus a fixed margin. Interest is re-priced every 3 to 6 months depending on the loan and for this reason carrying amounts are assumed to approximate fair values of these loans.

The bank loans are secured by pledging property, plant and equipment (Note 8), inventories (Note 11) and all current and future cash flows in bank accounts (Note 13).

All interest calculated during 2017 and 2016 is recognized in profit or loss of a respective year.

#### *Interest rates*

Effective interest rates of the loans can be presented as follows:

%	2017	2016
Long-term loans	1.72 – 2.45	1.72-2.00
Short-term loans	1.50 – 2.00	1.30-1.50

#### *Loan repayment schedules*

The contractual repayment of loans is as follows:

thousand EUR	2017	2016
Within 1 year*	32,484	6,013
After 1 year and up to 5 years*	37	22,450
Over 5 years	-	-
Present value of liabilities	<b>32,521</b>	<b>28,463</b>

\*As the Company violated agreements with banks, all amounts payable to banks in the above table are presented as repayable in one year. According to schedules of the loan agreements the Company in the following year should repay EUR 7,930 thousand and after 1 year and up to 5 years period – EUR 24,591 thousand.

#### *Operating lease*

Operating lease expenses recognized in profit or loss are as follows:

thousand EUR	2017	2016
Lease of milk collection stations	(12)	(14)
Lease of premises	(157)	(156)
Operating lease of vehicles, loaders and other assets	(993)	(887)
<b>Total operating lease expenses</b>	<b>(1,162)</b>	<b>(1,057)</b>

Expenses in respect to the lease of milk collection stations are recognized under cost of sales. Lease of premises is stated under sales and administrative expenses. Operating lease of other assets is stated under sales and administrative expenses (EUR 860 thousand) and cost of finished goods (EUR 133 thousand) (in 2016: EUR 762 thousand and EUR 125 thousand, respectively).

## Notes to the Financial Statements

### 16. Interest bearing loans and borrowings (continued)

Future minimum lease payments can be presented as follows:

thousand EUR	2018	2019	2020	2021	2022	Later	Total
Lease of milk collection stations	-	-	-	-	-	-	-
Lease of premises	(146)	(73)	-	-	-	-	(219)
Operating lease of vehicles, loaders and other assets	(680)	(316)	(211)	(169)	(48)	(13)	(1,437)
<b>Total operating lease expenses</b>	<b>(826)</b>	<b>(389)</b>	<b>(211)</b>	<b>(169)</b>	<b>(48)</b>	<b>(13)</b>	<b>(1,656)</b>

Agreements on the rent of milk collection premises do not prescribe any limitations in respect to termination of agreement. Therefore, the Company does not have any long-term obligations as to these agreements.

### 17. Employee benefits

Employee benefits comprise liabilities to employees leaving the Company on normal retirement date, and the present value of these obligations is estimated by the Company at the end of each reporting year. The provision amount equals discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

thousand EUR	<b>Net defined benefit liability</b>
	<b>2017</b>
<b>Balance at 1 January</b>	
Retirement benefits	663
Jubilee bonus provision	121
<b>Total non-current employee benefits at 1 January</b>	<b>784</b>

thousand EUR	<b>Net defined benefit liability</b>
Change during the year:	
Recognized in profit or loss:	
Used provision	(62)
Increase (decrease) in provision during the period	62
Recognized in other comprehensive income	-
<b>Balance at 31 December</b>	
Retirement benefits	663
Jubilee bonus provision	121
<b>Total non-current employee benefits at 31 December</b>	<b>784</b>

## Notes to the Financial Statements

### 17. Employee benefits (continued)

Main assumptions used for the benefit obligation calculation were: discount rate 1.42%; annual salary increase of 6.20%, 6.20% and 6.20% for years 2018–2020 accordingly, and for later periods 5% annual increase planned.

	Assumed variations as at 31-12-2017	Influence on retirement benefits	Influence on jubilee provision
Demographic assumptions (+)			
Staff turnover rates, disability and early retirement	0,5 p.p.	(17)	(1)
Financial assumptions (+)			
Discount rate	0,5 p.p.	(14)	(1)
Level of future remuneration	1 p.p.	31	-
Demographic assumptions (-)			
Staff turnover rates, disability and early retirement	-0,5 p.p.	18	1
Financial assumptions (-)			
Discount rate	-0,5 p.p.	16	1
Level of future remuneration	-1 p.p.	(27)	-

### 18. Deferred tax assets and liabilities

The deferred tax assets and liabilities calculated applying the 15% tax are attributed to the following items:

thousand EUR	Assets		Liabilities		Net value	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	-	-	20	22*	20	22*
Write down of inventories	(285)	(127)	-	-	(285)	(127)
Accrued costs	(176)	(175)	-	-	(176)	(175)
<b>Tax (asset) / liability</b>	<b>(461)</b>	<b>(302)</b>	<b>20</b>	<b>22*</b>	<b>(441)</b>	<b>(280)*</b>

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

thousand EUR	01-01-2017	Recognized in profit or loss	Recognized in equity	31-12-2017
	Property, plant and equipment	22*	(2)	-
Write down of inventories	(127)	(158)	-	(285)
Accrued costs	(175)	(1)	-	(176)
<b>Tax (asset) / liability</b>	<b>(280)*</b>	<b>(161)</b>	<b>-</b>	<b>(441)</b>



## Notes to the Financial Statements

### 18. Deferred tax assets and liabilities (continued)

thousand EUR

	01-01-2016	Recognized in profit or loss	Recognized in equity	31-12-2016
Property, plant and equipment	24*	(2)*	-	22*
Write down of inventories	(83)	(44)	-	(127)
Accrued costs	(175)	-	-	(175)
<b>Tax (asset) / liability</b>	<b>(234)*</b>	<b>(46)*</b>	<b>-</b>	<b>(280)*</b>

\*Restated. Refer to Note 26.

#### *Unrecognized deferred tax asset*

For the following items the deferred tax asset has not been recognized due to uncertainty of its realization in the future:

thousand EUR	2017		2016	
	Nominal value	Tax effect	Nominal value	Tax effect
Tax loss to be carried forward	1,230	184	-	-
Unutilized balance of the investment incentive	6,437	966	3 734	560
<b>Total</b>	<b>7,667</b>	<b>1,150</b>	<b>3,734</b>	<b>560</b>

### 19. Trade and other payable amounts

thousand EUR

	2017	2016
<b>Financial instruments</b>		
Payable to suppliers	12,570	11,509
Other payable amounts	530	277
	<u>13,100</u>	<u>11,786</u>
<b>Non-financial instruments</b>		
Advances received	1,144	143
Vacation accrual	1,651	1,618
Taxes and social security contributions payable	753	828
Salaries payable	590	658
	<u>4,138</u>	<u>3,247</u>
	<b>17,238</b>	<b>15,033</b>
Less: non-current part	(227)	-
	<b>17,011</b>	<b>15,033</b>

### 20. Derivatives

In 2015, the Company entered into an interest rate swap agreement with DNB bank, by which it partly hedges from interest rate fluctuations. Notional amount for interest rate swap amounts to EUR 15,000 thousand. The maturity date of the contract is 29 October 2020. The fair value of the interest rate swap (negative from the point of view of the Company) as at 31 December 2017 amounts to EUR 208 thousand (2016 - EUR 330 thousand). The fair value was determined based on the discounted cash flow method. Payments of fixed interest were estimated by multiplying the fixed interest rate by notional amount. Payments of variable interest were estimated by multiplying the forecasted interest rate of 3 months EURIBOR for a certain period by notional amount. Net cash payments were discounted using the discounting factors derived from the published market data.

## Notes to the Financial Statements

### 20. Derivatives (continued)

Change in the fair value of derivative financial instrument during 2017 amounts to EUR 122 thousand gain (2016 - EUR 143 thousand loss) and is recognized in the profit or loss under finance income (2016 – under finance expenses).

### 21. Financial instruments

Credit, interest rate and foreign exchange risks arise in the course of the Company's activities carried out on normal business conditions.

#### *Credit risk*

The Company has established a credit policy and credit risk is being monitored on a continuous basis. The Company as at reporting date had four clients whose receivables accounted for 40% of the total trade receivables balance. Usual payment terms of trade receivables are 1 to 60 days. For one-off sales the Company requires a prepayment.

Allowance for receivables is determined based on estimated non-recoverable amounts. Allowance is determined individually for each client considering payments received after reporting period end and until date of financial statements preparation.

The carrying amount of financial assets shows the maximum credit risk, which was as follows at the date of the statement of financial position:

thousand EUR

	<b>Carrying amount</b>	
	<b>2017</b>	<b>2016</b>
Long-term receivable amounts	616	282
Short-term receivable amounts (Note 12)	10,693	11,937
Cash and cash equivalents	256	841
	<b>11,565</b>	<b>13,060</b>

The maximum credit risk related to amounts receivable at the reporting date could be distributed per geographic zones in the following way:

thousand EUR

	<b>Carrying amount</b>	
	<b>2017</b>	<b>2016</b>
Lithuania	2,749	5,202
European Union countries	6,186	5,537
Russia	211	63
Other countries	2,163	1,417
	<b>11,309</b>	<b>12,219</b>

#### *Ageing of receivables*

The ageing of receivables at the reporting date could be specified as follows:

	<b>Gross amount</b>	<b>Gross amount</b>
	<b>2017</b>	<b>2016</b>
thousand EUR		
Not past due	7,113	9,826
Past due 0–30 days	3,507	2,039
Past due 31–60 days	539	245
Past due 61–90 days	139	69
Past due more than 90 days	11	40
	<b>11,309</b>	<b>12,219</b>

## Notes to the Financial Statements

### 21. Financial instruments (continued)

#### *Credit risk (continued)*

Based on the evaluation of amounts received from customers after the year-end date and until the date of preparation of these financial statements, collateral held and other information, no impairment is necessary for amounts receivable as at 31 December 2017 and 31 December 2016.

#### *Foreign currency exchange risk*

The Company is exposed to foreign currency exchange risk, related to sales and purchases denominated in other currencies than EUR. The Company has no material sales and purchases in other currencies than EUR, therefore currency exchange risk is not significant. The Company does not use any financial instruments for hedging currency exchange risk.

As at 31 December 2017 and 31 December 2016, there are no significant financial assets and liabilities denominated in other currencies than EUR.

#### *Liquidity risk*

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

#### 31 December 2017

thousand EUR	Carrying amount	Cash flows	6 months or less	6–12 months	2–5 years
<b>Financial liabilities</b>					
Loans and other financial liabilities*	32,521	33 157	33 120	-	37
Derivatives	208	313	55	56	202
Trade and other payables (Note 19)	13,100	13,100	13,100	-	-
	<b>45,829</b>	<b>46 570</b>	<b>46 275</b>	<b>56</b>	<b>239</b>

\* As the Company violated agreements with banks, all amounts payable to banks in the above table are presented as repayable in 6 months or less. According to schedules in the loan agreements the contractual cash flows would be as presented below:

#### 31 December 2017

thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6–12 months	2–5 years
<b>Financial liabilities</b>					
Loans and other financial liabilities	32,521	33,797	5,271	3,298	25,228
Derivatives	208	313	55	56	202
Trade and other payables (Note 19)	13,100	13,100	13,100	-	-
	<b>45,829</b>	<b>47,210</b>	<b>18,426</b>	<b>3,354</b>	<b>25,430</b>

## Notes to the Financial Statements

### 21. Financial instruments (continued)

#### *Liquidity risk (continued)*

31 December 2016

thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6–12 months	2–5 years
<b>Financial liabilities</b>					
Loans and other financial liabilities	28,463	29,147	3,143	3,130	22,874
Derivatives	330	424	55	56	313
Trade and other payables (Note 19)	11,786	11,786	11,786		
	<b>40,579</b>	<b>41,357</b>	<b>14,984</b>	<b>3,186</b>	<b>23,187</b>

The effective interest rates applied for discounting the estimated cash flows were as follows:

	2017	2016
Loans and other financial liabilities	1.72-2.45%	1.3-1.95%

The Company's policy is to have sufficient liquidity to meet current operating settlements including repayment of financial liabilities.

#### *Interest rate risk*

The Company is subject to interest rate cash flow risk because interest-bearing loans are subject to variable interest, related to EURIBOR.

Interest rates applied on the Company's financial instruments on the reporting date were as follows:

thousand EUR	Carrying amount	
	2017	2016
<b>Financial instruments bearing fixed interest rate</b>		
Part of loan related to interest rate swap	15,000	15,000
	<b>15,000</b>	<b>15,000</b>
thousand EUR	Carrying amount	
	2017	2016
<b>Financial instruments bearing variable interest rate</b>		
Financial lease	51	63
AB SEB, AB Luminor banks (long-term loan)	23,578	28,400
AB SEB, AB Luminor banks (overdraft)	3,892	-
AB SEB, AB Luminor banks (credit line)	5,000	-
Part of loan related to interest rate swap	(15,000)	(15,000)
	<b>17,521</b>	<b>13,463</b>

The interest rate is calculated as EURIBOR for a certain period plus margin determined by creditor.

## Notes to the Financial Statements

### 21. Financial instruments (continued)

#### *Interest rate risk (continued)*

#### *Cash flow sensitivity analysis for variable interest rate instruments*

A change of 100 basis points in interest rates on the reporting date would have increased (decreased) profit or loss by amounts stated below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. An analysis for 2016 is made on the same basis.

Effect in thousand EUR	<b>Profit or loss for the year</b>	
	<b>Increase by</b>	<b>Decrease by 100</b>
	<b>100 bp</b>	<b>bp</b>
<b>As at 31 December 2017</b>		
Financial instruments on which variable interest rate was applied	(175)	175
<b>As at 31 December 2016</b>		
Financial instruments on which variable interest rate was applied	(127)	127

In order to hedge the risk of cash flow with variable interest rate, in 2015 the Company entered into an interest rate swap transaction with a bank, by which it partly hedges from interest rate fluctuations (refer to Note 20).

#### *Fair value of financial instruments*

The fair value is defined as an amount at which the instrument can be exchanged at a current transaction by willing parties, except for forced or liquidation transactions.

As at 31 December 2017 and as at 31 December 2016, the Company's financial instruments at fair value consisted of interest rate swaps with banks. The fair value was calculated using material variables observable in the market or calculated based on market data. The recognized value does not reflect any difference between the supply and demand prices and does not reflect particular client or its creditworthiness. According to the fair value hierarchy, the instrument is classified under Level 2 fair value.

The Company's principal financial assets and liabilities not carried at fair value are granted loans and trade receivables, loans from financial institutions and trade payables accounted for at amortized cost.

For the purpose of valuation of financial assets and liabilities the following methods and assumptions are used:

**Trade and other receivable and payable amounts, and borrowings.** The management of the Company is of the opinion that the carrying values of trade and other receivables, trade and other payables as well as borrowings approximate their fair value, because major part of trade and other receivables, trade and other payables are short term while borrowings are from third party lenders and subject to variable interest rates. According to the fair value hierarchy, these financial assets and liabilities are classified under Level 3 fair value.

**Cash and cash equivalents.** Carrying values of cash and cash equivalents are equal to their fair value. According to the fair value hierarchy, this instrument is classified under Level 1 fair value.

## Notes to the Financial Statements

### 22. Purchase commitments

As at 31 December 2017 and as at 31 December 2016, the Company did not have any material purchase commitments.

### 23. Related parties

Transactions with related parties can be presented as follows:

thousand EUR	2017			2016		
	Support and sales	Purchases	Receivable loans	Support and sales	Purchases	Receivable loans
VŠĮ SSK (1)	467	-	-	382	-	-
UAB Žaibo Ratas Vilnius (2)	-	276	-	-	70	-
Management (3)	-	-	600	-	25	261
	<b>467</b>	<b>276</b>	<b>600</b>	<b>382</b>	<b>95</b>	<b>261</b>

- (1) Pieno Žvaigždės, AB is the sole participant of the basketball club VŠĮ SSK to which the Company's support is provided. During the year 2017, the Company granted EUR 467 thousand of support (in 2016: EUR 382 thousand).
- (2) UAB Žaibo Ratas Vilnius is a related company through a member of the Board of Pieno Žvaigždės, AB. UAB Žaibo Ratas Vilnius rents cars for the Company.
- (3) As at 31 December 2017, there is a loan amounting to EUR 600 thousand granted to member of the management (refer to Note 12). In 2016, purchases from the board member comprised consultancy services.
- (4) During 2017, the Company recovered EUR 117 thousand (2016: EUR 116 thousand) of loans from related parties, which in prior periods were written-off through equity. Proceeds are recognized as other income directly in equity.

Amounts payable to related parties as at 31 December 2017 are as follows: UAB Žaibo Ratas Vilnius – EUR 3 thousand (in 2016: EUR 2 thousand).

Sales and purchases to/from the related parties were carried out on normal market conditions.

Remuneration of key management personnel is included under the sales, distribution and administrative expenses category "Staff costs" (Note 3):

thousand EUR	2017	2016
Remuneration to management	462	434
Remuneration to management, net of tax	268	251
Remuneration to Board members, excluding social security	280	210

Remuneration to management personnel comprises calculated salaries and social insurance contributions payable by the Company.

In the event of the labor contract termination with the members of management (regardless of the termination reason), the Company shall be liable to pay an employee a compensation of up to 12 average monthly salaries.

## **Notes to the Financial Statements**

### **23. Related parties (continued)**

The management consists of: the general director, deputy general director, business development director, finance director and chief accountant.

### **24. Contingent liabilities**

The Company has contingent liabilities by the total value up to EUR 132 thousand as at 31 December 2017. This amount was not recognized in the financial statements as at 31 December 2017 as an outcome of the matters cannot be reliably estimated. There are no other significant contingencies, related to the Company.

The tax administrator has not performed a full-scope tax investigation of the Company for the period from 2013 until 2017. According to effective tax legislation, the tax administrator may, at any time, perform an investigation of the Company's accounting registers and records for the period of five years preceding the accounting taxable period, as well as impose additional taxes and penalties. Management of the Company is not aware of any circumstances, which could cause additional significant tax liabilities.

### **25. Subsequent events**

No subsequent events have occurred after the end of the financial year, which could have material influence on or require disclosure in these financial statements as at and for the year ended 31 December 2017.

### **26. Change of accounting policy for land and buildings**

As of 1 January 2017, the Company has changed the accounting policy concerning property, plant and equipment and started recognizing all its real estate (buildings) at acquisition cost, less accumulated depreciation, and land – at acquisition value. Due to indexation of the property value, which was mandatory based on the Government resolution No.206, dated 28 March 1994, and the resolution No. 1160, dated 29 August 1995, the property was recorded at an indexed value.

IFRSs allow recognizing assets at acquisition or market value. Due to the performed indexation, the asset accounting at their factual acquisition value was no longer possible. Therefore, as of 31 December 2004, the Company took a decision to start recognizing its property at the market value. A disadvantage of this approach is that the asset value varies depending on the changes in the real estate market, and a decreased or increased value would affect the production cost of the produce. The Company operates the production buildings, the purpose of which is to ensure the production process. It is typical of the production companies to account for the assets at acquisition cost because this approach provides for the asset value which does not fluctuate over the useful life of the asset.

Given that the carrying amount of the previously indexed assets as at 31 December 2016 became immaterial, the Company decided to account for all the real estate at an acquisition value starting as of 1 January 2017. Using this approach, operating results of the Company will be reflected more fairly.

The change in accounting policy was applied retrospectively – by restating the opening balances as at 1 January 2016 and all the 2016 financial statement items affected by the change of accounting policy. Information about the effect on the Company's financial statements is presented below.

## Notes to the Financial Statements

### 26. Change of accounting policy for land and buildings (continued)

#### *i. Statement of financial position*

1 January 2016 thousand EUR	Impact of change of accounting policy		
	As previously reported	Adjustments	As restated
Property, plant and equipment	50,753	(2,401)	48,352
Deferred tax assets	-	234	234
Inventories	14,298	(5)	14,293
Other assets	13,602	-	13,602
<b>Total assets</b>	<b>78,653</b>	<b>(2,172)</b>	<b>76,481</b>
Retained earnings	4,437	1,042	5,479
Reserves	12,118	(3,088)	9,030
Other equity components	15,625	-	15,625
<b>Total equity</b>	<b>32,180</b>	<b>(2,046)</b>	<b>30,134</b>
Deferred tax	126	(126)	-
Other liabilities	46,347	-	46,347
<b>Total liabilities</b>	<b>46,473</b>	<b>(126)</b>	<b>46,347</b>

31 December 2016 thousand EUR	Impact of change of accounting policy		
	As previously reported	Adjustments	As restated
Property, plant and equipment	48,589	(2,359)	46,230
Deferred tax assets	-	280	280
Inventories	12,633	(4)	12,629
Other assets	15,765	-	15,765
<b>Total assets</b>	<b>76,987</b>	<b>(2,083)</b>	<b>74,904</b>
Retained earnings	5,696	799	6,495
Reserves	4,938	(2,808)	2,130
Other equity components	20,980	-	20,980
<b>Total equity</b>	<b>31,614</b>	<b>(2,009)</b>	<b>29,605</b>
Deferred tax	74	(74)	-
Other liabilities	45,299	-	45,299
<b>Total liabilities</b>	<b>45,373</b>	<b>(74)</b>	<b>45,299</b>

Adjustment of retained earnings at 1 January 2016 is related to reversal of buildings impairment which in prior periods was recognized in the profit and loss.



## Notes to the Financial Statements

### 26. Change of accounting policy for land and buildings (continued)

#### *ii. Statement of Comprehensive Income*

For the year ended 31 January 2016 thousand EUR	<b>Impact of change of accounting policy</b>		
	<b>As previously reported</b>	<b>Adjustments</b>	<b>As restated</b>
Cost of sales	(118,653)	26	(118,627)
Other operating income	587	(97)	490
Other operating expenses	(250)	(47)	(297)
Selling and distribution expenses	(17,422)	62	(17,360)
Administrative expenses	(11,663)	99	(11,564)
Income tax expenses	69	(6)	63
Others	149,132	-	149,132
<b>Profit for the year</b>	<b>1,800</b>	<b>37</b>	<b>1,837</b>
<b>Total comprehensive income for the year</b>	<b>1,800</b>	<b>37</b>	<b>1,837</b>

There is no material impact on the Company's basic or diluted earnings per share and no impact on the total operating, investing or financing cash flows.

## Pieno Žvaigždės, AB

### Confirmation of the Management

25-04-2018  
Vilnius

#### Financial statements and the Annual Report for the year 2017

We, Aleksandr Smagin, General Director, and Audrius Statulevičius, Finance Director of Pieno Žvaigždės, AB, hereby confirm that, to the best of our knowledge, the Financial Statements prepared in accordance with IFRS, as adopted by the European Union, give true and fair view of the assets, liabilities, financial position, profit or loss and cash flow of the Issuer. Annual report includes a fair review of the development and performance of the business, together with description of major risks and contingencies incurred by the Issuer.

General Director



Aleksandr Smagin

Finance Director



Audrius Statulevičius

## **PIENO ŽVAIGŽDĖS, AB**

### **ANNUAL MANAGEMENT REPORT FOR THE YEAR 2017**

#### **GENERAL INFORMATION ABOUT THE ISSUER**

##### **Accounting Period for which the present Report has been Prepared.**

The present Report has been prepared for the financial year 2017.

##### **Key Data on the Issuer**

Name	Pieno Žvaigždės, AB
Legal and organizational status	Stock Company
Registration date	The Company was registered on 23 December 1998
Company code	1246 65536
VAT payer's code	LT 246655314
Authorized capital	13,088,981.51 euros, comprising 45,134,419 ordinary registered shares at par value of 0.29 euro each.
Address	Perkūnkiemio St. 3, LT-12127 Vilnius, the Republic of Lithuania
Telephone	(+370 5) 246 14 14
Fax	(+370 5) 246 14 15
E-mail address	info@pienozvaigzdes.lt
Internet website	www.pienozvaigzdes.lt

##### **Type of the Issuer's main activities**

The Company's main activity is production of dairy products.

##### **Agreements with intermediaries of public trading in securities**

The company has an agreement with AB Šiaulių Bankas (the bank license No.: 7, dated 4 February 1992), located at Tilžės St. 149, Šiauliai, the municipality of Šiauliai, telephone (8-5) 2102477 concerning management of securities accounting.

##### **Securities admitted to the trading lists of the stock exchanges**

Ordinary shares of Pieno Žvaigždės, AB were admitted to the official trading list of Nasdaq Baltic Stock Exchange.

Type of shares – ordinary registered shares;  
Number of shares – 45,134,419;  
Total nominal value – 13,088,981.51 euros;  
VP ISIN code – LT0000111676.

As at 31 December 2017, Pieno Žvaigždės, AB did not acquire any own shares.

## **1. The objective review of the Company's state, activity performance and development; the description of the main risk types and uncertainties encountered by the enterprise**

Pieno Žvaigždės, AB was established on 23 December 1998 after merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later, AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into Pieno Žvaigždės, AB. The current structure of the Company enables to specialize production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country.

Pieno Žvaigždės, AB is one of the largest milk processing companies in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to the countries of the European Union, CIS, and Asia. Different types of ferment cheese, whey flour and fresh milk products produced by Pieno Žvaigždės, AB are the main products produced for export which are well known for their irrefragable quality. The products are awarded with quality certificates.

The main activity of the Issuer is processing of milk. The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results.

The main raw material used by the Issuer is milk, the supply of which, due to short validity period, is conditionally limited. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the Issuer.

The Issuer's business (especially collection and transportation of milk) is a labor consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer.

Information on financial risks is presented in the annual financial statements (note 21 of the explanatory information).

Pieno Žvaigždės, AB has integrated the quality and environment management system as to the requirements of ISO 9001:2008 and ISO 14001:2004. As of March 2012 the Company is implementing the food safety management system as to ISO 22000:2005, which will be integrated into the existing management system. In December 2013, the affiliate Pasvalio Sūrinė received the certificate confirming the implementation of food safety management system complying with requirement of FSSC 22000. Other three affiliates of Pieno Žvaigždės, AB have finalized the implementation of the food management system and received certificate according to the requirements of FSSC 22000 at the beginning of the year 2015.

Assurance of the quality of dairy products, especially of their safety, i.e. harmlessness to consumers, is one of the major tasks of the Company. The functioning food safety system allows to monitor risk factors and important control points that are related to milk production processes, transportation, and consumption and improves the quality control. The Company has prepared, implemented and operate the programs which provide for conditions, measures and behavior rules to prevent biological, chemical, allergic and physical contamination and ensure high quality and safety of the dairy products.

During the years 1998–2002 the State Food and Veterinarian Office assigned the affiliates of Pieno Žvaigždės, AB with certificates for export to EU, which allow exporting dairy products bearing identification marks to the EU countries. Furthermore, all the branches of the Company are approved for export to Russia and Belarus.

Primary certification of the quality management system in the Company's affiliates was performed in 2002. The granted certificates proved that the establishment, documentation and maintenance of the quality management system complied with the ISO 9001 standard. The certification audit in the affiliates and issuance of the certificates was performed by an international certification firm TUV CERT. During 2005–2006, the environment management system complying with the requirements of ISO 14001 standards was integrated into the quality management system, and in February 2007 Pieno Žvaigždės, AB received the certificate confirming the integrated quality and environment management system complying with the requirements of ISO 9001 and ISO 14001 standards operates in the Company. Every year, the certifying firm performs supervision audits of the Company, and every 3 years the recertification takes place. Pieno Žvaigždės, AB aims to continuous improvement and better efficiency of its operations and processes, thus, for the purpose of more efficient use of external audit results for company improvement, in 2013, Pieno Žvaigždės, AB changed the certification firm. As of 2013, external audit of management systems is performed by certifying firm DNV.

In order to further improve the quality control, in September 2016, the branch Pasvalio Sūrinė and in September 2017, the branch Mažeikių Pieninė were certified as to the IFS Food Standard requirements. This International Food Standard (IFS) was introduced by the retail trade association IFS Food of Germany, France and Italy to meet the requirements of private retailers in Germany, France, Italy, the Benelux and other countries. A company that complies with the IFS requirements ensures that it can manage the risks throughout all the stages of food production process, can produce a safe and high-quality product. The greatest attention is paid to the products that must meet the expectations of the ultimate customer and, most importantly, the consumer.

Meanwhile, in April 2017, the branch Kauno Pienas was granted a BRC certificate (Global Standard for Food Safety). In 1998, the British Retail Consortium (BRC) established and implemented the BRC food technical standard, which is used for evaluation of foodstuff manufacturers. The purpose of the standard is to assist the food processing companies in the production and supply of safe and high quality foodstuff. This ensures consumer confidence in the company's food safety. Due to clarity and versatility of the BRC standard requirements and control, they are acknowledged globally.

The Company's affiliates Kauno Pienas and Panevėžio Pienas are certified for production of ecological products (ecological yogurts, ecological sour cream, ecological curd and cottage cheese). After each annual review, a public company Ekoagros issues a new certificate on the Company's compliance with the requirements. Production of ecological dairy products requires adhering to strict requirements set not only for production processes but also for their compound parts. The certified ecological products are marked with the following additional information: certification mark of ecological products, code of the certifying firm, and reference to the growth place of agricultural goods used for production.

Certain products of the Company are assigned with specific quality certificates HALAL (whey powder and cream) and KOSHER (whey powder).

The Company's management has undertaken to produce safe and high-quality dairy products that satisfy the clients' needs and expectations, with low impact on environment to the maximum extent, all being defined in the Company's policy on the safety and quality of food and environment protection.

## 2. Analysis of financial and non-financial activity results, information related to environment and personnel issues

### Key figures, million EUR

	31 12 2017	31 12 2016*
Turnover	167.8	150.1
Gross profit	27.3	31.5
Profit before tax, interest and depreciation (EBITDA)	4.8	10.3
Profit (loss) before tax	-3.4	1.8
Investment in property, plant and equipment	6.1	5.9
Average number of employees	1 735	1 768
Raw milk purchased (natural milk), thousands tons	277.9	268.2
Milk purchased as to basic ratios, thousands tons	341.5	330.5

\*The comparative figures for 2016 were restated due to changes in accounting policy. More detailed information is presented in Note 26.

### Main quality management and environmental principles:

- The quality management system is oriented towards a customer, thus a lot of attention is devoted to fulfilling customers' needs and expectations;
- Principles of cleaner production must be adhered to; the aspects that significantly influence the environment must be identified and managed, and proper preparation for emergency situation must be insured.
- Management of the Company sets united aims and goals. Heads of the Company create environment where all employees take part in order to achieve aims.
- Employees of all levels are involved in Company's work.
- All activities of the Company, as well as the recourses related to them are managed as a process.
- Interconnected processes are defined, understood and managed as a system, and this increases Company's capacity and efficiency.
- Company's target is constant improvement. Improvement activities are integrated with Company's strategy and every worker seeks improvement of a product, process and systems.
- High-scoring solutions are based on data and information analysis.
- A lot of attention is devoted to connections with suppliers.

Possession of the ISO 9001 and ISO 14001 certificates proves that the structure, responsibilities and granted authorities are strictly defined in the Company, that processes and procedures are established, major documents are controlled and constantly updated, inspections and control procedures are regularly performed, discrepancies are identified, analyzed and corrected, the prevention of non-conformities and accidents is ensured, and negative impact on the environment is minimized.

The Company's top management annually reviews and confirms food safety, quality and environmental policies.

## 3. The number of the shares acquired by the entity and the entity's own shares as well as nominal value thereof and a part of the authorized capital made up by these shares

During the year 2017, AB Pieno Žvajždės did not acquire any own shares.

**4. The number of the own shares acquired and transferred during the reporting period, and the share of the capital, which the mentioned shares constitute**

During the year 2017, the Company did not acquire nor cancel any own shares. During 2016, the Company cancelled previously acquired 4,500,000 own shares, which made 9.07% of the total share capital.

**5. Information about payment for own shares, where they are acquired or transferred against payment**

During the year 2017, AB Pieno Žvaigždės did not acquire any own shares.

**6. Reasons for acquiring the entity's own shares during the reporting period**

-

**7. Information about branches and representative offices**

Pieno Žvaigždės, AB comprises four production branches:

- ✓ Branch Kauno Pienas, Taikos pr. 90, LT-51181 Kaunas;
- ✓ Branch Mažeikių Pieninė, Skuodo St. 4, LT-89100 Mažeikiai;
- ✓ Branch Pasvalio Sūrinė, Mūšos St. 14, LT-39104 Pasvalys;
- ✓ Branch Panevėžio Pienas, Tinklų St. 9, LT-35115 Panevėžys.

**8. Significant events occurred after the end of the financial year**

No significant events have occurred after the end of the financial year.

**9. Operational plans and forecasts of the Company**

The main goals of Pieno Žvaigždės, AB for the year 2018:

- ✓ Expected turnover for the year 2018 – close to 186 million EUR;

**10. Information about research and development activity**

The Company continuously makes investments and searches for new ways how to ensure a constant and better efficiency growth of its activity.

**11. The goals of financial risk management, hedging instruments used for expected transactions on which hedging accounting is applied, and the scope of price risk, credit risk, liquidity risk and cash flows risk**

The goals of financial risk management are presented in the general part of the explanatory note in the annual financial statements. The scope of price risk, credit risk, liquidity risk and cash flows risk is presented in the note 21 of the explanatory note in the annual financial statements.

Information on derivative financial instruments is presented in the note 20 of the explanatory note in the annual financial statements.

**12. Information about other executive positions held by the company's management and members of the board (head of the legal entity (form, name, code, address), member of the governing or supervisory body (form, name, code, address) and key information about their main employers (position held, legal form, name, code, address of the entity))**

Positions held by the board members and the head of administration in Pieno Žvaigždės AB and other companies:

Name, surname	Position held in Pieno Žvajgždės AB	Position held in other companies
Aleksandr Smagin	General Director, member of the board	None
Audrius Statulevičius	CFO, Chairman of the board (until 09-01-2018)	Member of the board in AB Dolomitas (company code 167900844, Dolomito 6, Petrašiūnai, Pakruojis r.)
Julius Kvaraciejus	Member of the board, Director for Business Development	None
Regina Kvaraciejienė	Member of the board, consultant	None
Voldemaras Klovas	Member of the board, Deputy General Director	None
Gžegož Rogoža	Member of the board, General Director of the branch Kauno Pienas	None
Artiom Smagin	Member of the board, Marketing Project Manager	None
Vitalis Paškevičius	Member of the board (as of 31-01-2018)	Director of UAB Assorti.lt (company code 302309468, Verkių 29 (Seimos aikštė 11) Vilnius; Director of UAB Bobketa (company code 302808827, Kelpių 25-1, Tarandė, Vilnius r.)

## *Management report of the Company for 2017*

### **1. Reference to the applicable corporate governance code**

Information about compliance with the corporate governance code is presented in the annex to this management report (Annex No.1).

### **2. Explanation of deviations from the corporate governance code**

Information about the reasons of non-compliance with the corporate governance code is presented together with the provisions of the corporate governance code in the annex to this management report (Annex No.1).

### **3. Information about the scale of risk and risk management associated with financial statements, risk mitigation measures and internal control system established in the company**

The Company maintains its financial accounting and prepared its financial statements in accordance with International Financial Reporting Standards. Annual financial statements are subject to audit by external auditors, elected by the general shareholders meeting. The Company's audit committee evaluates independence of the auditors. This procedure ensures relevance and transparency of the data presented in the financial statements of the Company.

### **4. Information about directly and indirectly governed material shareholdings**

According to the most recent data (as of 31 January 2018), the total number of the shareholders in the Company was 3 744.

The shareholders holding more than 5 per cent of the Company's authorized capital and votes are as follows:



Shareholder	Number of shares, units	Share of the capital %	Share of votes, %	Votes with related persons, % *
ŽŪKB „Smilgelė“ J. Tumo Vaižganto 8/27-3. Vilnius, company code 2490652	6.677.200	14,79%	14,79%	-
UAB „Agrolitas Imeks Lesma“ Laisvės ave.125, Vilnius, company code 2191855	6.228.459	13,80%	13,80%	-
Suвет Commodities DMCC, Office L, Silver Tower, JLT, Dubai, UAE	5.122.022	11,35%	11,35%	-
Kvaraciejus Julius	7.085.907	15,70%	15,70%	32,36%
Regina Kvaraciejienė	2.126.959	4,71%	4,71%	32,36%
Klovas Voldemaras	3.142.567	6,96%	6,96%	32,36%
Klovienė Danutė	878.328	1,95%	1,95%	32,36%
Smagin Aleksandr	1.323.536	2,93%	2,93%	32,36%
Rogoža Gžegož	46.150	0,10%	0,10%	32,36%

\* Board members and their spouses are considered as related persons

## 5. Information about transactions with related parties

Information about transactions with related parties is presented in the explanatory notes to the financial statements (Note 23).

## 6. Information about shareholders holding special control rights and description of such rights

There are no shareholder holding special control rights in the Company.

## 7. Information about all existing limitations on voting rights, such as limitations on voting rights of persons holding a certain percentage or amount of the voting rights, deadlines by which voting rights can be exercised, or systems where the property rights granted by securities are segregated from the securities holder

There are no such limitations on the voting rights in the Company. Furthermore, the Company is not aware about any agreements concluded among the shareholders due to which the securities transfer and (or) voting rights may be restricted. There are no shareholders having special control rights in the Company.

## 8. Information about rules regulating election and replacement of the board members as well as amendments to the company's articles of association

Articles of Association of Pieno Žvaigždės, AB can be changed in accordance with the laws of the Republic of Lithuania.

The managing bodies of the company are as follows: General shareholders' meeting, the Management Board and the General Director. The Supervisory Board is not formed in the Company.

The Management Board is a collegial management body comprised of 7 (seven) members. The Board members are elected for the 4 years period. The Board elects the Chairman.

The Management Board is elected by the general shareholders meeting. In the election of the Management Board, each shareholder has a number of votes equal to the product of the number of votes, granted by the shares owned by him, and the number of the board members to be elected. The shareholder allocated the votes at own discretion – for one or several candidates. Those candidates who receive most of the votes are elected as board members. If the number of candidates with equal votes exceed the vacant seats in the board, such candidates are subject to a repeated voting, where each shareholder can give his vote only for one of the candidate

having gathered equal amount of votes. If a board member is revoked, resigned or ceases performing his duties for other reasons, and the shareholders whose shares represent at least 1/10 of the total voting rights, object to the election of individual board members, the board shall lose its powers and will have to be elected in full. In case individual board members are elected, they are elected only until the end of the current term of office of the board.

Articles of Association can be amended based on a decision of the general shareholders meeting, adopted by a majority of not less than 2/3 of the total votes, except for the exceptions provided for in the Companies Law of the Republic of Lithuania. Upon the decision of the general shareholders meeting to amend the Articles of Association, the whole text of the amended articles is drawn up and signed by the person authorized by the general shareholders meeting. The amended Articles of Association and the decision confirming their replacement shall be submitted by the Company's Head of Administration within the time limits specified by legislation to the Register of Legal Entities. The amended Articles of Association of the Company shall come into effect only upon their registration with the Register of Legal Entities in accordance with the procedure established by the legislation.

#### **9. Information about the authorities of the board members**

The authorities of the board members are prescribed in the Companies Law of the Republic of Lithuania. The Articles of Association of the Company do not prescribe any restrictions or additions to the authorities.

#### **10. Information about the competence of the general shareholders meeting, shareholder rights and their implementation, if such information is specified in the laws**

The competence of and procedure of announcement of the General shareholders' meeting and all other issues related to the activities of the General shareholders' meeting and their decisions are regulated by the Companies Law of the Republic of Lithuania.

#### **11. Information about the composition of management and supervisory bodies and their committees, spheres of their activity**

The governing bodies of the Company are the general shareholders meeting, the management board and the Company's head of administration. No supervisory council is being formed in the Company.

The Management Board is a collegial management body comprised of 7 (seven) members. The Board members are elected for the 4 years period. The Board elects the Chairman.

#### **The Management Board**

Name, surname	Official duties	Number shares, units	Share of the capital %	Term of office From	Term of office until
Audrius Statulevičius*	Chairman	-	-	28-04-2016	09-01-2018
Artiom Smagin	Member	-	-	2016 04 28	28-04-2020
Julius Kvaraciejus	Member	7 085 907	15,70	28-04-2016	28-04-2020
Voldemaras Klovas	Member	3 142 567	6,96	28-04-2016	28-04-2020
Aleksandr Smagin	Member	1 323 536	2,93	28-04-2016	28-04-2020
Regina Kvaraciejienė	Member	2 126 959	4,71	28-04-2016	28-04-2020
Gžegož Rogoža	Member	46 150	0,10	28-04-2016	28-04-2020
Vitalis Paškevičius	Member	0	0,00	09-01-2018	28-04-2020

*\*Audrius Statulevičius resigned from the Company's board as of 10 January 2018.*

## Administration

Name, surname	Official duties	Number shares, units	Share of the capital %
Aleksandr Smagin	CEO	1 323 536	2,93
Audrius Statulevičius	CFO	-	-

The authorities of the chairman of the board are prescribed in the Companies Law of the Republic of Lithuania. The Articles of Association of the Company do not prescribe any restrictions or additions to the authorities.

Information about the remuneration to governing bodies as well as amount transactions carried out with members of the governing bodies is disclosed in Note 23 of the explanatory notes to the annual financial statements.

## Committees established in the Company

The company has the Audit Committee

Name, surname	Official duties	Number shares, units	Share of the capital %	From	Until
Jūratė Zarankienė	Chairman	-	-	28-04-2017	28-04-2018
Danutė Kairevičienė	Member	-	-	28-04-2017	28-04-2018

### **12. Description of the variety of policies related to such aspects as e.g. age, sex, education, professional experience, applicable for election of the Company's chief executive officer, governing and supervisory bodies; objectives and methods of realization of these policies and results for the period. Explanation of the reasons if the variety of policies is not applicable.**

The variety of policies is not applied in the Company when electing the Company's chief executive officer, the members of managing and supervisory bodies, since the Company has not adopted such a policy. The main criterion for candidates to supervisory or management bodies is their competence.

### **13. Information about remuneration of each member of a management body (average salaries paid during the period, segregating bonuses, additions, tantjemes and other benefits)**

Information about the calculated amounts to management bodies and transactions with the members of the management bodies is disclosed in Note 23 to the financial statements.

### **14. Information about all agreements among the shareholders (their essence, conditions)**

The Company is not aware of any agreements among the shareholders that could result in limitations on disposal of securities and (or) voting rights. There are no shareholders with special control rights in the Company.

## **SUSTAINABILITY REPORT**

### **1. Business model**

Pieno Žvaigždės, AB was established on 23 December 1998 after merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later, AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into Pieno Žvaigždės, AB. The current structure of the Company enables to specialize production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country.

The main activity of the Company is processing of milk. Pieno Žvaigždės, AB is one of the largest milk processing companies in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to the countries of the European Union, CIS, and Asia. Different types of ferment cheese, whey flour and fresh milk products produced by Pieno Žvaigždės, AB are the main products produced for export which are well known for their irreproachable quality. The products are awarded with quality certificates.

The main points that describe the Company:

- Operation in the country having deep traditions in milk production. An amount of purchased milk in Lithuania per person is larger than that of recognized milk giants such as Germany, France, Poland and United Kingdom;
- There are four specialized milk processing factories in Lithuania;
- A wide assortment that meets the needs of even the most demanding clients;
- Production includes such popular daily products as milk, yoghurt or grated curd;
- The shopping cart is supplemented by Cagliata, Mozzarella, powdered milk and other products traded in the market;
- Turnover for 2017 amounted to 168 million EUR;
- Investments over the last 10 years exceed 100 million EUR;
- Purchased raw milk makes 760 t/d;
- Own distribution network, including trucks and warehouses;
- Own milk collection network covering the whole country;
- Export of produce to more than 40 countries;
- Awards for high quality and excellent evaluation by customers;
- Passionate approach not only towards work but sports as well. Own basketball team playing in the highest league in Lithuania.

### **2. Description of the Company's policy for security of compliance with environmental, social, personnel and human rights, anti-corruption and bribery issues, including implementation monitoring of this policy**

In its activities, the Company aims to preserve the environment, efficiently use natural resources, and implement modern, effective and harmful technologies. The Company complies with the environmental legal requirements, professionally applies preventive measures to minimize the impact on environment. The major environmental issues are: safe operation of equipment, safe consumption of harmful materials from the point of view of ecology, handling of waste. The Company follows all environmental requirements and on its own initiative takes care about construction of new facilities and upgrading of the old equipment.

Pieno Žvaigždės, AB has integrated the quality and environment management system as to the requirements of ISO 9001:2008 and ISO 14001:2004. Possession of the ISO 9001 and ISO

14001 certificates proves that the structure, responsibilities and granted authorities are strictly defined in the Company, that processes and procedures are established, major documents are controlled and constantly updated, inspections and control procedures are regularly performed, discrepancies are identified, analysed and corrected, the prevention of non-conformities and accidents is ensured, and the negative impact on the environment is minimized.

The top management of the Company reviews and approves the policy concerning safety and quality of food products as well environment protection on annual basis.

The Company does not tolerate any manifestations of corruption and speaks for fair business and transparency in cooperation with state institutions. The Company performs operational control and improves operational processes on an ongoing basis. The Company refrains from any forms of influence – direct and indirect – to politicians and does not provide financing to political parties, their representatives or candidates, or funds founded on behalf of election campaigns (or related persons), whether in Lithuania or abroad. The Company always cooperates with authorities and is ready to provide all the necessary information or assistance.

### 3. Social policy results

In its activities, the Company does not tolerate any violation of the human rights and speaks for fair and transparent remuneration policy, observes legal requirements for overtime and working time duration, respects the right of workers to rest and does not tolerate any form of violence, verbal abuse or jeer. There were no cases in the Company that would concern violation of the provisions on discrimination, race, gender, religion, political credo, nationality, social origin or other reasons.

Employees and average salaries in the Company:

	<b>31-12-2017</b>	<b>31-12-2016</b>
<b>Average number of employees</b>	<b>1 735</b>	<b>1 768</b>
With university education	396	387
With college education	364	402
With secondary education	830	852
With not completed secondary education	145	127
	<b>31-12-2017</b>	<b>31-12-2016</b>
<b>Average number of employees</b>	<b>1 735</b>	<b>1 768</b>
Management	84	80
Specialists	307	316
Workers	1 344	1 372
	<b>31-12-2017</b>	<b>31-12-2016</b>
<b>Average gross salary, EUR</b>		
Management	1 897	1 861
Specialists	945	894
Workers	665	642

The Company respects the rights of the employees and speaks against child labour, any discrimination both, in recruiting new employees and among the existing employees. The Company has trade unions and a collective agreement in force. An objective self-assessment of competences and assessment by his/her manager is the only employee evaluation approach. The Company itself takes care of improving employee competences. The Company determines and pays salaries in a transparent manner, in accordance with clearly defined procedures. The Company cares about the health of its employees, organizes informal events, in which all the employees are invited to participate, aims to establish a friendly organizational culture.

#### **4. Information about major risks associated with the Company's operations as far as business relationships, goods and services are concerned, which could result in negative consequences, and information about risk management**

The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results.

The main raw material used by the Issuer is milk, the sales quota for processing of which to the EU milk processing companies is limited by national milk quota. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the Issuer. The mentioned risk is managed by diversifying the purchase of raw milk from different (different size) suppliers in Lithuania and additionally importing raw milk from abroad (mainly from Latvia and Estonia).

The Issuer's business (especially collection and transportation of milk) is a labour consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer. The risk is managed by making investments in modern equipment which allows to decrease the number of employees. The Company constantly reviews the remuneration and employee motivation systems in order to retain the employees and attract new ones.

Information on financial risks and their management is presented in Note 21 to the annual financial statements.

#### **5. Non-financial key performance indicators**

<b>Key performance indicators</b>	<b>31-12-2017</b>	<b>31-12-2016</b>
Investments in property, plant and equipment, in million EUR	6,1	5,9
Average number of employees	1 735	1 768
Purchased milk, in thousand tons	277,9	268,2
Purchased milk as to base indicators, in thousand tons	341,5	330,5
Sale of cheese, in million EUR	36,095	29,157
Sales of dried dairy products, in million EUR	9,076	9,131
Sales of fresh dairy products, in million EUR	114,986	105,491
Sales of other products, in million EUR	7,596	6,347

**Addendum 1**

**Disclosure by Pieno Žvaigždės, AB of compliance with the Governance Code  
for the companies listed on Nasdaq Baltic**

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLIC ABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company presents forecasts announcing significant events through the centralized information system, however due to competition in the market, the Company cannot publicly disclose certain strategies in advance.
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	
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	
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	
<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Council in the Company. Control over the Board is performed by General Shareholders Meeting, to which the Board reports.
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 Board is the collegial management body.
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 has executive body – the Board. Shareholders of the Company have not formed a Supervisory board.
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,	Yes	As collegial supervisory body is not formed at the Company the Principle III and IV statements, are applied to the Board as long

Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body <sup>1</sup> .		as it does not contradict to the essence and purpose of such body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies <sup>2</sup> .	Yes	The Board consists of 7 members who represent interests of shareholders. This number of members is sufficient and ensures that no individual or small group of individuals dominates decision-making of the Board
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	The Board members are elected for maximum 4 year term as per legislation. There are no limitations for re-election.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's general manager is not the chairman of the Board. No obstacles for independent and objective supervision exist.

<sup>1</sup> Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the 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 office .

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



**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 shall ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies<sup>3</sup>.**

<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') shall ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>The Company discloses information of candidates to the Company's collegial body. The shareholders structure does not contain any dominating shareholders. All active shareholder groups have their representatives in the Board.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest shall 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, shall be also disclosed. The collegial body shall also be informed on any subsequent changes in the provided information. The collegial body shall, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.</p>
<p>3.3. Shall a person be nominated for members of a collegial body, such nomination shall 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 shall, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>Members of the collegial body have extensive experience in the enterprise management, have versatile knowledge and skills for proper execution of duties.</p>

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

<p>3.5. All new members of the collegial body shall be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body shall conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>Members of the collegial body have extensive experience in the enterprise management. Shall new candidates be elected, they would be acquainted with the situation in the Company and specifics of management.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body shall comprise a sufficient <sup>4</sup>number of independent <sup>5</sup>members.</p>	<p>No</p>	<p>The shareholders did not elect any independent members in this tenure of the Board</p>
<p>3.7. A member of the collegial body shall be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body shall be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li> </ol>	<p>No</p>	<p>The shareholders did not elect any independent members in this tenure of the Board</p>

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

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

<p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	No	The shareholders did not elect any independent members in this tenure of the Board
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body shall be considered to be independent shall be disclosed. When a person is nominated to become a member of the collegial body, the company shall 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 shall disclose its reasons for nevertheless considering the member to be independent. In addition, the company shall annually disclose which members of the collegial body it considers to be independent.</p>	No	The shareholders did not elect any independent members in this tenure of the Board
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company shall 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 shall require independent members to have their independence periodically re-confirmed.</p>	No	The shareholders did not elect any independent members in this tenure of the Board

3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds <sup>6</sup> . The general shareholders' meeting shall approve the amount of such remuneration.	No	The shareholders did not elect any independent members in this tenure of the Board
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>The corporate governance framework shall ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body shall ensure effective monitoring <sup>7</sup>of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') shall ensure integrity and transparency of the company's financial statements and the control system. The collegial body shall issue recommendations to the company's management bodies and monitor and control the company's management performance <sup>8</sup> .	Yes	<i>Management submits reports to the collegial body at least once per quarter and gets recommendations. The Board approves the annual report prepared by the management.</i>
4.2. Members of the collegial body shall 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 shall (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 shall a member consider that decision of the collegial body is against the interests of the company. Shall a collegial body have passed decisions independent member has serious doubts about, the member shall make adequate conclusions. Shall an independent member resign from his office, he shall explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	<i>The Board members perform on their good will on behalf of the company follow the company's interests trying to maintain independency in decision making.</i>
4.3. Each member shall devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body shall 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 shall be present in less than a half <sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company shall be notified.	Yes	<i>Members of the collegial body properly fulfil their duties: take active part in sittings and allot sufficient time for execution of duties. All sittings of the collegial body had quorum.</i>
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body shall treat all shareholders impartially and fairly. It shall ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company shall have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	

<sup>6</sup> It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (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.

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

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

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

<p>4.5. 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 shall be subject to approval of the collegial body. The decision concerning approval of such transactions shall be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	No	
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>10</sup>. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>	Yes	
<p>4.7. Activities of the collegial body shall be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body shall establish nomination, remuneration, and audit committees<sup>11</sup>. Companies shall 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 shall 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. Shall 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) shall apply, where relevant, to the collegial body as a whole.</p>	No	Only Audit committee established
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment 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</p>	Yes	

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

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

<p>itself, which remains fully responsible for the decisions taken in its field of competence.</p>		
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.</p> <p>Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	No	Audit committee consists of two members.
<p>4.10. Authority of each of the committees shall be determined by the collegial body. Committees shall 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 shall 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 shall 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 shall confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	Yes	Annual statement of the audit committee is presented to the Board and shareholders meeting.
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee shall 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 shall have a possibility to maintain direct communication with the shareholders. Events when such are to be performed shall be specified in the regulations for committee activities.</p>	Yes	

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee shall be the following:  1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee shall 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.</p> <p>4.12.2. Nomination committee shall 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 shall be consulted by, and entitled to submit proposals to the nomination committee.</p>	N/A	N/A because Nomination Committee is not formed.
<p>4.13. Remuneration Committee.</p> <p>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.</p>	N/A	N/A because Remuneration Committee is not formed.

<p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>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.</li> </ol> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee shall be the following:</p> <ol style="list-style-type: none"> <li>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);</li> <li>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;</li> <li>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. Shall there be no internal audit authority in the company, the need for one shall be reviewed at least annually;</li> <li>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 shall investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>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, shall at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee shall 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;</li> <li>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ol>	<p>Yes</p>	<p>Audit committee was established and approved by the shareholders' meeting. The Audit committee submits annual financial statements to the Board and the shareholders' meeting.</p>



<p>4.14.2. All members of the committee shall be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management shall 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 shall be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee shall 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 shall be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors shall 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 shall act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee shall be informed of the internal auditor's work program, and shall be furnished with internal audit's reports or periodic summaries. The audit committee shall also be informed of the work program of the external auditor and shall be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee shall be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee shall 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 shall ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee shall 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.</p>		
<p>4.15. Every year the collegial body shall conduct the assessment of its activities. The assessment shall include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body shall, 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.</p>	No	The report of the Board was scheduled for presentation to the shareholders as at 10 January 2018. However, the general shareholders meeting did not take place. In the repeatedly convened general shareholders meeting (31 January 2018), the majority of the shareholders voted against listening to the report.

<p><b>Principle V: The working procedure of the company’s collegial bodies</b></p> <p><b>The working procedure of supervisory and management bodies established in the company shall ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company’s bodies.</b></p>		
<p>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) shall 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 shall 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 shall ensure appropriate conducting of the meetings of the collegial body. The chairperson shall ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>This regulation in the Company is realised by the Board.</p>
<p>5.2. It is recommended that meetings of the company’s collegial bodies shall 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 shall be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company’s supervisory board shall be convened at least once in a quarter, and the company’s board shall meet at least once a month<sup>12</sup>.</p>	<p>Yes</p>	<p>The Board sittings are convened at least once per quarter.</p>
<p>5.3. Members of a collegial body shall be notified of 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 of the meeting, all the documents relevant to the issues on the agenda of the meeting shall be submitted to the members of the collegial body. The agenda of the meeting shall not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	
<p>5.4. In order to co-ordinate operation of the company’s collegial bodies and ensure effective decision-making process, chairpersons of the company’s collegial bodies of supervision and management shall 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 shall be free to attend meetings of the company’s supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	<p>The Board is doing the work that collegial body should do.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>The corporate governance framework shall ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework shall protect the rights of the shareholders.</b></p>		
<p>6.1. It is recommended that the company’s capital shall consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>Ordinary shares comprising the share capital provide equal rights to all shareholders of the Company.</p>

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

6.2. It is recommended that investors shall 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	
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 shall be subject to approval of the general shareholders' meeting <sup>13</sup> . All shareholders shall 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	The major shareholders have representatives in the Board which is the decision-maker.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	All shareholders are informed about the date, place and time of the general meeting. The shareholders can get information on the meeting's agenda beforehand.
6.5. It 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	
6.6. Shareholders shall be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders shall not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	
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	

--

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

<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>		
<b>The corporate governance framework shall encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b>		
7.1. Any member of the company's supervisory and management body shall 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 shall, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
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 authorized by the meeting.	Yes	
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.	No	
7.4. Any member of the company's supervisory and management body shall abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
<b>Principle VIII: Company's remuneration policy</b>		
<b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company shall prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it shall ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company's remuneration policy is not published.
8.2. Remuneration statement shall mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement shall contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention shall be given to any significant changes in company's remuneration policy as compared to the previous financial year.	N/A	Remuneration statement is not published.

<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>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;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol>	N/A	Remuneration statement is not published.
<p>8.4. Remuneration statement shall also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It shall include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	N/A	Remuneration statement is not published.
<p>8.5. Remuneration statement shall 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 shall list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information shall be disclosed:</p> <ol style="list-style-type: none"> <li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol>	N/A	Remuneration statement is not published.

<p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information shall be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information shall be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement shall also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	N/A	Remuneration statement is not published.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	N/A	Remuneration statement is not published.
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	N/A	Remuneration statement is not published.
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	N/A	Remuneration statement is not published.
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	Yes	
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance</p>	Yes	
<p>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.</p>	N/A	Remuneration statement is not published.
<p>8.13. Shares should not vest for at least three years after their award.</p>	N/A	There is no such remuneration scheme.

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	N/A	There is no such remuneration scheme.
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).	N/A	There is no such remuneration scheme.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	N/A	There is no such remuneration scheme.
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.	N/A	Remuneration statement is not published.
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 shall be included into the agenda of the shareholders' annual general meeting. Remuneration statement shall be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	N/A	Remuneration statement is not published.
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 shall be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme shall be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions shall also be subject to shareholders' approval prior to their adoption; the approval decision shall be made in shareholders' annual general meeting. In such case shareholders shall be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	N/A	There is no such remuneration scheme.
8.20. The following issues shall 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 shall also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	N/A	There is no such remuneration scheme.
8.21. Shall 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, shall also be subject to the shareholders' approval.	N/A	There is no such remuneration scheme.
8.22. Provisions of Articles 8.19 and 8.20 shall 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.	N/A	There is no such remuneration scheme.

<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents shall be posted on the company’s website). The notice shall 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 shall 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 shall be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There shall also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>	<p>N/A</p>	<p>There is no such remuneration scheme.</p>
<p><b>Principle IX: The role of stakeholders in corporate governance</b></p> <p><b>The corporate governance framework shall 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.</b></p>		
<p>9.1. The corporate governance framework shall assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	
<p>9.2. The corporate governance framework shall 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.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they shall have access to relevant information.</p>		
<p><b>Principle X: Information disclosure and transparency</b></p> <p><b>The corporate governance framework shall 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.</b></p>		
<p>10.1. The company shall disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company’s regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list shall be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p>	<p>Yes</p>	<p>Information about the company pointed out in these recommendations is disclosed in the following sources: annual report, financial statements and notes to the financial statements, announcements on acquisition/disposal of shareholdings, announcements on significant events through the information system of the Stock Exchange.</p>



10.2. It is recommended that consolidated results of the whole group to which the company belongs shall be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	No	The Company is not a parent company.
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 shall 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 shall be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Disclosed information on management's remuneration.
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. shall be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	
10.5. Information shall 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 shall be disclosed to all simultaneously. It is recommended that notices about material events shall be announced before or after a trading session on the NASDAQ OMX Vilnius, so that all the company's shareholders and investors shall have equal access to the information and make informed investing decisions.	Yes	Information through the centralised information system is presented in the Lithuanian and English languages at the same time. Furthermore, the company aims to to announce the information before or after the trading session and provide it to all markets in which the company's shares are traded. Information which may influence the share price is not disclosed in any way until such information is publicly announced through the Stock Exchange information system.
10.6. Channels for disseminating information shall provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies shall be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information shall 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	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company shall be placed on the company's website. It is recommended that the company shall 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	
<b>Principle XI: The selection of the company's auditor</b>		
<b>The mechanism of the selection of the company's auditor shall ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial reports and interim reports 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	

<p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board shall propose a candidate firm of auditors to the general shareholders' meeting.</p>	<p>Yes</p>	<p>The Company follows this regulation. The Board proposes an audit firm for election to the general shareholders meeting.</p>
<p>11.3. It is recommended that the company shall disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information shall 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.</p>	<p>Yes</p>	