

Consolidated and the parent  
company's separate financial  
statements for the year ended  
31 December 2020

Translation note:

*This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.*

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## **Company details**

### **VILKYŠKIŲ PIENINĖ AB**

Telephone:	+370 441 55330
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Company code:	277160980
Registered office address:	P. Lukošaičio g. 14, Vilkyškiai, LT-99254 Pagėgiai municipality, Lithuania

### **Board**

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

### **Management**

Gintaras Bertašius, General Manager  
Vaidotas Juškys, Executive Director  
Sigitas Trijonis, Technical Director  
Rimantas Jancevičius, Director for Purchasing Raw Materials  
Arvydas Zaranka, Production Director  
Vilija Milaševičiūtė, Director for Economic and Financial Affairs  
Rita Juodikienė, Director for Corporate Governance and Quality

### **Auditor**

PricewaterhouseCoopers UAB

### **Banks**

SEB Bankas AB  
Swedbank AB  
Luminor Bank AB  
Šiaulių Bankas AB  
OP Corporate Bank plc Lithuania branch

## Management's statement on the consolidated annual and the parent company's separate annual financial statements

Management has discussed today and authorised for issue the set of annual separate and consolidated financial statements.

The annual separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the accounting policies applied are appropriate and the separate and consolidated annual financial statements give a true and fair view, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

We recommend that the General Meeting of Shareholders approve the annual separate and annual consolidated financial statements.

Vilkyškiai, 8 April 2021

Management:



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Gintaras Bertašius  
General Manager



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Vilija Milaševičiūtė  
Director for Economic and Financial Affairs



## Independent auditor's report

To the shareholders of VILKYŠKIŲ PIENINĖ AB

### Report on the audit of the consolidated and separate financial statements

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#### Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of VILKYŠKIŲ PIENINĖ AB (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Group's and the Company's consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 7 April 2021.

#### What we have audited

The Group's and the Company's consolidated and separate financial statements comprise:

- the consolidated and separate statement of financial position as at 31 December 2020;
- the consolidated and separate statements of profit or loss and statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

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#### 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the separate and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Company are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of

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Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

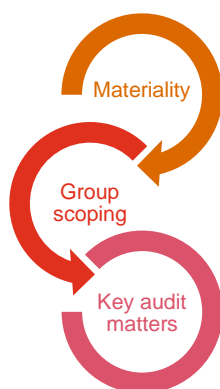
The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 7 to the financial statements.

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## Our audit approach

### Overview

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- Overall Group and Company materiality: Euro 884 thousand and Euro 800 thousand respectively
- We conducted audit at 3 Group entities, all operating in Lithuania, covering 100% of the Group's revenues and 99.8% of the Group's total assets.
- Impairment testing of goodwill.
- Inventory write-down to net realisable value.

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together “the financial statements”). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

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<b>Overall Company materiality</b>	EUR 800 thousand (in 2019 – EUR 800 thousand).
<b>Overall Group materiality</b>	EUR 884 thousand (in 2019 – EUR 800 thousand).
<b>How we determined it</b>	0.73% of the Group's and 0.54% of the Company's total revenue.

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### Rationale for the materiality benchmark applied

Significant fluctuations in the Group's and the Company's profit depend on the prevailing trends in global dairy markets. We have, therefore, chosen revenue as a benchmark for determining the materiality because, in our view, it provides the stakeholders consistent information year-on-year basis, reflecting the Group's and the Company's growth. Revenue and market share are also considered to be important business performance indicators.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 44 thousand and EUR 40 thousand for the Group and the Company, respectively, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### 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.

#### Key audit matter

#### How our audit addressed the key audit matter

##### Impairment testing of goodwill

*Refer to accounting policy on impairment testing on page 22, accounting estimates and assessments on pages 32-33 and note 14 'Intangible assets' in the financial statements.*

The Group has goodwill balance of EUR 6,915 thousand as at 31 December 2020.

Under the requirements of IAS 36 Impairment of assets goodwill has to be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs of disposal, requires judgment from management when identifying and valuing the relevant cash-generating units.

Recoverable amounts are based on management's view of internal and market conditions such as future prices and volume growth rate, the timing of future operating expenditure and the most appropriate discount and long-term growth rates. No impairment was recognized neither in the current, nor in the prior years as the Group has concluded, that the recoverable amount is higher than the carrying amount.

We focused on this area because of the significance of the goodwill balance and because the impairment assessment involved

We focused on goodwill attributable to the cash generating unit from fresh milk products of Kelmės Pieninė AB, which represents 96% of the entire goodwill balance of the Group.

Our audit procedures included challenging management on the appropriateness of the impairment models and the reasonableness of the assumptions used by performing the following:

- Assessing the reliability of the cash flow forecast by checking the actual past performance and comparing to previous forecasts and by inspecting internal documents, such as budget forecasts for 2021–2025;
- Benchmarking market related assumptions like discount rate and long-term growth rate against external data. Where it was considered necessary, we involved our valuation experts;
- Testing the mathematical accuracy of the model and assessing the sensitivity of the impairment test to key inputs.

We also reviewed the disclosures in the financial statements regarding impairment tests.



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significant management's judgements about the future results and the discount rates applied to future cash flows forecasts.

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#### Inventory write-down to net realisable value

*Refer to accounting policy on inventory on page 23, accounting estimates and assessments on page 32-33 and note 17 'Inventories' in the financial statements.*

We focused on this area due to the size of the inventory balance (EUR 11,693 thousand and EUR 6,436 thousand as at 31 December 2020 at the Group and the Company, respectively), and because the management's assessment of the net realisable value of inventory involved estimates about the future discounts and sales of goods below their cost.

As at 31 December 2019 the Group's and the Company's write-down to net realisable value allowance amounted to EUR 37 thousand and EUR 4 thousand, respectively. During 2020 the Group and the Company sold inventory at higher prices and reversed the write-down allowance, recognised in the previous period.

We obtained the Group's and the Company's policies and methodology in respect of inventory write-downs to net realisable value, evaluated their compliance with the requirements of IFRSs, and found them to be consistent.

We analysed sales prices of the finished goods items sold after the balance sheet date and compared results with the figures used in the management's calculation of inventory write-down allowance.

We analysed the aging of inventories other than finished goods, by periods, to identify slow-moving or obsolete items. We also verified the reliability of the inventory ageing report and compared our estimated inventory write-down allowance to the management's calculations.

We found the assumptions used by management in the calculation of inventory write-down to net realisable value to be within acceptable range of our expectations.

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#### How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of parent and 3 subsidiaries that all operate in Lithuania. Based on our risk and materiality assessments, we determined which entities were required to be audited, by taking into account the relative significance of each entity to the Group as a whole and in relation to each material line item in the consolidated financial statements. We performed audits of parent entity VILKYŠKIŲ PIENINĖ AB and subsidiaries Kelmės Pieninė AB and Modest AB. Our audits addressed 100% of the Group's revenues and 99.8% of the Group's total assets. The remaining component of the Group was immaterial.

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#### Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report, remuneration report and the social responsibility report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Group presented the social responsibility report as a part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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## 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 Group's and 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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

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

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## 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 Group's and 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 Group's and 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 Group and 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated 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 auditor's 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.



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## Report on other legal and regulatory requirements

### Appointment

We were first appointed as auditors of the Group and the Company on 28 April 2017. Our appointment has been renewed by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

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The key audit partner on the audit resulting in this independent auditor's report is Rimvydas Jogėla.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla  
Partner  
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania  
8 April 2021

The auditor's electronic signature is used herein to sign only the Independent Auditor's Report

## Consolidated and separate statements of financial position

EUR '000

<u>GROUP</u>				<u>COMPANY</u>	
At 31 December			Note	At 31 December	
<u>2020</u>	<u>2019</u>	<u>Assets</u>		<u>2020</u>	<u>2019 (restated)</u>
-	-	Investment property	11,13,30	5,395	5,568
46,207	48,452	Property, plant and equipment	11,30	13,196	13,501
968	1,303	Right-of-use assets	11,12	960	1,292
6,935	6,936	Intangible assets	14	20	21
-	-	Investments in subsidiaries	15	10,713	10,713
226	358	Non-current amounts receivable	16	226	358
890	159	Deferred income tax assets	24	890	159
<b>55,226</b>	<b>57,208</b>	<b>Non-current assets</b>		<b>31,400</b>	<b>31,612</b>
11,693	11,161	Inventories	17	6,436	6,148
9,062	8,699	Trade and other receivables	18	10,147	12,083
736	679	Prepayments	19	705	630
181	298	Cash and cash equivalents	20	155	231
<b>21,672</b>	<b>20,837</b>	<b>Current assets</b>		<b>17,443</b>	<b>19,092</b>
<b>76,898</b>	<b>78,045</b>	<b>Total assets</b>		<b>48,843</b>	<b>50,704</b>
		<b>Equity</b>			
3,463	3,463	Share capital		3,463	3,463
3,301	3,301	Share premium		3,301	3,301
2,347	2,455	Reserves		1,513	1,585
25,809	21,831	Retained earnings		18,954	17,511
<b>34,920</b>	<b>31,050</b>	<b>Equity attributable to owners of the Company</b>	21	<b>27,231</b>	<b>25,860</b>
53	51	<b>Non-controlling interest</b>		-	-
<b>34,973</b>	<b>31,101</b>	<b>Equity</b>	21	<b>27,231</b>	<b>25,860</b>
		<b>Liabilities</b>			
2,951	12,308	Borrowings	22	2,779	80
323	642	Lease liabilities	22	345	672
4,664	5,243	Government grants	23	873	1,071
<b>7,938</b>	<b>18,193</b>	<b>Non-current liabilities</b>		<b>3,997</b>	<b>1,823</b>
18,083	14,142	Borrowings	22	3,996	10,160
303	391	Lease liabilities	22	312	375
1	-	Income tax payable		-	-
15,600	14,218	Trade and other payables	25	13,307	12,486
<b>33,987</b>	<b>28,751</b>	<b>Current liabilities</b>		<b>17,615</b>	<b>23,021</b>
<b>41,925</b>	<b>46,944</b>	<b>Liabilities</b>		<b>21,612</b>	<b>24,844</b>
<b>76,898</b>	<b>78,045</b>	<b>Total equity and liabilities</b>		<b>48,843</b>	<b>50,704</b>

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.

General Manager

Gintaras Bertašius

Director for Economic and Financial Affairs

Vilija Milaševičiūtė

8 April 2021

**Consolidated and separate statements of profit or loss**

EUR '000

<u>GROUP</u>				<u>COMPANY</u>	
<u>2020</u>	<u>2019</u>	EUR '000	Note	<u>2020</u>	<u>2019</u>
120,873	114,581	Revenue	1	148,738	140,492
-110,244	-108,210	Cost of sales*	2	-147,825	-140,892
<b>10,629</b>	<b>6,371</b>	<b>Gross profit</b>		<b>913</b>	<b>-400</b>
303	322	Other operating income*	3	8,604	4,285
-3,182	-3,843	Distribution expenses*	5	-3,182	-3,761
-3,185	-2,916	Administrative expenses	6	-2,320	-2,256
-	-	Change in value of investment property	13, 30	-173	-
-233	-140	Other operating expenses	4	-2,448	-2,190
<b>4,332</b>	<b>-206</b>	<b>Results of operating activities</b>		<b>1,394</b>	<b>-4,322</b>
26	20	Finance income*		14	18
-1,216	-1,262	Finance costs		-768	-757
<b>-1,190</b>	<b>-1,242</b>	<b>Finance costs, net</b>	8	<b>-754</b>	<b>-739</b>
<b>3,142</b>	<b>-1,448</b>	<b>Profit (loss) before income tax</b>		<b>640</b>	<b>-5,061</b>
730	1,002	Income tax	9	731	1,002
<b>3,872</b>	<b>-446</b>	<b>Profit (loss) for the reporting year</b>		<b>1,371</b>	<b>-4,059</b>
		Attributable to:			
3,870	-446	Shareholders of the Company			
2	-	Non-controlling interest			
<b>3,872</b>	<b>-446</b>	<b>Profit (loss) for the reporting year</b>		<b>1,371</b>	<b>-4,059</b>
0.32	-0.04	Basic and diluted earnings per share (in EUR)	10	0.11	-0.34

\*in addition, see Notes 2, 3, 5 and 8

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.

Gintaras Bertašius  
General ManagerVilija Milaševičiūtė  
Director for Economic and Financial Affairs

**Consolidated and separate statements of other comprehensive income**

EUR '000

<u>GROUP</u>			<u>COMPANY</u>	
<u>2020</u>	<u>2019</u>	EUR '000	<u>2020</u>	<u>2019</u>
3,872	-446	<b>Profit (loss) for the reporting year</b>	1,371	-4,059
		<b>Other comprehensive income</b>		
		<b>Items that will not be reclassified to profit or loss</b>		
		<b>Items that are or may be subsequently reclassified to profit or loss</b>		
-	-	Change in fair value of hedging instruments	-	-
-	-	<b>Other comprehensive income for the year, net of income tax</b>	-	-
<b>3,872</b>	<b>-446</b>	<b>Total comprehensive income for the year</b>	<b>1,371</b>	<b>-4,059</b>
		Attributable to:		
3,870	-446	Shareholders of the Company		
2	-	Non-controlling interest		
<b>3,872</b>	<b>-446</b>	<b>Total comprehensive income for the year</b>	<b>1,371</b>	<b>-4,059</b>

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.

**Separate statement of changes in equity**

EUR '000

	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2019 (restated)*	30	3,463	3,301	1,325	346	21,484	29,919
Profit for the year		-	-	-	-	-4,059	-4,059
<b>Other comprehensive income</b>							
Depreciation, write-off of revalued assets	11	-	-	-117	-	117	-
Total other comprehensive income		-	-	-117	-	117	-
Correction of error*	30	-	-	31	-	-31	-
<b>Total comprehensive income for the year(restated)*</b>		-	-	-86	-	-3,973	-4,059
<b>Transactions with owners recognised directly in equity</b>							
Total transactions with owners		-	-	-	-	-	-
Balance at 31 December 2019 (restated)*	30	3,463	3,301	1,239	346	17,511	25,860
Balance at 1 January 2020 (restated)*	30	3,463	3,301	1,239	346	17,511	25,860
Profit (loss) for the period		-	-	-	-	1,371	1,371
<b>Other comprehensive income</b>							
Depreciation, write-off of revalued assets	11	-	-	-72	-	72	-
Total other comprehensive income		-	-	-72	-	72	-
<b>Total comprehensive income for the year</b>				-72	-	1,443	1,371
<b>Transactions with owners recognised directly in equity</b>							
Total transactions with owners		-	-	-	-	-	-
Balance at 31 December 2020	21	3,463	3,301	1,167	346	18,954	27,231

\*in addition, see Note 30

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.

**Consolidated statement of changes in equity**

		Equity attributable to owners of the Company								
EUR '000		Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
At 1 January 2019		21	3,463	3,301	2,233	346	22,153	31,496	51	31,547
<b>Comprehensive income for the year</b>										
Net profit (loss)			-	-	-	-	-446	-446	-	-446
<b>Other comprehensive income</b>										
Depreciation, write-off of revalued assets			-	-	-124	-	124	-	-	-
<b>Total other comprehensive income</b>			-	-	-124	-	124	-	-	-
<b>Total comprehensive income for the year</b>			-	-	-124	-	-322	-446	-	-446
<b>Contributions by and distributions to owners:</b>										
Total contributions by and distributions to owners			-	-	-	-	-	-	-	-
<b>Changes in the Group not resulting in a loss of control</b>										
Total transactions with shareholders			-	-	-	-	-	-	-	-
At 31 December 2019		21	3,463	3,301	2,109	346	21,831	31,050	51	31,101
At 1 January 2020		21	3,463	3,301	2,109	346	21,831	31,050	51	31,101
<b>Comprehensive income for the year</b>										
Net profit (loss)			-	-	-	-	3,870	3,870	2	3,872
<b>Other comprehensive income</b>										
Depreciation, write-off of revalued assets			-	-	-108	-	108	-	-	-
<b>Total other comprehensive income</b>			-	-	-108	-	108	-	-	-
<b>Total comprehensive income for the year</b>			-	-	-108	-	3,978	3,870	2	3,872
<b>Contributions by and distributions to owners:</b>										
Total contributions by and distributions to owners			-	-	-	-	-	-	-	-
<b>Changes in the Group not resulting in a loss of control</b>										
Total transactions with shareholders			-	-	-	-	-	-	-	-
At 31 December 2020		21	3,463	3,301	2,001	346	25,809	34,920	53	34,973

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.



**Consolidated and separate statements of cash flows**

EUR '000

<u>GROUP</u>			<u>COMPANY</u>	
<u>2020</u>	<u>2019</u>	EUR '000	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>				
3,872	-446	Profit (loss) for the year	1,371	-4,059
Adjustments for:				
4,505	4,473	Depreciation of property, plant and equipment*	1,785	1,837
-	-	Loss (gain) on change in fair value of investment property*	173	173
13	12	Amortisation of intangible assets	13	12
-579	-581	Amortisation and write-off of grants	-198	-204
-39	-894	Change in impairment of inventories	4	-699
-13	-56	Loss (gain) from disposal and write-off of property, plant and equipment	11	-55
-	-	Other operating income*	-5,651	-1,720
-730	-1,002	Income tax expenses	-731	-1,002
1,190	1,242	Finance costs, net*	754	739
<b>8,219</b>	<b>2,748</b>		<b>-2,469</b>	<b>-4,978</b>
-497	4,959	Change in inventories	-297	5,439
132	-44	Change in non-current amounts receivable	132	-34
-418	-1,682	Change in trade and other receivables and prepayments	1,847	-1,136
1,381	-2,672	Change in trade and other payables	6,291	-999
<b>8,817</b>	<b>3,309</b>		<b>5,504</b>	<b>-1,708</b>
-908	-833	Interest paid	-477	-351
-	-8	Income tax paid	-	-
<b>7,909</b>	<b>2,468</b>	<b>Net cash flows generated from operating activities</b>	<b>5,027</b>	<b>-2,059</b>
<b>Cash flows from investing activities</b>				
-2,121	-2,058	Payments for acquisition of property, plant and equipment	-1,113	-1,016
-12	-15	Payments for acquisition of intangible assets	-12	-15
70	118	Proceeds from sale of property, plant and equipment	13	111
-210	-150	Loans granted	-210	-150
-	376	Government grants received	-	-
-	-	Dividends received	-	1,720
70	103	Repayment of loans	74	109
<b>-2,203</b>	<b>-1,626</b>	<b>Net cash flows generated from (used in) investing activities</b>	<b>-1,248</b>	<b>759</b>

\*in addition, see Notes 3, 8, 11,13 and 30

**Consolidated and separate statements of cash flows (continued)**

EUR '000

<u>GROUP</u>		EUR '000	Note	<u>COMPANY</u>	
<u>2020</u>	<u>2019</u>			<u>2020</u>	<u>2019</u>
<b>Cash flows from financing activities</b>					
7,887	4,758	Proceeds from borrowings	22	6,199	4,035
-13,303	-5,258	Repayments of borrowings	22	-9,664	-2,405
-407	-451	Lease payments		-390	-436
<b>-5,823</b>	<b>-951</b>	<b>Net cash flows generated from (used in) financing activities</b>		<b>-3,855</b>	<b>1,194</b>
		<b>Net increase (decrease) in cash and cash equivalents</b>		-76	-106
-117	-109				
298	407	Cash and cash equivalents as at 1 January		231	337
181	298	<b>Cash and cash equivalents as at 31 December</b>	20	155	231

The notes on pages 17 to 76 are an integral part of these separate and consolidated financial statements.

## Notes to the consolidated and separate financial statements

### General information

The Vilvi Group consists of the following companies (hereinafter the “Group”):

- VILKYŠKIŲ PIENINĖ AB, a parent company (hereinafter the “Parent Company” or the “Company”);
- Modest AB, a subsidiary (hereinafter the “subsidiary Modest AB”);
- Kelmės Pieninė AB, a subsidiary (hereinafter the “subsidiary Kelmės Pieninė AB”);
- Kelmės Pienas UAB, a subsidiary of Kelmės Pienas AB.
- Pieno Logistika AB, a subsidiary (hereinafter the “subsidiary Pieno Logistika AB”).

VILKYŠKIŲ PIENINĖ AB was established in 1993. The Parent Company has no branches or representative offices.

VILKYŠKIŲ PIENINĖ AB is a Lithuanian company listed on Nasdaq OMX Vilnius AB stock exchange

**As at 31 December 2020, the Company’s shareholder structure was as follows:**

Shareholder	Shares held	Nominal value,	
		EUR	Total value, EUR
Swisspartners Versicherung AG Zweigniederlassung Österreich	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	2,035,729	0.29	590,361
Other minority shareholders	3,840,065	0.29	1,113,619
<b>Total capital</b>	<b>11,943,000</b>	<b>0.29</b>	<b>3,463,470</b>

**As at 31 December 2019, the Company’s shareholder structure was as follows:**

Shareholder	Shares held	Nominal value,	
		EUR	Total value, EUR
Swisspartners Versicherung AG Zweigniederlassung Österreich	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	2,035,729	0.29	590,361
Other minority shareholders	3,840,065	0.29	1,113,619
<b>Total capital</b>	<b>11,943,000</b>	<b>0.29</b>	<b>3,463,470</b>

As from April 2018, Mr Gintaras Bertašius, the main shareholder of Vilkyškių Pieninė AB, together with related persons concluded a joint life insurance policy with Swisspartners Versicherung AG Zweigniederlassung Österreich, by contributing in total 6,067,206 (50.8%) of ordinary registered shares held in Vilkyškių Pieninė AB. The insurance company had irrevocably granted powers to exercise all non-property rights of a shareholder, including the right to vote at the meeting of shareholders of the issuer, to Mr Gintaras Bertašius and the related persons for the entire validity period of the insurance policy.

The Company’s ultimate controlling party is Mr Gintaras Bertašius and persons related to him.

The Parent Company’s core line of business is production and sale of different types of cheese. The Company also produces and sells whey products, raw milk and cream.

Business activities are carried out at the main production facilities located in Vilkyškiai, Pagėgiai region municipality. The Parent Company also has a milk distribution centre located in Eržvilkas, Jurbarkas region municipality.

## Notes to the consolidated and separate financial statements

### General information (continued)

The Parent Company is controlling a subsidiary Modest AB, which is engaged in milk processing and production of milk products. The Company owns 99.7% of voting rights of subsidiary Modest AB. Modest AB produces fermented *Mozzarella* cheese, blue-veined cheese, other cheese products, and processes whey.

The Parent Company also controls the subsidiary Kelmės Pieninė AB, which is engaged in milk processing and production of milk products. The Company owns 100% of voting rights of subsidiary Kelmės Pieninė AB. Kelmės Pieninė AB produces fresh and dry milk products.

In November 2020, Kelmės Pienas UAB, a subsidiary of Kelmės Pieninė AB was established. Kelmės Pieninė UAB holds 100% of shares of Kelmės Pienas UAB. Kelmės Pienas UAB started its operations as from 1 March 2021.

A subsidiary Pieno Logistika AB became a part of the Group in 2013. Its authorised share capital amounts to EUR 107.7 thousand and its main business activity is lease of buildings. The Company owns 58.9% of voting rights of the subsidiary Pieno Logistika AB.

As at 31 December 2020, the Group had 830 (31 December 2019: 828) employees.

As at 31 December 2020, the Company had 459 (31 December 2019: 477) employees.

## Notes to the consolidated and separate financial statements

### Basis of preparation

#### Statement of compliance

The Group's consolidated and the Company's separate financial statements (hereinafter the "financial statements" or the "consolidated and separate financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter "the EU").

Pursuant to the Law on Companies of the Republic of Lithuania, the annual financial statements prepared by management have to be approved by the General Meeting of Shareholders. The shareholders of the Company have a statutory right to approve these financial statements or not to approve and to require preparation of a new set of the annual financial statements.

These financial statements include the consolidated financial statements of the Group and the separate financial statements of the Company.

#### Measurement basis

The financial statements have been prepared on a historical cost basis except for:

- buildings that are a part of property, plant and equipment and measured at fair value, less any subsequent accumulated depreciation and impairment losses;
- buildings that a part of investment property and measures at fair value.

#### Functional and presentation currency

All amounts in these financial statements are presented in the euros (EUR) and they have been rounded to the nearest thousand.

#### Foreign currency transactions

Foreign currency transactions are translated into the euros using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated in the euros using the exchange rate prevailing at the date of the preparation of the statement of financial position. All foreign currency transactions have been translated in accordance with the provisions of the Law on Accounting using the exchange rate of the euro against the foreign currency prevailing at the date of the transaction.

Foreign exchange differences arising from the settlement of such transactions are recognised in the statement of profit or loss. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the euros using the official exchange rate prevailing at the date of the transaction.

#### Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the Group's consolidated financial statements from the date on which the Group obtains control, and continue to be included until the date that such control ceases

All intra-group transactions and balances are eliminated for the purpose of the consolidated financial statements.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies

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

#### Property, plant and equipment

Property, plant and equipment, excluding buildings, is stated at acquisition cost, less subsequent accumulated depreciation and impairment losses. Costs related to the acquisition of the assets are included in the acquisition cost. The cost of assets produced internally by the Parent Company and the subsidiaries comprises the cost of materials, direct labour costs and indirect labour costs allocated on a proportionate basis. When parts of the items of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Other expenses related to property, plant and equipment are recognised in the statement of profit or loss during the reporting period in which they are incurred.

Buildings are recorded at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. Revaluations are carried out at regular intervals, i.e. at least every five years, to ensure that the carrying amount of buildings does not materially differ from their fair value at the date of the preparation of the statement of financial position. The fair value of buildings is determined by certified independent property valuers. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets. The revaluation reserve for buildings is transferred to retained earnings in proportion to the depreciation of revalued buildings.

In case of revaluation, when the estimated fair value of an asset is lower than its net book value, the net book value of the asset is immediately reduced to the fair value and such impairment is recognised as expenses. However, such impairment is deducted from the previous revaluation increase of the asset accounted for in the revaluation reserve, to the extent it does not exceed the amount of such increase.

In case of revaluation, when the estimated fair value of an asset is higher than its net book value, the net book value of the asset is increased to the fair value and such increase is recorded in the revaluation reserve of property, plant and equipment under the shareholder's equity in the statement of other comprehensive income. Depreciation is calculated using the straight-line method to allocate the revalued amounts of the assets, net of their residual values, over their estimated useful lives.

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

The estimated useful lives are as follows (in years):

Buildings	8-40 years
Plant and machinery	4-15 years
Other assets	3-7 years

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

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Investment property under construction is measured at fair value if the fair value is considered to be reliably determinable. Investment properties under construction for which the fair value cannot be determined reliably, but for which the Company expects the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project/property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;

Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as at the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the Company's financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the cost of the replacement is included in the carrying amount of the property, and the fair value is reassessed.

Changes in fair values are recognised in the income statement. Investment properties are derecognised when they have been disposed of.

Where the Company disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Investment property (continued)

Where the Company disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment. Its fair value as at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item as at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in the income statement to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increased directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to the income statement.

Where an investment property undergoes a change in use, such as commencement of development with a view to sell, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

#### Intangible assets

Intangible assets with a finite useful life that are acquired by the Parent Company and its subsidiaries are stated at cost less accumulated amortisation and impairment losses. Amortisation is recorded in the statement of profit or loss on a straight-line basis over the useful life of 3 years.

#### Goodwill

Goodwill is an asset representing the future economic benefits arising from assets that cannot be separated from other assets and recognised on a business combination.

Goodwill arising on acquisition of subsidiaries is recognised as intangible assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses (tested on an annual basis). For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Cash-generating units are operations of Modest AB relating to production and sale of cheese and cheese products, and operations of Kelmės Pieninė AB relating to production and sale of fresh products.

EUR '000	At 31 December 2020	At 31 December 2019
Kelmės Pieninė AB (fresh milk products)	6,616	6,616
Modest AB (cheese, cheese products)	299	299
	<b>6,915</b>	<b>6,915</b>

Where goodwill is a portion of a cash-generating unit, and a portion of an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the carrying amounts of the operation disposed of and the portion of the cash-generating unit retained.



## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Non-controlling interest

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the Parent Company. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. Adjustments to non-controlling interest is adjusted proportionally from the controlled net assets of the subsidiary without losing its control.

#### Investments in subsidiaries

Investments in the subsidiaries in the separate financial statements are stated at acquisition cost, less impairment losses.

#### Inventories

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

Inventories are initially measured at acquisition or production cost. The production cost includes direct labour costs, costs of materials and conversion costs incurred during the production period. Production costs also include a systematic allocation of fixed and variable production overheads. At the end of the reporting period inventories are measured at the lower of cost or net realisable value, less any write-downs. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses. Write-downs of inventories to net realisable value are included in the cost of sales.

The utilisation of inventories is determined using the first-in, first-out (FIFO) method.

#### Financial assets and liabilities

The Group and the Company classify their financial assets into the following categories:

- financial assets subsequently measured at fair value (either at fair value through other comprehensive income or at fair value through profit or loss), and the Group and the Company have no such assets;
- financial assets measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

All regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

On initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets measured at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *Trade receivables*

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 to 60 days, and therefore, are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The Group and Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Group and Company has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. Under factoring with recourse agreements, the Group and Company has retained late payment and credit risk. The Group and Company therefore continues to recognise the transferred assets in their entirety in its statement of financial position. The amount repayable under the factoring agreement is presented as secured borrowing. The Group and Company considers the held to collect business model to remain appropriate for these receivables and hence continues measuring them at amortised cost. Under factoring without recourse agreements the Group and Company does not retain any risks, therefore these assets are derecognised from statement of financial position and at year-end there is no balances outstanding.

##### *Impairment*

The Group and Company assess on a forward-looking basis the expected credit losses associated with its debt instruments measured at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables and contract assets.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the profiles of receivables from sale of goods over the period of 48 months before 31 December 2020 or 31 December 2019, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to pay the amounts due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan with the Group, and contractual payments past due more than 180 days.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

##### *Trade and other payables*

These amounts represent outstanding liabilities for goods and services provided to the Group prior to the end of financial year. The amounts payable are unsecured and are usually paid within 30 days after their recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *Borrowing costs*

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

##### *Borrowings*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Costs incurred in relation to collateralisation of borrowing facilities are recognised as transaction costs of the borrowings to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the related costs are capitalised as a prepayment for liquidity services and amortised over the period of the loan facility to which it relates.

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

Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value in the statement of financial position. Gains or losses on reassessment are recognised directly in profit or loss. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value, plus transaction costs. Subsequently, interest-bearing amounts are recognised at amortised cost using the effective interest method.

##### *Reversal of impairment*

An impairment loss on amounts receivable carried at amortised cost is reversed, if, in a subsequent period, the increase in the recoverable amount can be related to an event occurring after the impairment loss was recognised.

The impairment loss is reversed to the extent that the carrying value of the asset does not exceed its value that would have been determined had no impairment loss been recognised.

#### **Fair value measurement**

The fair value of investments traded in an active market is based on quoted market prices at the reporting date. If the market for a financial asset is not active (and for unlisted securities), the Group and the Parent Company establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis or other valuation models.

In determining the fair value of assets or liabilities the Group and the Company use as much as possible inputs that are observable in the market. A fair value hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value:

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Fair value measurement (continued)

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The Group and the Company recognise the amounts transferred within the fair value hierarchy levels at the end of the reporting period in which the change occurred.

Fair values measured for the purposes of assessment and (or) disclosure are calculated using the below presented methods. When applicable, further information on assumptions used in determining fair values is disclosed in the note related to specific assets or liabilities.

#### Derecognition of financial assets and financial liabilities

##### *Financial assets*

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Company have retained the right to receive cash inflows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Group and the Company have transferred their rights to receive cash flows from the asset and/or (a) have transferred all the risks and rewards of the asset, or (b) have neither transferred nor retained all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Company have transferred their rights to receive cash flows from the asset and have neither transferred nor retained all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Parent Company’s/subsidiary’s continuing involvement in the asset.

##### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires.

#### Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits in bank accounts and other short-term liquid investments. Bank overdrafts are recognised in the statement of financial position as current borrowings and are not attributed to cash equivalents in the statement of cash flows as usually their balance is negative. Interest and dividends received are attributed to cash flows of investing activities, interest paid are attributed to cash flows from operating activities, whereas dividends paid – to cash flows from financing activities.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Impairment

##### *Non-financial assets*

Non-financial assets, except for inventories and deferred tax assets, are reviewed for impairment whenever events or changes in circumstance indicate that the asset may be impaired. If such an indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, less costs to sell. The asset's value in use is calculated by discounting future cash flows to their present value using a pre-tax discount rate reflecting current market assumptions regarding time value of money and risk specific to the asset concerned.

For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows through the asset's continuous use and is independent from cash flows generated by other assets or the groups of assets ("the cash generating unit" or "CGU").

Whenever the net book value of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. Reversal is accounted for in the statement of profit or loss under the same caption as impairment loss. An impairment loss allocated to goodwill is not reversed.

#### Provisions

Provisions for liabilities are recognised in the statement of financial position when there are commitments as a result of past events and it is probable that additional funds will be required to settle these obligations. If the impact is material, provisions are estimated by discounting future cash flows 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 liability.

#### Leases

##### *Where the Group/Company is a lessee*

The Group and the Company lease out buildings, motor vehicles, plant and machinery, and other assets. The Group's term of lease ranges up to 8 years, but they contain an extension option. As the management determines the lease term, it considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The extension option is included in the lease term only when it is reasonably certain that the lease will be extended (or will not be terminated).

The lease terms and conditions are negotiated individually, however, there are no non-standard terms and conditions. The lease contracts do not stipulate any financial performance covenants that the Group and the Company would be required to comply with.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Leases (continued)

The lease liabilities arising from a lease are measured by a lessee at the commencement date on a present value basis, including the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

The interest rate implicit in the lease is the interest rate as a result of which the present value of the lease payments and unguaranteed residual value is equal to the sum of fair value of leased assets and any other initial direct costs of the lessor.

The lease liability is measured at amortised cost using the effective interest rate, which represents the discount rate used in discounting of lease payments. Interest expenses relating to the lease liability are allocated over the lease period and recognised through profit or loss.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by a lessee; and
- restoration costs.

Subsequently the right-of-use assets are recognised by the lessee at cost less accumulated depreciation and impairment losses. When the title of ownership is transferred to the lessee at the end of the lease period or when the price of the right-of-use assets shows that the lessee will exercise the buy option, then the lessee estimates depreciation of right-of-use assets from the commencement date to the end of the useful life of the leased assets. Otherwise, the lessee estimated depreciation for right-of-use assets from the commencement date to the end of the useful life of the right-of-use assets or the end of the lease period, depending on which occurs earlier.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases that, at the commencement date, have a lease term of 12 months or less, and that do not contain a purchase option. Low-value assets mostly represent milk products.

*Operating lease -- where the Group/Company is a lessee*

Operating lease payments are recognised as expenses in profit or loss using the straight-line method over the lease term.

#### Dividends

Dividends are recorded as a liability or an amount receivable in the period in which they are declared.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Government grants

Grants received as a compensation for the costs incurred are recognised in profit or loss over the period in which the costs are incurred.

Government and the European Union grants and third-party compensations received in the form of non-current assets or intended for the purchase of non-current assets are considered as asset-related grants. Grants are initially recorded at the fair value of the asset received and subsequently amortised. Amortisation costs of grants are included in the cost of production or administrative expenses as well as in the depreciation charge of property, plant and equipment for which the grant was received.

#### Revenue

The Group and Company manufactures and sells a range of cheese and milk products in the wholesale market. Sales are recognised when control of the products has been transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group and the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from transport services is recognised in the period in which the services are rendered.

The goods are sometimes sold with retrospective volume discounts based on aggregate sales over a month or a 12-months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated historical experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. It is considered that there is no significant financing component, since customers are offered a credit period of 30 days to settle their obligations, which is in line with the market practice.

Receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group and Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Contract liabilities are recognised and presented as advance amounts received.

#### Cost of sales

Cost of sales consists of direct and indirect costs, including depreciation and remuneration expenses incurred in order to achieve the turnover set for a respective year.

Expenses are recognised on an accrual basis and matching principle.

#### Distribution and administrative expenses

Distribution and administrative expenses comprise expenses related to transportation, administrative staff, coordination activities, office supplies, etc. and also comprise depreciation and amortisation expenses.

Operating expenses are recognised on an accrual basis.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Other operating income and expenses

Other operating income and expenses comprise gain or loss from the disposal of non-current assets as well as other income and expenses not directly related to the principal activities of the Group and the Company.

#### Finance income and costs

Income and expenses of financing activities include interest receivable and payable, realised and unrealised foreign exchange gain and loss related to borrowings and financial liabilities denominated in foreign currencies.

Interest income is recognised in profit or loss using the effective interest method. Interest expenses on leases is recognised in profit or loss using the effective interest method.

#### Employee benefits

Short-term employee benefits are recognised as current expenses of the period in which the services have been rendered. Such employee benefits include wages and salaries, social security contributions, extra pays, paid vacation, contributions to pension funds, and other benefits. There are no long-term employee benefits.

The Group and the Company pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution is a plan under which the Group and the Company pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

The Group and the Company also pay contributions to Pillar III investment fund on behalf of its employees based on the defined contribution plan. The contributions are recognised as expenses on an accrual basis and included in general and administrative expenses.

#### Income tax

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

Current income tax is calculated on the annual taxable result using the tax rates enacted and applied as at the reporting date, plus any adjustments to the tax payable in respect of previous years.

A standard income tax rate of 15% is applied to companies registered in the Republic of Lithuania. Tax losses, except for those arising on disposal of securities and/or derivative financial instruments, can be carried forward for unlimited period, provided the entity continues the operations, which generated these tax losses. The amended provisions of Article 30(4) of the Law on Corporate Income Tax stipulate that when calculating income tax for 2014 and subsequent periods, deductible tax losses available for carry forward can be used to reduce taxable income of the current tax year by maximum 70% calculated by deducting non-taxable income, allowable deductions and limited allowable deductions from income, except for losses of the previous tax periods.

The procedure of carrying forward losses arising on disposal of securities and/or derivative financial instruments has not changed, therefore, these losses can be carried forward for the period of 5 years and can only be used to reduce taxable income earned from transactions of the similar nature.



## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Income tax (continued)

Deferred income tax is calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax is not calculated on temporary differences arising on initial recognition of an asset or liability, which at the time of the transaction affect neither accounting nor taxable profit.

Deferred income tax is determined using the tax rates that are expected to apply when the related temporary differences are expected to reverse and that are known at the date of the preparation of the statement of financial position.

Deferred income tax assets are recognised only when the Group and the Company expect that future taxable profit will be available against which tax assets can be utilised. Deferred income tax is reviewed at each date of the statement of financial position and reduced by the amount of tax assets that will not be utilised.

#### Earnings per share

The Group and the Company disclose information on basic and diluted earnings per share. Basic earnings per share are calculated by dividing profit or loss attributable to the shareholders of the Parent Company by the weighted average number of ordinary shares during the period. Diluted earnings per share are calculated by adjusting profit or loss attributable to the shareholders, and the weighted average number of ordinary shares during the year, for the effects of all potential ordinary shares. During the reporting periods the Group and the Company did not issue potential ordinary shares.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board making strategic decisions, and the General Manager. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including intra-segment revenues and expenses. The Group has three reportable segments established on the basis of different groups of products (cheese, cheese products and other, dry milk products, fresh milk products).

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

Except for the changes described below, accounting policies applied in the current financial year are consistent with those of the previous financial year. The accounting policies set out below have been consistently applied by the Group and the Company to all the periods presented in these consolidated financial statements.

The Group and the Company adopted the following new standards and amendments, including the respective amendments to the existing standards with effect from 1 January 2020:

- *Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020)*. Based on the Group's and the Company's assessment, the amendments have no impact on the financial statements.
- *Definition of a business – Amendments to IFRS 3 (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)*. Based on the Group's and the Company's assessment, the amendments have no impact on the financial statements.
- *Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020)*. Based on the Group's and the Company's assessment, the amendments have no impact on the financial statements.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Impact on the financial statements of adoption of new standards, amendments and interpretations (continued)

- *Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (effective for annual periods beginning on or after 1 January 2020)*. Based on the Group's and the Company's assessment, the amendments have no impact on the financial statements.
- *Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020)*. The amendments will have no impact on the financial statements because no rent concessions or relieves were received or expected to be received by the Group and the Company during the COVID-19 pandemic.

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

A number of amendments to new standards and interpretations are effective for annual periods beginning on 1 January 2021 and have not been adopted in the preparation of these consolidated financial statements. Standards, interpretations and amendments that may be relevant to the Group and the Company are presented below. The Group and the Company do not intend to early adopt these standards.

- *Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021)*. Based on a preliminary assessment of the potential impact of the amendments, no impact on the financial statements has been identified by the Group and the Company.

There are no other amended IFRSs, IASs or IFRIC interpretations that are not yet effective and that would be expected to have a significant impact on the Company and the Group.

#### Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

#### Events after the reporting period

Events after the reporting period that provide additional information about the Group's and the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

#### Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### Accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of accounting estimates and assumption by management that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The accounting estimates and the related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the net book amounts of assets and liabilities that are not readily apparent from other sources.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Accounting estimates and assumptions (continued)

The actual results may ultimately differ from those estimates. The accounting estimates and underlying assumptions are regularly reviewed and are based on historical experience, other factors reflecting a current situation and reasonably possible future events.

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the amounts of assets and liabilities and can cause a significant adjustment to these amounts within the next financial year are addressed below.

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

The Company and the Group did not identify any impairment indications in respect of property, plant and equipment as at 31 December 2020 and 2019, and therefore, no impairment test was performed.

Assumptions and results of impairment test performed by the Group in respect of goodwill as at 31 December 2020 and 2019 are disclosed in Note 14.

#### *Measurement of inventories*

The Group and the Company review the movement in the inventory account, assess carrying amount on a quarterly basis. The carrying amount of inventories should not exceed future economic benefits expected to be received from the disposal or use of inventories.

Loss of inventory write-down to net realisable value is recognised in the statement of profit or loss during the period in which the inventory measurement, write-down were performed. Inventory write-down is assessed taking into account historical data and actual sales of inventories below cost. For more information refer to Note 17 'Inventories'.

#### *Useful life of property, plant and equipment*

Useful lives of the assets are reviewed annually and revised when there are grounds for believing that the remaining useful lives do not reflect technical conditions, economic utilisation or physical conditions of the assets.

#### *Financial risk management*

The use of the financial instruments exposes the Group and the Company to the following risks:

- credit risk;
- liquidity risk;
- market risk.

Information on each type of the above-mentioned risks to which the Group and the Company are exposed, objectives, policies and processes for managing the risk and the methods used to measure the risk is set out in this section. Note 28 'Financial instruments and risk management' discloses quantitative information on each type of the above-mentioned risks and on the Group's and the Company's capital management.

#### **Risk management framework**

The Board is responsible for the development and monitoring of the Group's and the Company's overall risk management programme. The Group's and the Company's risk management policy defines and analyses risks to which the companies are exposed, establishes appropriate risk limits, controls risks and adherence to risk limits. The risk management policy and systems are reviewed on a regular basis to reflect market conditions and the Group's and the Company's operational changes. The Group and the Company, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## Notes to the consolidated and separate financial statements

### Summary of significant accounting policies (continued)

#### Credit risk

In conducting trading activities, the Group and the Company apply deferred payment in respect of sale of products and services, and therefore, a risk may arise that clients will not pay for products and services provided by the Group and the Company. The Group and the Company aim to minimise credit risk through credit limit approach, based on which the amounts of credits granted to clients and the types of credit enhancements are established as follows:

- limit,
- guarantees,
- insurance.

At the end of 2017, the Group and the Company insured its sales to foreign clients under the credit insurance agreement concluded with the company Euler Hermes for the term of two years. On November 2019, the insurance was extended for additional two years.

For each client, the credit risk is assessed individually. Trade receivables are regularly monitored by the Finance Department. In the event of overdue amounts receivable, the sale is suspended and debt recovery procedures are initiated.

#### Liquidity risk

Liquidity risk is a risk that the Group and the Company will not be able to meet their financial liabilities in due time. The Group and the Company manage liquidity risk with the aim to achieve the best possible liquidity of the Group and the Company which enables to settle obligations both in the ordinary course of business and under complicated operating conditions and prevents from incurring unacceptable losses and damaging the Group's and the Company's reputation.

The Group's and the Company's policy is aimed at maintaining sufficient cash and cash equivalents or ensuring funding through an adequate amount of committed credit facilities in order to meet their commitments at a given date in accordance with the strategic plans.

The Group's and the Company's objective is to maintain balance between the continuity and flexibility of funding. The Group and the Company generate a sufficient amount of cash from their activities, therefore management is responsible for ensuring a sufficient level of the Group's and the Company's liquidity.

#### Market risk

Market risk is a risk that changes in market prices, e.g. foreign exchange rates and interest rates, will affect the Group's and the Company's results of operations or the value of financial instruments held. The aim of market risk management is to manage open risk positions in order to optimise rate of return.

The Group and the Company manage foreign exchange risk by minimising the open position in a foreign currency. Further information on hedging against foreign exchange risk is disclosed in Note 28 'Financial instruments and risk management'.

The Group's and the Company's income and operating cash flows are substantially independent of market interest rates.

## Notes to the consolidated and separate financial statements

### Notes

#### 1 Segment reporting

The Group consists of four legal entities: VILKYŠKIŲ PIENINĖ AB (the Parent Company), Kelmės Pieninė AB (the subsidiary), Modest AB (the subsidiary) and Pieno Logistika AB (the subsidiary). The principal activity of each company (segment) is the production of milk products, except for Pieno Logistika AB, which is engaged in lease of buildings. The companies produce different milk products, therefore, they use different technologies and apply different marketing strategies.

The Group has several operating segments which are as described below.

The segments represent different product groups, which are managed separately because they require different technology and marketing strategies. The Board and the General Manager review internal management reports prepared for each product group on a monthly basis.

The following summary describes the products in each operating segment of the Group:

- *Cheese, cheese products and other.* The segment comprises cheese, cheese products, cream, and liquid whey that stays during the process of cheese production;
- *Dry milk products.* The segment comprises WPC, skimmed-milk, permeate and whey powder produced by the subsidiaries. The segment is observed starting from 2018;
- *Fresh milk products.* The segment comprises fresh milk products produced by the subsidiaries (milk, kephir, yoghurt, sour milk, butter, curd products);

Information on the results of each operating segment is presented below. Performance is assessed based on the gross profit of the segments, which is presented in the internal management reports reviewed by the Board and the General Manager. The segment's gross profit is used to assess performance as management believes that this indicator is the most appropriate for the assessment of the results of operations.

Gross profit of operating segment 'cheese, cheese products and other' increased due to higher sale price of cheese products and lower milk price in 2020 compared to 2019. Increase in gross profit of operating segment 'dry milk products' was driven by higher sales – quantitative increase by 24% - as well as a higher sale price of permeate powder.

Results of operations of the operating segments as at 31 December 2020:

#### **GROUP**

EUR '000	<b>Cheese, cheese products and other</b>	<b>Dry milk products</b>	<b>Fresh milk products</b>	<b>Total</b>
Sales	84,134	20,487	16,252	120,873
Cost of sales	-82,361	-14,675	-13,208	-110,244
Gross profit	<b>1,773</b>	<b>5,812</b>	<b>3,044</b>	<b>10,629</b>
Other operating income				303
Distribution, administrative and other operating expenses				-6,600
Operating result				<b>4,332</b>
Finance income				26
Finance costs				-1,216
Finance costs, net				<b>-1,190</b>
Profit (loss) before income tax				<b>3,142</b>

## Notes to the consolidated and separate financial statements

### 1 Segment reporting (continued)

Results of operations of the operating segments as at 31 December 2019:

EUR '000	Cheese, cheese products and other	Dry milk products	Fresh milk products	Total
Sales	81,909	14,869	17,803	114,581
Cost of sales	-82,582	-11,275	-14,353	-108,210
Gross profit	<b>-673</b>	<b>3,594</b>	<b>3,450</b>	<b>6,371</b>
Other operating income				322
Distribution, administrative and other operating expenses				-6,899
Operating result				<b>-206</b>
Finance income				20
Finance costs				-1,262
Finance costs, net				<b>-1,242</b>
Loss before income tax				<b>-1,448</b>

Information on the segments' assets, liabilities, interest income and interest expenses, depreciation, results of operations before tax, income tax and other non-cash line items is not provided to the Board and the General Manager. In management's opinion the allocation of these line items to the operating segments is not reasonable. Sales revenue, cost of sales and gross profit are the same as reported in the financial statements. All revenue in 2020 and 2019 was recognised at point in time.

For the purpose of disclosure by geographical location, revenue is recognised with reference to the place of registration of a client. Assets are allocated according to their geographical location.

Disclosure by geographical location in 2020:

EUR '000	Revenue	Assets
Lithuania	20,234	70,248
European Union (excluding Lithuania)	63,745	3,783
Other countries	36,894	2,867
	<b>120,873</b>	<b>76,898</b>

Disclosure by geographical location in 2019:

EUR '000	Revenue	Assets
Lithuania	22,526	71,084
European Union (excluding Lithuania)	61,591	4,410
Other countries	30,464	2,551
	<b>114,581</b>	<b>78,045</b>

**Information on major clients.** The Group had no clients with sales representing more than 10% of total sales.

**Notes to the consolidated and separate financial statements****2 Cost of sales (EUR '000)**

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
-86,930	-84,152	Raw materials	-76,247	-76,713
-	-	Resale cost of goods produced by the subsidiaries	-59,245	-50,991
-5,688	-6,073	Employee expenses, including social security contributions	-2,516	-2,671
-3,298	-3,225	Depreciation and grants' amortisation	-1,177	-1,194
-4,575	-4,964	Milk collection and transportation costs	-4,575	-4,964
-4,292	-4,512	Gas, electricity, water	-1,230	-1,427
-1,180	-725	Transport costs*	-1,180	-725
-4,281	-4,559	Other	-1,655	-2,207
<b>-110,244</b>	<b>-108,210</b>		<b>-147,825</b>	<b>-140,892</b>

\* In 2020, the Group and the Company adjusted the classification of comparative figures of transport costs (2019) relating to revenue earned under IFRS 15. The Group and the Company reclassified transport costs of EUR 725 thousand from distribution expenses (see Note 5) to cost of sales.

**3 Other operating income (EUR '000)**

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
42	59	Income from rendering of services	1,841	1,761
-	-	Dividends*	5,651	1,720
15	15	Income from accounting services	112	112
106	98	Income from disposal of materials, non-current assets	935	629
71	81	Income from transport services rendered to other entities	7	-
27	7	Amounts due not yet claimed	-	7
42	62	Other income	58	56
<b>303</b>	<b>322</b>		<b>8,604</b>	<b>4,285</b>

\* In 2020, the Company adjusted the classification of comparative figures of dividends (2019). The Company reclassified dividend income of EUR 1,720 thousand from finance costs, net (see Note 8) to other operating expenses.

**4 Other operating expenses (EUR '000)**

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
-79	-102	Cost of services rendered	-1,515	-1,616
-153	-37	Cost of materials sold	-932	-573
-1	-1	Other expenses	-1	-1
<b>-233</b>	<b>-140</b>		<b>-2,448</b>	<b>-2,190</b>

## Notes to the consolidated and separate financial statements

## 5 Distribution expenses (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
-1,352	-1,595	Logistic and transport services*	-1,411	-1,595
-177	-323	Marketing and advertising services	-177	-321
-808	-884	Personnel expenses, including social security contributions	-808	-884
-54	-72	Depreciation expenses	-34	-51
-791	-969	Other selling expenses	-752	-910
<b>-3,182</b>	<b>-3,843</b>		<b>-3,182</b>	<b>-3,761</b>

\* In 2020, the Group and the Company adjusted the classification of comparative figures of expenses (see Note 2).

## 6 Administrative expenses (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
-1,416	-1,260	Personnel expenses, including social security contributions and change in vacation reserve	-1,196	-1,108
-192	-205	Depreciation and amortisation, including amortisation of subsidies	-133	-158
-266	-311	Services received	-119	-202
-123	-143	Taxes, other than income tax	-105	-108
-118	-111	Veterinary services	-81	-76
-154	-138	Consultation services	-117	-101
-33	-3	Inventory write-down, reversal	-43	-2
-113	-103	Security	-45	-41
-15	-70	Fines and interest paid on late payments	-16	-49
-1	-4	Write-off of bad debt expenses	-1	-4
-63	-65	Computer expenses	-54	-61
-38	-51	Fuel	-28	-38
-30	-33	Repair expenses	-20	-21
-26	-26	Fee for membership in association	-26	-26
-33	-30	Stock exchange expenses	-30	-27
-32	-	New product development expenses	-7	-
-44	-46	Insurance	-23	-24
-30	-15	Bank charges	-18	-13
-458	-302	Other	-258	-197
<b>-3,185</b>	<b>-2,916</b>		<b>-2,320</b>	<b>-2,256</b>

In 2020, the Group's and the Company's social security contributions payable by an employer amounted to EUR 181 thousand and EUR 122 thousand, respectively (2019: EUR 213 thousand and EUR 137 thousand, respectively).

## 7 Services provided by the audit firm to the Company and the Group in 2020 (EUR '000)

	<u>GROUP</u>	<u>COMPANY</u>
Audit of the financial statements under the agreements	55	33
Other services	1	1
<b>Total</b>	<b>56</b>	<b>34</b>



## Notes to the consolidated and separate financial statements

## 8 Finance costs, net (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
		<i>Finance income</i>		
13	5	Dividends	13	6
13	15	Other	1	12
<b>26</b>	<b>20</b>	<b>Total finance income *</b>	<b>14</b>	<b>18</b>
		<i>Finance costs</i>		
-819	-892	Interest	-386	-410
-16	-22	Interest on lease	-17	-23
-147	-164	Factoring charges	-144	-164
-164	-88	Foreign exchange loss	-164	-88
-70	-96	Other	-57	-72
<b>-1,216</b>	<b>-1,262</b>	<b>Total finance costs</b>	<b>-768</b>	<b>-757</b>
<b>-1,190</b>	<b>-1,242</b>		<b>-754</b>	<b>-739</b>

\* In 2020, the Group adjusted the classification of comparative figures (2019) of finance income (dividends) (see Note 3).

## 9 Income tax expenses (EUR '000)

## Recognised in profit or loss

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
		<b>Current year income tax expenses</b>		
-1	-	Reporting period	-	-
-	-1	Adjustment to previous year income tax	-	-1
		<b>Deferred income tax expenses</b>		
731	1,003	Change in deferred income tax	731	1,003
<b>730</b>	<b>1,002</b>		<b>731</b>	<b>1,002</b>

## Reconciliation of effective income tax rate (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
3,142	-1,448	Profit for the year	640	-5 061
471	-217	Income tax calculated at a rate of 15%	96	-759
58	193	Expenses not deductible for income tax purposes	23	22
-53	-92	Income not subject to tax	-850	-265
-1	-1	Charity expenses deductible twice for tax purposes	-	-
-25	-	R&D expenses deductible thrice for tax purposes	-	-
-1,167	-885	Income tax relief on investment project	-	-
-13	-	Other expenses deductible for tax purposes	-	-
<b>-730</b>	<b>-1,002</b>	<b>Income tax expenses (benefit)</b>	<b>-731</b>	<b>-1,002</b>

**Notes to the consolidated and separate financial statements****10 Earnings per share**

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
11,943	11,943	Number of issued shares calculated based on the weighted average unit cost method, in thousands	11,943	11,943
3,872	-446	Net profit (loss) attributable to holders of ordinary shares of the Parent Company, EUR '000	1,371	-4,059
<u>0.32</u>	<u>-0.04</u>	Basic earnings (loss) per share (EUR)	<u>0.11</u>	<u>-0.34</u>

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

## Notes to the consolidated and separate financial statements

## 11 Property, plant and equipment

**GROUP**

EUR '000	Right-of-use assets*	Land and buildings	Plant and machinery	Other assets	Construction in progress	Total
<b>Cost/revalued amount</b>						
Balance at 1 January 2019	1,366	14,905	54,735	3,582	2,179	76,767
Additions	554	48	506	50	1,819	2,977
Disposals	-	-	-507	-230	-1	-738
Reclassifications	-	230	760	1	-991	-
Balance at 31 December 2019	1,920	15,183	55,494	3,403	3,006	79,006
Balance at 1 January 2020	1,920	15,183	55,494	3,403	3,006	79,006
Additions	-	4	260	115	1,621	2,000
Disposals	-	-	-1,008	-115	-	-1,123
Reclassifications	-119	1,882	2,411	49	-4,227	-4 <sup>(a)</sup>
Balance at 31 December 2020	1,801	17,069	57,157	3,452	400	79,879
<b>Depreciation and impairment losses</b>						
Balance at 1 January 2019	371	2,287	20,948	1,851	-	25,457
Depreciation charge for the year	246	535	3,317	375	-	4,473
Disposals	-	-	-465	-214	-	-679
Reclassifications	-	-	-	-	-	-
Balance at 31 December 2019	617	2,822	23,800	2,012	-	29,251
Balance at 1 January 2020	617	2,822	23,800	2,012	-	29,251
Depreciation charge for the year	241	531	3,382	351	-	4,505
Impairment	17	-	-	-	-	17
Disposals	-	-	-958	-111	-	-1,069
Reclassifications	-42	-	42	-	-	-
Balance at 31 December 2020	833	3,353	26,266	2,252	-	32,704
<b>Net book amounts</b>						
At 1 January 2019	995	12,618	33,787	1,731	2,179	51,310
At 31 December 2019	1,303	12,361	31,694	1,391	3,006	49,755
At 31 December 2020	968	13,716	30,891	1,200	400	47,175

\* For more details on right-of-use assets, see Note 12.

(a) Amount of EUR 4 thousand is related to the completed project of intangible assets, which was reclassified directly from construction in progress to intangible assets.

## Notes to the consolidated and separate financial statements

## 11 Property, plant and equipment (continued)

**COMPANY**

EUR '000	Right-of-use assets*	Land and buildings*	Plant and machinery	Other assets	Construction in progress	Total
<b>Cost/revalued amount</b>						
Balance at 1 January 2019 ( <i>restated*</i> )	1,286	5,898	22,314	1,527	263	31,288
Additions	606	-	149	25	965	1,745
Disposals	-	-	-470	-157	-	-627
Reclassifications	-	100	7	-	-107	-
Balance at 31 December 2019 ( <i>restated*</i> )	1,892	5,998	22,000	1,395	1,121	32,406
Balance at 1 January 2020 ( <i>restated*</i> )	1,892	5,998	22,000	1,395	1,121	32,406
Additions	-	4	120	46	1,019	1,189
Impairment	-	-	-	-	-	-
Disposals	-	-	-397	-87	-	-484
Reclassifications	-119	1,800	196	17	-1,898	-4 <sup>(a)</sup>
Balance at 31 December 2020	1,773	7,802	21,919	1,371	242	33,107
<b>Depreciation and impairment losses</b>						
Balance at 1 January 2019 ( <i>restated*</i> )	356	798	13,908	1,286	-	16,348
Depreciation charge for the year	244	267	1,241	85	-	1,837
Disposals	-	-	-431	-141	-	-572
Reclassifications	-	-	-	-	-	-
Balance at 31 December 2019 ( <i>restated*</i> )	600	1,065	14,718	1,230	-	17,613
Balance at 1 January 2020 ( <i>restated*</i> )	600	1,065	14,718	1,230	-	17,613
Depreciation charge for the year	238	250	1,228	69	-	1,785
Impairment	17	-	-	-	-	17
Disposals	-	-	-379	-85	-	-464
Reclassifications	-42	-	42	-	-	-
Balance at 31 December 2020	813	1,315	15,609	1,214	-	18,951
<b>Net book amounts</b>						
At 1 January 2019 ( <i>restated*</i> )	930	5,101	8,406	241	263	14,941
At 31 December 2019 ( <i>restated*</i> )	1,292	4,933	7,282	165	1,121	14,793
At 31 December 2020	960	6,487	6,310	157	242	14,156

\* In 2020, the Company corrected the error in the comparative figures and reclassified leased out assets (buildings) to investment property (for more details see Note 30).

\*\* For more details on right-of-use assets, see Note 12.

(a) Amount of EUR 4 thousand is related to the completed project of intangible assets, which was reclassified directly from construction in progress to intangible assets.

Prepayments for non-current assets are classified under additions.

## Notes to the consolidated and separate financial statements

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

#### Pledges of assets

To secure the repayment of its bank borrowings, the Group has pledged the following property, plant and equipment:

- buildings with the carrying amount of EUR 10,809 thousand as at 31 December 2020 (31 December 2019: EUR 11,358 thousand);
- production plant and machinery, fixtures and equipment with the net book amount of EUR 29,916 thousand as at 31 December 2020 (31 December 2019: EUR 30,107 thousand) (Note 22).

To secure the repayment of its bank borrowings, the Company has pledged the following property, plant and equipment:

- buildings with the carrying amount of EUR 4,062 thousand as at 31 December 2020 (31 December 2019: EUR 3,799 thousand);
- the Company's investment property with the carrying amount of EUR 5,395 thousand (31 December 2019: EUR 5,568 thousand);
- production plant and machinery, fixtures and equipment with the net book amount of EUR 5,773 thousand as at 31 December 2020 (31 December 2019: EUR 5,453 thousand) (Note 22).

The acquisition cost of the Group's property, plant and equipment fully depreciated but still in use amounted to EUR 10,936 thousand as at 31 December 2020 (31 December 2019: EUR 10,423 thousand).

The acquisition cost of the Company's property, plant and equipment fully depreciated but still in use amounted to EUR 7,834 thousand as at 31 December 2020 (31 December 2019: EUR 8,118 thousand).

#### Depreciation

Depreciation was included in the following line items:

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019	EUR '000	2020	2019
4,259	4,209	Cost of goods produced	1,568	1,572
246	264	Distribution and administrative expenses	176	196
-	-	Other operating expenses	41	69
<b>4,505</b>	<b>4,473</b>		<b>1,785</b>	<b>1,837</b>

#### Valuation of buildings

The Group and the Company account for the buildings at a revalued amount, less subsequent accumulated depreciation and impairment.

On 1 December 2019, evaluation of the buildings of the Group and the Company was performed in order to determine their fair value. The fair value was determined by an independent property valuation company Corporation Matininkai UAB. The value of general-purpose buildings was determined using the market approach (based on analogous sales prices). The category of special-purpose assets was evaluated using the cost approach. Assets that had been acquired/created close to the revaluation date, were not included in the valuation, because the fair value of those assets approximated their carrying amount (the value of such assets is presented in the table below). Based on the evaluation as at 1 December 2019, the fair value of the Group's and the Company's buildings did not differ significantly from their carrying amounts, and accordingly, no revaluation of assets was performed.

In addition, on 23 September 2020 Corporation Matininkai UAB performed evaluation of the Group's and the Company's buildings acquired/created for the purpose of production activities of the operating segment 'dry milk products' during the period 2018-2020. The carrying amounts of the Group's and the Company's assets were EUR 4,665 thousand and EUR 1,010 thousand, respectively (31 December 2019: EUR 3,753 thousand and EUR 0 thousand, respectively). Based on the evaluation as at 23 September 2020,

**Notes to the consolidated and separate financial statements****11 Property, plant and equipment (continued)***Valuation of buildings (continued)*

the fair value of the Group's and the Company's buildings did not differ significantly from their carrying amounts, and accordingly, no revaluation of assets was performed.

Below is allocation of the Group's and the Company's revalued assets (buildings) to hierarchy levels for fair value measurement purposes:

EUR '000				
<u>GROUP</u>			<u>COMPANY</u>	
<u>31 12 2020</u>	<u>31 12 2019</u>		<u>31 12 2020</u>	<u>31 12 2019</u>
3,491	3,660	Hierarchy level 2 (a)	399	430
8,327	3,816	Hierarchy level 3 (b)	4,672	3,816
<b>11,818</b>	<b>7,476</b>		<b>5,071</b>	<b>4,246</b>
106	3,863	Assets not subject to revaluation (c)	106	110
<b>11,924</b>	<b>11,339</b>		<b>5,177</b>	<b>4,356</b>

(a) The Group's and the Company's buildings that are evaluated using the market approach are attributed to level 2 in the fair value measurement hierarchy. The market approach was used to evaluate the general-purpose buildings. The market approach was used to evaluate the differences between the subject asset and identical or similar asset to which the subject asset is being compared, and to make adjustments (if necessary) to the transaction prices of analogous or similar asset in terms of timing, location, and other circumstances conveying the differences between the subject asset and analogous or similar comparable asset. For the purpose of valuation, the assets selected were similar to the specific subject asset. The inputs used included data on the purchase and sale transactions that occurred over the last thirty-six months.

(b) The Group's and the Company's buildings that are evaluated using the cost approach are attributed to level 3 in the fair value measurement hierarchy. This approach was used to determine the value of that part of special-purpose buildings for which no market data was available on bid or ask prices. Under this approach, the value was determined in two stages: by determining the asset creation costs, and by determining the asset impairment. The asset creation costs were determined using the asset creation calculation model. The calculation of creation costs of the subject asset was based on the technical data of buildings recorded in the cadastral measurement file and registered in the Real Estate Register. After calculating the asset creation costs, the adjustments were made, if necessary. The adjustment coefficients were deemed to be the official price indices announced by the Lithuanian Department of Statistics, and if no adjustment coefficients existed for the specific economic activities, the adjustment was made with reference to the general consumer price index. Obsolescence is calculated using the life cycle model. When determining the physical obsolescence, it is assumed that the value of subject asset deteriorates in proportion to the number of years it has been used. With reference to the respective useful lives, the life cycle model was used to calculate the obsolescence of the subject asset. The recoverable amount of the subject asset was calculated net of obsolescence amount.

(c) The Group's and the Company's buildings that are used in the production of processed whey products (whey protein concentrate WPC80 and permeate) are evaluated using the income approach and attributed to level 3 in the fair value measurement hierarchy. The valuation of assets encompasses fair value measurement of a complex of assets of whey processing facilities (including buildings, plant and machinery, and other assets) constituting a cash-generating unit. The measured fair value is attributed to each item of property, plant and equipment, and accordingly, the fair value of buildings is known. The value of assets is determined using a discounted cash flow model. The value in use is determined by discounting the post-tax future cash flows to their present value based on a discount rate that reflects current market conditions, the existing time value of money and the risks specific to the asset, which was not taken into consideration. The adjusted rate of weighted average cost of capital (post-tax) was 12.94%. Key assumptions used in calculation of value of in use were as follows:

## Notes to the consolidated and separate financial statements

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

#### *Valuation of buildings (continued)*

- future cash flows are estimated based on historical experience and 4-year business forecasts based on the existing long-term contracts with the consumers of the products and the expected expansion of sales (production), in view of growth in demand for whey processing products on a domestic and global markets.
- Forecasts of production costs calculated on the basis of factual production, including the expected fluctuations therein due to growth of production.
- Depending on the physical condition of the assets, annual capital expenditures of EUR 500 thousand are expected to support the business activities throughout the forecast period;
- When calculating the terminal value (capitalising the last cash inflow), the amount of deducted capital expenditures is equal to aggregate amount of depreciation assuming that in a perpetual perspective the maintenance (restoration) of non-current assets will require utilisation of the aggregate amount of depreciation, and support of business activities will require allocation of the above-mentioned EUR 500 thousand.
- Cash flows in a long-term perspective were calculated by extrapolating the forth-year cash flows with the expected growth rate of 1%.

The value of the Group's and the Company's assets that have been acquired/created recently or close to the valuation date, approximated the fair value of the assets.

In 2020, the Group's and the Company's assets were not subject to revaluation because in the management's opinion there were no significant changes either in the domestic real estate market, or in the Group's and the Company's operations, and the fair value of the buildings did not change significantly. In addition, in August 2020 the Company performed valuation for most of its buildings (property valuer – Corporation Matininkai UAB), as a result of which it was concluded that the value of assets that was included in the valuation did not differ significantly from the potential market price of the assets.

As at 31 December 2020, the Group's revaluation reserve, net amounted to EUR 2,001 thousand (31 December 2019: EUR 2,109 thousand). As at 31 December 2020, the Company's revaluation reserve, net amounted to EUR 1,167 thousand (31 December 2019: EUR 1,239 thousand).

If the Group's buildings been stated at cost, their net book amount and revalued amount at 31 December 2020 would be EUR 9,722 thousand and EUR 11,924 thousand, respectively (31 December 2019: EUR 9,013 thousand\* and EUR 11,339 thousand, respectively).

Had the Company's buildings been stated at cost, their net book amount and revalued amount as at 31 December 2020 would be EUR 3,902 thousand and EUR 5,177 thousand, respectively (31 December 2019: EUR 2,971 thousand and EUR 4,356 thousand, respectively).

\*The Group and the Company adjusted the comparative figures and reclassified the leased out assets to investment property (for more details see Note 30).

## Notes to the consolidated and separate financial statements

### 12 Leases

Amounts recognised in profit or loss were as follows:

EUR '000

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019		2020	2019
241	246	Depreciation of right-of-use assets	238	244
16	22	Interest expenses (included in finance costs)	17	23
56	109	Expenses related to short-term leases (included in cost of sales and general and administrative expenses)	23	43
48	44	Expenses related to leases of low-value assets not included in the above short-term leases (included in cost of sales, general and administrative expenses, other operating expenses)	19	25
53	66	Expenses related to variable lease payments not included in lease liabilities (included in cost of sales, general and administrative expenses, other operating expenses)	40	43
<b>414</b>	<b>487</b>		<b>337</b>	<b>378</b>

Movements in right-of-use assets during 2020 and 2019 are disclosed in Note 11.

Lease liabilities, including the breakdown of lease liabilities by maturity are disclosed in Note 22.

### 13 Investment property

EUR '000	2020	2019 (restated*)
<b>Balance at 1 January</b>	<b>5,568</b>	<b>5,693</b>
Additions	-	48
Disposals	-	-
Net profit/(loss) on fair value adjustment	-173	-173
Reclassification	-	-
<b>Balance at 31 December</b>	<b>5,395</b>	<b>5,568</b>

\* In 2020, the Company corrected the error in the comparative figures and reclassified leased out assets (buildings) from property, plant and equipment to investment property (for more details see Note 30).

Investment property is leased out to tenants under operating lease contracts. The costs incurred in relation to maintenance of investment property are covered by the tenants. The lease payments are fixed. The contracts do not contain variable lease payments that depend on an index or a rate. Investment property consists of production facilities leased out to the subsidiaries. Based on the terms and conditions of the lease contracts, the assets have been leased for the term of 5 to 8 years, and the lease term expires by 31 December 2023-2026. The fulfilment of lease contracts has not been secured with any collateral, guarantees or other pledges.



**Notes to the consolidated and separate financial statements****13 Investment property (continued)**

Minimum lease payments receivable on lease of investment property:

EUR '000	<u>31 12 2020</u>	<u>31 12 2019</u>
Within one year	195	195
Between 1 and 5 years	600	690
After 5 years	<u>105</u>	<u>210</u>
	<u><b>900</b></u>	<u><b>1,095</b></u>

In 2020, the Company's rental income amounted to EUR 195 thousand (2019: EUR 195 thousand). Rental income is included in other operating income.

There were no direct operating expenses from investment property that generated rental income during 2020 and 2019.

The Company's investment property with the carrying amount of EUR 5,395 thousand as at 31 December 2020 (31 December 2019: EUR 5,658 thousand) was pledged to the banks as a security for bank borrowings.

**Notes to the consolidated and separate financial statements****14 Intangible assets****GROUP**

EUR '000	Goodwill	Computer software	Other intangible assets	Total
<b>Cost</b>				
Balance at 1 January 2019	6,915	558	12	7,485
Additions	-	15	-	15
Disposals	-	-28	-	-28
Reclassifications	-	-	-	-
Balance at 31 December 2019	6,915	545	12	7,472
Balance at 1 January 2020	6,915	545	12	7,472
Additions	-	8	-	8
Disposals	-	-	-	-
Reclassifications	-	4	-	4 <sup>(a)</sup>
Balance at 31 December 2020	6,915	557	12	7,484
<b>Amortisation and impairment</b>				
Balance at 1 January 2019	-	548	4	552
Amortisation charge for the year	-	12	-	12
Disposals	-	-28	-	-28
Balance at 31 December 2019	-	532	4	536
Balance at 1 January 2020	-	532	4	536
Amortisation charge for the year	-	10	3	13
Disposals	-	-	-	-
Balance at 31 December 2020	-	542	7	549
<b>Net book amounts</b>				
Balance at 1 January 2019	6,915	10	8	6,933
St 31 December 2019	6,915	13	8	6,936
At 31 December 2020	6,915	15	5	6,935

(a) Amount of EUR 4 thousand is related to the completed project of intangible assets, which was reclassified directly from construction in progress category of property, plant and equipment.

Amortisation charge for the year was included in administrative expenses.

## Notes to the consolidated and separate financial statements

## 14 Intangible assets (continued)

**COMPANY**

EUR '000	Goodwill	Computer software	Other intangible assets	Total
<b>Cost</b>				
Balance at 1 January 2019	-	655	12	667
Additions	-	15	-	15
Disposals	-	-28	-	-28
Reclassifications	-	-	-	-
Balance at 31 December 2019	-	642	12	654
Balance at 1 January 2020	-	642	12	654
Additions	-	8	-	8
Disposals	-	-	-	-
Reclassifications*	-	4	-	4 <sup>(a)</sup>
Balance at 31 December 2020	-	654	12	666
<b>Amortisation and impairment</b>				
Balance at 1 January 2019	-	645	4	649
Amortisation charge for the year	-	9	3	12
Disposals	-	-28	-	-28
Balance at 31 December 2019	-	626	7	633
Balance at 1 January 2020	-	626	7	633
Amortisation charge for the year	-	10	3	13
Disposals	-	-	-	-
Balance at 31 December 2020	-	636	10	646
<b>Net book amounts</b>				
Balance at 1 January 2019	-	10	8	18
At 31 December 2019	-	16	5	21
At 31 December 2020	-	18	2	20

(a) Amount of EUR 4 thousand is related to the completed project of intangible assets, which was reclassified directly from construction in progress category of property, plant and equipment.

Amortisation charge for the year was included in administrative expenses.

**Recoverable amount of cash-generating units to which goodwill is attributed**

Goodwill is attributed to the following cash-generating units of the Group (Modest AB's operations relating to production and sale of cheese and cheese products; Kelmės Pieninė AB's operations relating to production and sale of fresh milk products), as specified below:

EUR '000	At 31 December 2020	At 31 December 2019
Kelmės Pieninė AB (fresh milk products)	6,616	6,616
Modest AB (cheese, cheese products)	299	299
	<b>6,915</b>	<b>6,915</b>

## Notes to the consolidated and separate financial statements

### 14 Intangible assets (continued)

Goodwill arising on business combination is attributable mainly to synergy, which has resulted from the integration of the companies into the existing operations of the Group relating to production of milk products. These cash generating units were tested for impairment by calculating the value in use.

When calculating the value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflects current market conditions, the existing time value of money and the risks specific to the asset, which were not taken into consideration. The adjusted rate of weighted average cost of capital (pre-tax) was 14.38%. Key assumptions used in calculation of value of in use were as follows:

- the future cash flows were calculated based on historical experience and a 5-year business plan. Cash flows in a long-term perspective were estimated by extrapolating the fifth-year cash flows at a projected growth rate of 1% (2019: growth rate of 3%).
- projected revenue growth by up to 5% in 2021 compared to 2020. Projected revenue growth by up to 7% in 2022, by 5% in each of two subsequent years, and by up to 2% annually in the last projected period. The Group's management projects higher prices of cream and dry milk products in 2021. The prices of the remaining products are not expected to change significantly in 2021 compared to 2020. In the context of pandemic, the main objectives of Vilvi Group for 2021 are to increase sales in order to ensure higher value for the shareholders; continue with the expansion of markets for dry milk products and grated cheese, by entering and strengthening the position in new markets such as China, Malaysia, Indonesia, Arab countries.
- The share of cost in revenue in 2021 and in the subsequent years is projected to remain at 2020 level with growth rate of 0.5-1%. The Group's management expects the prices of raw milk will not be significantly different in 2021 compared to the second half of 2020.
- Distribution (logistic), administration, marketing expenses (as relatively fixed costs) are projected to decrease in 2021 in aggregate by 12% as a result of cost optimisation measures. In the subsequent years, they are expected to increase by 1.5-3% annually. At all Vilvi Group companies, production efficiency is expected to be achieved through automation of processes. Focus across the Group will be further targeted on the development of production of innovative products, protection of environment, HR management and work remuneration policies, ensuring occupational safety and health, and prevention of COVID-19.
- To support production-technological assets, annual capital expenditures of EUR 500 thousand are expected during 2021-2025. When calculating the terminal value (capitalising the last cash inflows), the amount of deducted capital expenditures is equal to the aggregate amount of depreciation of capital expenditures.
- The need for working capital is calculated in view of production growth and the need for the respective inventories as a proportionate share of cost. Accordingly, it is assumed that the impact of amounts receivable and payable on the working capital is neutral.

#### Recoverable amount of cash-generating units to which goodwill is attributed (continued)

- based on the budget prepared by the management for Kelmės Pieninė AB, revenue and EBITDA budgeted for 2021 amount to EUR 40,840 thousand and EUR 5,438 thousand, respectively. In the operations of fresh milk products, sales revenue and EBITDA budgeted for 2021 amounted to EUR 18,883 thousand and EUR 2,082 thousand, respectively;
- based on the budget prepared by management for Modest AB, revenue and EBITDA budgeted for 2021 amount to EUR 25,650 thousand and EUR 1,041 thousand, respectively.

Based on the above assumptions, the recoverable amount of cash-generating unit was higher than the carrying amount, and accordingly, no impairment was recognised. The analysis of sensitivity to key assumptions was not presented, since a probable change in these assumptions would have no material impact on the estimated value of goodwill.

**Notes to the consolidated and separate financial statements****15 Investments in subsidiaries**

EUR '000	31 12 2020	31 12 2019
Cost of shares of Modest AB	1,991	1,991
Cost of shares of Kelmės Pieninė AB	8,656	8,656
Cost of shares of Pieno Logistika AB	66	66
	<u>10,713</u>	<u>10,713</u>

The Company acquired control over Modest AB in 2006. The ownership interest held by the Company was 99.7% as at 31 December 2020 (31 December 2019: 99.7%).

On 30 April 2008, the Company acquired the shares of Kelmės Pieninė AB under the share purchase and sale agreement. The ownership interest held was 100% as at 31 December 2020 (31 December 2019: 100%).

As at 31 December 2020, the Company held the ownership title to 58.9% (31 December 2019: 58.9%) of shares of subsidiary Pieno Logistika AB with voting rights.

No impairment indications were established in respect of investment in Modest AB as at 31 December 2020. The estimated recoverable amount of the investment in Modest AB showed that the investment was not impaired as at 31 December 2020, and accordingly, no impairment was recognised.

The main objective of Modest AB is to expand production capacity and sales of *Mozzarella* cheese (up to 550t/month) and grated cheese (up to 1,800 t/year).

The recoverable amount of investment in Kelmės Pieninė AB as at 31 December 2020 and 2019 was estimated by assessing impairment of goodwill (Note 14). The estimated recoverable amount of investment in Kelmės Pieninė AB showed that the investment was not impaired as at 31 December 2020 and 2019, and accordingly, no impairment was recognised.

The main objective of Kelmės Pieninė AB is to increase the quantity of processed milk and whey up to 80t/day, to produce only those products that provide higher profit margin, and to further increase the production load and expand markets for dry milk products.

Key financial indicators of Pieno Logistika AB as at 31 December 2020:

	31 12 2020	31 12 2019
Total assets	179	181
Shareholders' equity	111	109
Net profit (loss)	<u>2</u>	<u>2</u>

## Notes to the consolidated and separate financial statements

## 16 Non-current amounts receivable (EUR '000)

<u>GROUP</u>		Note	<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
<b>Financial instruments</b>				
-	63	27	-	63
-	<b>63</b>		-	<b>63</b>
<b>Non-financial assets</b>				
127	214	27	127	214
98	81		98	81
1	-		1	-
<b>226</b>	<b>295</b>		<b>226</b>	<b>295</b>
<b>226</b>	<b>358</b>		<b>226</b>	<b>358</b>

(a) The prepayment must be settled in full by 31 December 2023. The outstanding balance of the prepayment is subject to an administration fee.

(b) Non-current amounts receivable from farmers comprise prepayments made to milk suppliers for milk. These prepayments are subject to an administration fee.

\* The Group and the Company adjusted the classification of comparative figures (2019) of prepayments to related parties between financial and non-financial assets.

The Group's and the Company's exposure to credit and foreign exchange risks, impairment losses related to trade and other amounts receivable are disclosed in Note 28.

## 17 Inventories (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
8,724	8,662	Finished products	5,343	5,234
8,724	8,662		5,343	5,234
263	102	Raw materials	43	20
2,507	2,090	Consumables	1,050	894
199	307	Work in progress	-	-
<b>11,693</b>	<b>11,161</b>		<b>6,436</b>	<b>6,148</b>

Raw materials include milk and other materials used in the production.

As at 31 December 2020, there was no write-down of the Group's materials (packaging, auxiliary materials, etc.) to net realisable value (31 December 2019: EUR 37 thousand). As at 31 December 2020, there was no write-down of the Company's materials (tare, packaging, auxiliary materials, etc.) to net realisable value (31 December 2019: EUR 4 thousand)

The write-down of inventories (finished products) to net realisable value and the reversal of the write-down are accounted for in the cost of sales. In 2020, there was no write-down of inventories (finished products) to net realisable value. In 2020, the write-down of materials (tare, packaging) of the Group and the Company amounted to EUR 102 thousand and EUR 40 thousand, respectively. The reversal of the write-down of materials (tare, packaging) of the Group and the Company amounted to EUR 140 thousand and EUR 44 thousand, respectively. The write-down and reversal of the write-down of materials were included in administrative expenses.

## Notes to the consolidated and separate financial statements

### 17 Inventories (continued)

As at 31 December 2020, the Group's inventories (cheese, cheese products and other, dry milk products and fresh milk products) with the net book amount of up to EUR 7,418 thousand (2019: up to EUR 5,548 thousand) were pledged to financial institutions (Note 22).

As at 31 December 2020, the Company's inventories (cheese, cheese products and other) with the net book amount of up to EUR 5,948 thousand (2019: up to EUR 5,548 thousand) were pledged to financial institutions (Note 22).

### 18 Trade and other receivables (EUR '000)

<b>GROUP</b>		<b>31 12 2020</b>	<b>31 12 2019</b>
Trade receivables	Note	7,607	7,612
Impairment losses		-95	-98
Trade receivables from related parties		-	7
Loans granted to related parties, including interest charged and administration fee	27	415	251
<b>Financial assets</b>		<b>7,927</b>	<b>7,772</b>
Taxes receivable (other than income tax)		1,073	849
Other receivables from related parties		12	29
Other receivables		50	49
<b>Total trade and other receivables</b>		<b>9,062</b>	<b>8,699</b>
<b>COMPANY</b>		<b>31 12 2020</b>	<b>31 12 2019</b>
Trade receivables	Note	7,573	7,603
Impairment losses		-95	-98
Trade receivables from related parties	27	1,180	3,419
Loans granted to related parties, including interest charged and administration fee	27	415	255
<b>Financial assets</b>		<b>9,073</b>	<b>11,179</b>
Taxes receivable (other than income tax)		1,042	849
Other receivables from related parties	27	17	34
Other receivables		15	21
<b>Total trade and other receivables</b>		<b>10,147</b>	<b>12,083</b>

Trade and other receivables are non-interest bearing and are settled with the term of 30 days.

Taxes receivable consist of VAT receivable.

As at 31 December 2020, the Company's receivables that were pledged amounted to EUR 115 thousand (31 December 2019: none).

The Group's and the Company's exposure to credit and foreign exchange risks, impairment losses related to trade and other receivables are disclosed in Note 28.

The ageing analysis of trade receivables is disclosed in Note 28.

**Notes to the consolidated and separate financial statements****19 Prepayments (EUR '000)**

<u>GROUP</u>				<u>COMPANY</u>	
31 12 2020	31 12 2019	Note		31 12 2020	31 12 2019
545	491	(a)	Prepayments	514	442
191	188	27	Prepayments to related parties	191	188
<u>736</u>	<u>679</u>			<u>705</u>	<u>630</u>

(a) Prepayments consist of prepayments to the companies for goods and services and to farmers for milk.

**20 Cash and cash equivalents (EUR '000)**

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
135	196	Cash at bank	110	130
46	102	Cash on hand	45	101
<u>181</u>	<u>298</u>		<u>155</u>	<u>231</u>

As at 31 December 2020, all cash balances on bank accounts were pledged to secure repayment of bank borrowings (Note 22). In addition, cash inflows into bank accounts were pledged to secure repayment of bank borrowings (Note 22).

The Group's and the Company's exposure to interest rate risk arising from cash and cash equivalents is disclosed in Note 28.

**21 Capital and reserves**

As at 31 December 2020 and 2019, the Company's authorised share capital was divided into 11,943,000 ordinary shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Ordinary shares are stated at their nominal value. Consideration received for the shares sold in excess over their nominal value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

Pursuant to the Law on Companies, the holders of ordinary shares have one vote per share at the Company's shareholders' meeting, the right to receive dividends, and the right to receive payments in the event of liquidation of a company.

***Legal reserve***

Pursuant to the Law on Companies of the Republic of Lithuania, annual transfers of 5% from distributable profit are required until the legal reserve reaches 10% of the authorised share capital. Pursuant to the Law the legal reserve may be used to cover accumulated losses only. As at 31 December 2020, the Company's and the Group's legal reserve amounted to EUR 346 thousand (31 December 2019: EUR 346 thousand).

***Share premium***

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

***Revaluation reserve***

Revaluation reserve is related to the revaluation of the buildings and is stated net of deferred income tax liability. The reserve is reduced in proportion to the depreciation and disposal of the revalued assets. Transfers from the revaluation reserve to retained earnings are performed when the revalued buildings are being depreciated. The amount transferred is determined as a difference between depreciation calculated from the revalued amount and depreciation calculated from the initial cost of the buildings. Revaluation reserve can be used to increase the share capital.



## Notes to the consolidated and separate financial statements

### 21 Capital and reserves (continued)

#### Other reserves

Other reserves are formed by the decision of the annual meeting of shareholders on profit appropriation, and they are established in the Company's Articles of Association. These reserves can be used only for the purposes approved by the general meeting of shareholders.

The Group and the Company have no other reserves.

#### Dividends

No dividends were paid out to the shareholders in 2020 and 2019.

### 22 Borrowings and lease liabilities

<u>GROUP</u>				<u>COMPANY</u>	
31 12 2020	31 12 2019		Note	31 12 2020	31 12 2019
2,951	12,308	Non-current borrowings	26,27	2,779	80
323	642	Lease liabilities	12	345	672
<b>3,274</b>	<b>12,950</b>	<b>Non-current</b>		<b>3,124</b>	<b>752</b>
18,083	14,142	Current bank borrowings and other borrowings	26, 27	3,996	10,160
303	391	Lease liabilities	12	312	375
<b>18,386</b>	<b>14,533</b>	<b>Current</b>		<b>4,308</b>	<b>10,535</b>
<b>21,660</b>	<b>27,483</b>	<b>Total borrowings and lease liabilities</b>		<b>7,432</b>	<b>11,287</b>

As at 31 December 2020, under the agreements signed with the banks the Company's and the Group's balance of undrawn short-term credit limits amounted to EUR 1,628 thousand and EUR 4,128 thousand, respectively (2019: EUR 12 thousand and EUR 5,056 thousand, respectively). The Company and the Group had no long-term credit limits, but the Company had an undrawn balance of a long-term credit limit amounting to EUR 300 thousand. Under the agreements signed with the banks, the Company's and the Group's borrowings are subject to the following interest rates: 6-month EURIBOR + a margin and 3-month EURIBOR + a margin; the interest rates set for overdrafts are as follows: 3-month EURIBOR + a margin and EONIA + a margin.

Under the agreements signed with the banks, the Company and the Group have committed to comply with certain covenants, such as financial debt to EBITDA ratio, debt service coverage ratio, equity ratio and other financial ratios. These ratios are calculated according to the data reported in the consolidated financial statements.

As at 31 December 2020, the Group complied with the financial ratios and other covenants set forth in the loan agreements with the banks.

#### Borrowings by maturity (EUR '000):

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
18,083	14,142	Within 1 year	3,996	10,160
2,951	12,308	Between 1 and 5 years	2,779	80
<b>21,034</b>	<b>26,450</b>		<b>6,775</b>	<b>10,240</b>

In 2020, the Group's borrowings were subject to annual effective interest rate of 3.86% (2019: 3.30%).

In 2020, the Company's borrowings were subject to annual effective interest rate of 5.36% (2019: 3.81%).

## Notes to the consolidated and separate financial statements

## 22 Borrowings and lease liabilities (continued)

## Lease liabilities (EUR '000):

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
303	391	Within 1 year	312	375
323	642	Between 1 and 5 years	345	672
<b>626</b>	<b>1,033</b>		<b>657</b>	<b>1,047</b>

The right-of-use assets recognised in relation to lease liabilities is disclosed in Notes 11 and 12.

## Cash flows from financing activities

<u>COMPANY</u>	<u>Liabilities arising from financing activities</u>					
	Current portion of lease liabilities	Non-current portion of lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and overdrafts	Non-current portion of non-current borrowings	Total
<b>At 1 January 2020</b>	375	672	7,392	2,768	80	11,287
Cash inflows - proceeds from borrowings	-	-	3,420	-	2,779	6,199
Cash outflows - repayments of borrowings	-	-	-8,138	-1,526	-	-9,664
Additions - lease	-	-	-	-	-	-
Repayments – lease	-390	-	-	-	-	-390
Other non-cash changes (reclassification of current/non-current portion)	327	-327	80	-	-80	-
<b>At 31 December 2020</b>	<b>312</b>	<b>345</b>	<b>2,754</b>	<b>1,242</b>	<b>2,779</b>	<b>7,432</b>

<u>GROUP</u>	<u>Liabilities arising from financing activities</u>					
	Current portion of lease liabilities	Non-current portion of lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and overdrafts	Non-current portion of non-current borrowings	Total
<b>At 1 January 2020</b>	391	642	9,721	4,421	12,308	27,483
Cash inflows - proceeds from borrowings	-	-	5,108	-	2,779	7,887
Cash outflows - repayments of borrowings	-	-	-8,220	-3,179	-1,904	-13,303
Additions - lease	-	-	-	-	-	-
Repayments – lease	-407	-	-	-	-	-407
Other non-cash changes (reclassification of current/non-current portion)	319	-319	10,232	-	-10,232	-
<b>At 31 December 2020</b>	<b>303</b>	<b>323</b>	<b>16,841</b>	<b>1,242</b>	<b>2,951</b>	<b>21,660</b>

## Notes to the consolidated and separate financial statements

## 22 Borrowings and lease liabilities (continued)

<u>COMPANY</u>	<u>Lease liabilities</u>					Total
	Current portion of lease liabilities	Non-current portion of lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrowings	
<b>At 1 January 2019</b>	248	572	7,051	1,559	-	9,430
Cash inflows - proceeds from borrowings	-	-	2,746	1,209	80	4,035
Cash outflows - repayments of borrowings	-	-	-2,405	-	-	-2,405
Additions - lease	252	411	-	-	-	663
Repayments – lease	-189	-247	-	-	-	-436
Other non-cash changes (loan repayment offset against amounts receivable)	64	-64	-	-	-	-
<b>At 31 December 2019</b>	<b>375</b>	<b>672</b>	<b>7,392</b>	<b>2,768</b>	<b>80</b>	<b>11,287</b>

<u>GROUP</u>	<u>Lease liabilities</u>					Total
	Current portion of lease liabilities	Non-current portion of lease liabilities	Current portion of non-current borrowings, current borrowings	Credit lines and over-drafts	Non-current portion of non-current borrowings	
<b>At 1 January 2019</b>	274	600	9,077	3,573	14,300	27,824
Cash inflows - proceeds from borrowings	-	-	3,038	1,209	511	4,758
Cash outflows - repayments of borrowings	-	-	-2,394	-361	-2,503	-5,258
Additions - lease	241	369	-	-	-	610
Repayments – lease	-178	-273	-	-	-	-451
Other non-cash changes (loan repayment offset against amounts receivable)	54	-54	-	-	-	-
<b>At 31 December 2019</b>	<b>391</b>	<b>642</b>	<b>9,721</b>	<b>4,421</b>	<b>12,308</b>	<b>27,483</b>

## 23 Government grants (EUR '000)

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
5,243	5,824	Opening net book amount	1,071	1,275
-	376	Grants received	-	-
34	-376	Grant receivable	-	-
-607	-581	Amortisation recognised in profit or loss and write-off of grants	-198	-204
-6	-	Write-off of grants upon disposal of assets	-	-
<b>4,664</b>	<b>5,243</b>	Closing net book amount	<b>873</b>	<b>1,071</b>

## Notes to the consolidated and separate financial statements

### 23 Government grants (continued)

In the period from 2007 to 2014, the Group and the Company received support from the EU funds under the Lithuanian Rural Development Programmes from the National Paying Agency under the Ministry of Agriculture. The support was received for the acquisition of non-current assets. The support is amortised in proportion to the depreciation of the assets concerned.

Under the 2014-2020 programme financed from the EU funds, the Group received support of EUR 3,98 thousand in 2017 for the acquisition of the technological lines intended for the production of dried whey milk products. The support is amortised in proportion to the depreciation of the assets concerned.

### 24 Deferred income tax assets (liabilities)

Deferred income tax assets and liabilities calculated using a 15% tax rate in 2020 (2019: 15%) were allocated to the following line items:

EUR '000	Assets		Liabilities		Net amount	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019	31 12 2020	31 12 2019
Property, plant and equipment			1,820	1,867	1,820	1,867
Vacation reserve	-98	-90	-	-	-98	-90
Inventories	-	-1	-	-	-	-1
Government grants	-131	-159	-	-	-131	-159
Tax loss carry forward	-2,481	-1,776	-	-	-2,481	-1,776
Deferred income tax (assets)/liabilities	<b>-2,710</b>	<b>-2,026</b>	<b>1,820</b>	<b>1,867</b>	<b>-890</b>	<b>-159</b>

Tax losses can be carried forward for an indefinite period except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. Article 30(4) of the Law on Corporate Income Tax stipulates that when calculating income tax for 2014 and subsequent tax periods, the Company could offset income of a tax period against the amount of accumulated losses by maximum 70%.

Increase in deferred income tax assets of EUR 731 thousand was recognised in the statement of profit or loss.

**Notes to the consolidated and separate financial statements****24 Deferred income tax assets (liabilities) (continued)**

The movements in temporary differences during the year were as follows:

EUR '000	01 01 2020	Recognised in profit or loss	Recognised in equity	31 12 2020
Property, plant and equipment	1,867	-47	-	1,820
Vacation reserve	-90	-8	-	-98
Inventories	-1	1	-	0
Government grants	-159	28	-	-131
Tax losses carried forward	-1,776	-705	-	-2,481
Deferred income tax (assets)/liabilities	<b>-159</b>	<b>-731</b>	<b>-</b>	<b>-890</b>

EUR '000	01 01 2019	Recognised in profit or loss	Recognised in equity	31 12 2019
Property, plant and equipment	1,905	-38	-	1,867
Vacation reserve	-104	14	-	-90
Inventories	-105	104	-	-1
Government grants	-186	27	-	-159
Tax losses carried forward	-666	-1,110	-	-1,776
Deferred income tax (assets)/liabilities	<b>844</b>	<b>-1,003</b>	<b>-</b>	<b>-159</b>

The difference between the tax base and the carrying amount of property, plant and equipment in the financial statements occurred mainly due to revaluation of the buildings and different depreciation periods established.

<b>GROUP</b>		EUR '000	<b>COMPANY</b>	
<b>31 12 2020</b>	<b>31 12 2019</b>		<b>31 12 2020</b>	<b>31 12 2019</b>
		<b>Deferred income tax assets/(liability)</b>		
181/ -47	1,894/ -38	Deferred income tax assets (liability), which will be realised within 12 months	181 /-47	1,894 /-38
2,529 /-1,773	132 /-1,829	Deferred income tax assets (liability), which will be realised after 12 months	2,529 /-1,773	132 /-1,829
<b>890</b>	<b>159</b>	<b>Net deferred income tax assets (liability)</b>	<b>890</b>	<b>159</b>

The Group and the Company do not recognise deferred income tax assets on income tax relief for investment projects. As at 31 December 2020, the amounts of such income tax reliefs not utilised were EUR 5,782 thousand and EUR 708 thousand, respectively.

## Notes to the consolidated and separate financial statements

## 25 Trade and other amounts payable

<u>GROUP</u>			<u>COMPANY</u>	
31 12 2020	31 12 2019	EUR '000	31 12 2020	31 12 2019
		<b>Financial instruments</b>		
8,547	10,113	Trade payables*	Note	
32	1,354	Trade payables to related parties*	27	
-	71	Other amounts payable to related parties	27	
<b>8,579</b>	<b>11,538</b>		<b>11,647</b>	<b>10,742</b>
		<b>Non-financial instruments</b>		
2,900	1,858	Employment-related liabilities		
175	499	Advance amounts received		
74	74	Dividends payable		
3,097	-	Taxes payable (other than income tax)		
40	46	Accrued expenses and provisions		
735	203	Other amounts payable		
<b>7,021</b>	<b>2,680</b>		<b>1,660</b>	<b>1,744</b>
<b>15,600</b>	<b>14,218</b>		<b>13,307</b>	<b>12,486</b>

\* In 2020, the Group and the Company identified an undisclosed other related party (supplier of raw milk), and accordingly, adjusted the classification of comparative figures of trade receivables (for more details see Note 27).

The Group's and the Company's exposure to foreign currency and liquidity risks arising from trade and other amounts payable is discussed in Note 28.

Based on Order of 26 March 2020 of the State Tax Inspectorate under the Lithuanian Ministry of Finance (the "Tax Authority") *On support measures for the taxpayers affected by the negative impact of the coronavirus*, tax support measures are provided to businesses affected by COVID-19 pandemic. These measures encompass deferral of tax payments by entering into tax credit (interest-free) agreement.

In 2020, the Group and the Company received approval from the Tax Authority regarding their inclusion into the list of businesses affected by COVID-19, as a result of which they became eligible to tax support measures.

In 2021, the Group received the Tax Authority's decision regarding entering into tax credit agreement for the amount of EUR 3,807 thousand (whereof: personal income tax of EUR 487 thousand; value added tax of EUR 3,311 thousand, and other taxes of EUR 9 thousand). The credit repayment date matures during the period between 25 March 21 and 25 December 2022.

Based on the above-mentioned list of businesses affected by COVID-19 pandemic, the tax concessions are also applied in respect of social security contributions to the State Social Insurance Fund Board (the SSIFB) under the Ministry of Social Security and Labour. Based on the decision of the SSIFB, the social security contributions payable by the Group (EUR 391 thousand) are expected to be refunded in equal parts based on the schedule during the period between July 2021 and 31 December 2021.

**Notes to the consolidated and separate financial statements****26 Contingent liabilities**

Significant contractual liabilities as at 31 December 2020:

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019	EUR '000	2020	2019
206	560	Acquisition of property, plant and equipment	62	346
<u>6,262</u>	<u>4,701</u>	Purchase of raw materials	<u>6,262</u>	<u>4,701</u>
<u><b>6,468</b></u>	<u><b>5,261</b></u>		<u><b>6,324</b></u>	<u><b>5,047</b></u>

As at 31 December 2020, the Group's and the Company's assets pledged to secure the repayment of bank borrowings and other credit enhancements were as follows (Note 22):

**GROUP:**

- cash inflows to bank accounts with Luminor Bank AS;
- immovable property with the carrying amount of EUR 10,809 thousand;
- movable property with the carrying amount of EUR 29,916 thousand;
- inventories with the carrying amount of up to EUR 7,418 thousand;
- amounts receivable from one retail chain;
- lease rights to state-owned land;

**Other credit enhancements:**

- To secure a proper fulfilment of obligations under the credit agreement with OP Corporate Bank plc, a trilateral agreement was signed in December 2020 to subordinate a EUR 500 thousand loan granted by the member of the Company's management to the subsidiary.
- Surety to Swedbank AB to secure fulfilment of financial liabilities of other related party in amount of EUR 250 thousand as at 31 December 2020.

**COMPANY:**

- cash inflows to bank accounts with Luminor Bank AS;
- the Company's immovable property located at address: P. Lukošaičio g. 14, Vilkyškiai, P. Lukošaičio g. 3, Vilkyškiai and Sodų g. 13, Eržvilkas, Jurbarko r. sav., with the carrying amount of EUR 3,893 thousand – to secure fulfilment of the Company's obligations to Swedbank AB;
- the Company's immovable property located at address: Gaurės g. 23, Tauragė, with the carrying amount of EUR 169 thousand, to secure fulfilment of obligations of Kelmės Pieninė AB to OP Corporate Bank plc;
- the Company's investment property located at address: Gaurės g. 23, Tauragė, with the carrying amount of EUR 5,395 thousand, to secure fulfilment of obligations of Kelmės Pieninė AB to OP Corporate Bank plc and to secure fulfilment of obligations of Modest AB to Luminor Bank AS;
- the Company's lease rights to state-owned land;
- the Company's movable property located at address: P. Lukošaičio g. 14, Vilkyškiai, with the carrying amount of EUR 5,773 thousand to secure fulfilment of the Company's obligations to Swedbank AB;
- the Company's inventories with the carrying amount of up to EUR 5,948 thousand to secure fulfilment of the Company's obligations to Swedbank AB and Luminor Bank AS; to secure fulfilment of obligations of Modest AB to Luminor Bank AS;
- the Company's amounts receivable from one retail chain;
- pledged assets (equipment) of Modest AB to Luminor Bank AB;

## Notes to the consolidated and separate financial statements

### 26 Contingent liabilities (continued)

#### Other credit enhancements:

- surety issued by Modest AB to Luminor Bank AS to secure fulfilment of overdraft obligations in amount of EUR 1,242 thousand as at 31 December 2020 (the surety agreement was signed in 2020);
- guarantees issued by Kelmės Pieninė AB and Modest AB to secure a proper fulfilment of obligations of the Company under a loan agreement with Swedbank AB. The outstanding balance of loan was EUR 3,500 thousand as at 31 December 2020 (the surety agreement was signed in 2020);
- sureties issued by Kelmės Pieninė AB and Modest AB to UAB OP Finance leasing company to secure fulfilment of finance lease obligations in amount of EUR 318 thousand (the net book amount of leased assets was EUR 515 thousand as at 31 December 2020);

#### Sureties and guarantees issued:

- surety issued to OP Corporate Bank plc to secure fulfilment of financial liabilities of Kelmės Pieninė AB in amount of EUR 12,248 thousand as at 31 December 2020 (31 December 2019: EUR 15,916 thousand);
- surety issued to Luminor Bank to secure fulfilment of financial liabilities of Modest AB in amount of EUR 403 thousand as at 31 December 2020 (the surety agreements were signed in 2020);

The Group's and the Company's management is aware that pursuant to the effective laws, the State Tax Inspectorate may at any time inspect the books and accounting records of the Group and the Group companies for 5 years preceding the reporting tax period and may assess additional taxes or fines. The Group's and the Company's management is not aware of any circumstances that might result in a potential material tax liability in this respect.

### 27 Transactions with related parties and management personnel

The parties of the Group and the Company are related when one party has a power to exercise control over the other party or make significant influence on its financial and operation decisions.

The major related parties of the Group and the Company are as follows:

Kelmės Pieninė AB (subsidiary);

Modest AB (subsidiary);

Pieno Logistika AB (subsidiary);

Management personnel;

Other related parties.

#### *(i) Transactions with related parties:*

#### **Purchases of raw materials, products and services, interest expenses**

<u>GROUP</u>			<u>COMPANY</u>	
2020	2019	EUR '000	2020	2019
-	-	Kelmės Pieninė AB	35,215	30,897
-	-	Modest AB	24,656	20,805
64	71	Management personnel	64	71
2,300	3,607	Other related parties*	2,300	3,607
<b>2,364</b>	<b>3,678</b>		<b>62,235</b>	<b>55,380</b>

\* In 2020, the Group and the Company identified an undisclosed other related party (supplier of raw milk), and accordingly, adjusted the comparative figures. The undisclosed amount of the Group's and the Company's purchase of raw materials, products and services for 2019 was EUR 2,735 thousand.



## Notes to the consolidated and separate financial statements

## 27 Transactions with related parties and management personnel (continued)

(ii) Transactions with related parties:

## Sales of raw materials, products and services, interest income

<u>GROUP</u>		EUR '000	<u>COMPANY</u>	
2020	2019		2020	2019
-	-	Kelmės Pieninė AB	11,196	11,507
-	-	Modest AB	20,795	18,734
-	-	Pieno Logistika AB	1	2
11	2	Management personnel	11	2
61	40	Other related parties*	61	40
<u>72</u>	<u>42</u>		<u>32,064</u>	<u>30,285</u>

\* In 2020, the Group and the Company identified an undisclosed other related party, and accordingly, adjusted the comparative figures. The undisclosed amount of the Group's and the Company's interest income for 2019 was EUR 23 thousand.

(iii) Year-end balances of transactions with related parties:

<u>GROUP</u>		EUR '000	<u>COMPANY</u>	
31 12 2020	31 12 2019		31 12 2020	31 12 2019
-	-	<b>Loan receivable (Pieno Logistika AB)</b>	-	4
-	-	<b>Loan payable (Kelmės Pieninė AB)</b>	80	320
-	-	<b>Trade and other amounts payable (Kelmės Pieninė AB)</b>	4,919	1,233
-	-	<b>Trade and other amounts receivable (Kelmės Pieninė AB)</b>	1,185	3,417
-	-	<b>Trade and other amounts receivable (Modest AB)</b>	5	4
-	-	<b>Trade and other amounts receivable (from other related parties)</b>	1,180	3,413
500	1,471	<b>Loan payable (including interest to management personnel)</b>	500	1,471
301	150	<b>Loan receivable (including interest from management personnel)</b>	301	150
12	29	<b>Other amounts receivable (from management personnel)</b>	12	29
-	7	<b>Trade and other amounts receivable (from other related parties)</b>	-	7
32	1,354	<b>Trade and other amounts payable (to other related parties)*</b>	32	1,354
318	402	<b>Advance amounts receivable (from other related parties)</b>	318	402
114	164	<b>Loan receivable (including interest and administration fee from other related parties)</b>	114	164

\* In 2020, the Group and the Company identified an undisclosed other related party (supplier of raw milk), and accordingly, adjusted the comparative figures. The undisclosed balance of the Group's and the Company's trade payables as 31 December 2019 was EUR 1,330 thousand. The classification of trade payables disclosed in Note 25 was adjusted accordingly.

## Notes to the consolidated and separate financial statements

### 27 Transactions with related parties and management personnel (continued)

Assets pledged, guarantees/sureties issued by the Company to secure the fulfilment of financial liabilities of related parties, and assets pledged, guarantees/sureties issued by related parties to secure the fulfilment of financial liabilities of the Company are disclosed in Note 26.

The main terms and conditions for the Group's and the Company's amounts payable and receivable under the loan agreements are as follows:

- In 2020, the Group and the Company granted a loan of EUR 210 thousand to a member of management personnel. Based on the agreement, the loan has to be repaid by 31 December 2021. The balance of the loan granted to the member of management personnel was EUR 290 thousand, and interest receivable was EUR 11 thousand as at 31 December 2020. Annual interest of 4% is payable on the withdrawn balance of the loan.
- In 2020, a member of the management personnel granted a loan of EUR 500 thousand to the Group and the Company. Based on the agreement, the loan has to be repaid by 31 December 2021. The balance of the loan received from the member of management personnel was EUR 500 thousand as at 31 December 2020. Annual interest of 5% is payable on the withdrawn balance of the loan. The loan is subordinated (see Note 26).
- The Company's loan payable to Kelmės Pieninė AB has to be repaid by 30 April 2021. Variable interest is payable by the Company on the withdrawn balance of the loan.
- The Group's and the Company's loan receivable from other related parties amounted to EUR 13 thousand as at 31 December 2020, and it has to be repaid by 31 December 2021. Interest is payable on the outstanding balance of the loan. Receivable administration fee and interest amounted to EUR 101 thousand.

In 2020, personnel expenses included payments of EUR 755 thousand and EUR 514 thousand to the Group's and the Company's management personnel, including social security contributions (2019: EUR 728 thousand and EUR 499 thousand, respectively).

In 2020, the Group's and the Company's payments for personnel under the defined plan for contributions to Pillar III investment funds amounted to EUR 118 thousand and EUR 68 thousand, respectively (2019: EUR 46 thousand and EUR 46 thousand, respectively).

### 28 Financial instruments and risk management

#### Credit risk

The maximum exposure to credit risk is the net book amount of financial assets designated as at 31 December 2020 as financial assets measured at amortised cost. The maximum exposure to credit risk as at the reporting date was as follows:

#### **GROUP**

EUR '000

		Net book amount	
	Note	31 12 2020	31 12 2019
Non-current amounts receivable	16	-	63
Trade and other amounts receivable, net of tax	18	7,927	7,772
Cash and cash equivalents	20	181	298
		<b>8,108</b>	<b>8,133</b>

**Notes to the consolidated and separate financial statements****28 Financial instruments and risk management (continued)**

The table below analyses the maximum exposure to credit risk as at the reporting date arising from trade receivables by geographical regions:

EUR '000	Net book amount	
	31 12 2020	31 12 2019
Lithuania	856	857
Great Britain	1,571	1,535
Israel	576	863
Saudi Arabia	1,464	742
Portugal	355	705
Italy	276	606
Poland	596	368
Latvia	147	365
Estonia	376	266
Republic of Korea	73	230
Kazakhstan	103	194
China	146	-
Taiwan	273	-
Albania	109	182
Denmark	40	123
The Netherlands	126	-
Azerbaijan	1	79
Cameroon	4	76
Croatia	89	74
Thailand	53	-
Germany	387	59
Libya	-	59
Ireland	2	56
Greece	15	48
Kosovo	-	48
Slovakia	75	46
Finland	63	43
Spain	17	36
Czech	68	25
South Africa	58	-
Kuwait	-	24
Norway	-	16
Other	8	47
	<b>7,927</b>	<b>7,772</b>

As at 31 December 2020, significant credit risk concentration was related to three customers, the receivables from which accounted for 33% of total trade receivables (31 December 2019: 40%).

**Notes to the consolidated and separate financial statements****28 Financial instruments and risk management (continued)****COMPANY**

EUR '000	Note	Net book amount	
		31 12 2020	31 12 2019
Non-current amounts receivable	16	-	63
Trade and other receivables	18	9,073	11,179
Cash and cash equivalents	20	155	231
		<b>9,228</b>	<b>11,473</b>

The table below analyses the maximum exposure to credit risk at the reporting date arising from trade receivables by geographical regions:

EUR '000	Net book amount	
	31 12 2020	31 12 2019
Lithuania	2,422	4,264
Great Britain	1,151	1,535
Israel	576	863
Saudi Arabia	1,464	742
Portugal	355	705
Italy	276	606
Poland	596	368
Latvia	147	365
Estonia	376	266
Republic of Korea	73	230
Kazakhstan	103	194
China	146	-
Taiwan	273	-
Albania	109	182
Denmark	40	123
The Netherlands	126	-
Azerbaijan	1	79
Cameroon	4	76
Croatia	89	74
Thailand	53	-
Germany	387	59
Libya	-	59
Ireland	2	56
Greece	15	48
Kosovo	-	48
Slovakia	75	46
Finland	63	43
Spain	17	36
Czech	68	25
South Africa	58	-
Kuwait	-	24
Norway	-	16
Other	8	47
	<b>9,073</b>	<b>11,179</b>

As at 31 December 2020, a significant credit risk concentration was related to three customers, the receivables from which accounted for 35% of total trade receivables (31 December 2019: 52%).

**Notes to the consolidated and separate financial statements****28 Financial instruments and risk management (continued)****Impairment losses**

The Group and the Company establish the provision for impairment losses which represents estimate of incurred losses in respect of trade and other receivables. Such a provision includes only specific losses associated with individual significant items of trade and other receivables. The ageing analysis of trade and other receivables and non-current amounts receivable as at the reporting date is as follows:

<b>GROUP</b>	Total amount	Impairment	Total amount	Impairment
EUR '000	31 12 2020	31 12 2020	31 12 2019	31 12 2019
<b>Related parties:</b>				
Not past due	307	-	216	-
Past due 0-30 days	-	-	-	-
Past due 31-60 days	1	-	7	-
More than 60 days	107	-	98	-
	<b>415</b>	<b>-</b>	<b>321</b>	<b>-</b>
Not past due	6,462	-	4,289	-
Past due 0-30 days	709	-	2,399	-
Past due 31-60 days	90	-	442	-
More than 60 days	346	-95	482	-98
	<b>7,607</b>	<b>-95</b>	<b>7,612</b>	<b>-98</b>
	<b>8,022</b>	<b>-95</b>	<b>7,933</b>	<b>-98</b>

Impairment losses related to trade and other receivables amounted to EUR 95 thousand as at 31 December 2020 (2019: EUR 98 thousand).

## Notes to the consolidated and separate financial statements

## 28 Financial instruments and risk management (continued)

**COMPANY**

EUR '000	Total amount 31 12 2020	Impairment 31 12 2020	Total amount 31 12 2019	Impairment 31 12 2019
<b>Related parties:</b>				
Not past due	1,487	-	3,632	-
Past due 0-30 days	-	-	7	-
Past due 31-60 days	1	-	-	-
More than 60 days	107	-	98	-
	<b>1,595</b>	<b>-</b>	<b>3,737</b>	<b>-</b>
<b>Other parties:</b>				
Not past due	6,431	-	4,281	-
Past due 0-30 days	706	-	2,398	-
Past due 31-60 days	90	-	442	-
More than 60 days	346	-95	482	-98
	<b>7,573</b>	<b>-95</b>	<b>7,603</b>	<b>-98</b>
	<b>9,168</b>	<b>-95</b>	<b>11,340</b>	<b>-98</b>

Impairment losses related to trade and other receivables amounted to EUR 95 thousand as at 31 December 2020 (2019: EUR 98 thousand).

Movements on the account of impairment of trade and other receivables during the year were as follows:

**GROUP**

EUR '000	Net book amount	
	2020	2019
Balance at 1 January	-98	-97
Impairment losses recognised	-1	-1
Write-off of bad debts	1	-
Impairment losses reversed	3	-
Balance at 31 December	<b>-95</b>	<b>-98</b>

**COMPANY**

EUR '000	Net book amount	
	2020	2019
Balance at 1 January	-98	-97
Impairment losses recognised	-1	-1
Write-off of bad debts	1	-
Impairment losses reversed	3	-
Balance at 31 December	<b>-95</b>	<b>-98</b>

## Notes to the consolidated and separate financial statements

### 28 Financial instruments and risk management (continued)

Based on historical payment statistics and detailed analysis of customer solvency, the Company's management considers that the amounts which are past due more than 30 days and not impaired are still recoverable. During the recent five years, the Company recognised amounts receivable of EUR 95 thousand as bad debts.

#### Liquidity risk and going concern

The table below analyses financial liabilities, including interest charged thereon, based on their contractual maturities:

#### GROUP

##### At 31 December 2020

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank borrowings	17,394	-18,001	-1,671	-13,172	-1,910	-1,249
Other borrowings	500	-525	-13	-512	-	-
Lease liabilities	626	-641	-164	-150	-324	-5
Factoring	3,140	-3,171	-3,171	-	-	-
Trade payables	8,579	-8,579	-8,579	-	-	-
	<b>30,239</b>	<b>-30,917</b>	<b>-13,598</b>	<b>-13,834</b>	<b>-2,234</b>	<b>-1,254</b>

##### At 31 December 2019

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank borrowings	23,613	-24,226	-10,056	-1,611	-12,559	-
Other borrowings	1,400	-1,524	-1,524	-	-	-
Lease liabilities	1,033	-1,216	-198	-205	-327	-486
Factoring	1,437	-1,444	-1,444	-	-	-
Trade payables	11,538	-11,538	-11,538	-	-	-
	<b>39,021</b>	<b>-39,948</b>	<b>-24,760</b>	<b>-1,816</b>	<b>-12,886</b>	<b>-486</b>

#### COMPANY

##### At 31 December 2020

EUR '000	Net book amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank borrowings	4,743	-5,116	-416	-1,716	-1,735	-1,249
Other borrowings	500	-526	-13	-513	-	-
Borrowings from Kelmės Pieninė AB	80	-80	-80	-	-	-
Lease liabilities	657	-673	-167	-155	-346	-5
Factoring	1,452	-1,466	-1,466	-	-	-
Trade payables	11,647	-11,647	-11,647	-	-	-
	<b>19,079</b>	<b>-19,508</b>	<b>-13,789</b>	<b>-2,384</b>	<b>-2,081</b>	<b>-1,254</b>

**Notes to the consolidated and separate financial statements****28 Financial instruments and risk management (continued)**

At 31 December 2019

EUR '000	Net book amount	Contractual				
		1 cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
Bank borrowings	7,083	-7,131	-7,131	-	-	-
Other borrowings	1,400	-1,524	-1,524	-	-	-
Borrowings from Kelmės pieninė AB	320	-327	-124	-122	-81	-
Lease liabilities	1,047	-1,215	-183	-189	-335	-508
Factoring	1,437	-1,444	-1,444	-	-	-
Trade payables	10,742	-10,742	-10,742	-	-	-
	<b>22,029</b>	<b>-22,383</b>	<b>-21,148</b>	<b>-311</b>	<b>-416</b>	<b>-508</b>

As at 31 December 2020, the Group's and the Company's current assets were lower than the current liabilities by EUR 12,315 thousand and EUR 172 thousand, respectively. As at 31 December 2020, the Group's borrowings and lease liabilities totalled EUR 21,660 thousand and EUR 7,432 thousand, respectively. Under the currently effective loan and other agreements with the banks, the outstanding balances of the Group and the Company to be repaid in 2021 amounted to EUR 18,083 thousand and EUR 3,996 thousand, respectively (see Note 22).

On 31 December 2021, the overdraft agreements for EUR 5,370 thousand will expire, with their term to be extended for additional one or two years.

On 31 December 2021, the credit agreement of Kelmės Pieninė AB with OP Corporate Bank plc Lithuania branch (hereinafter in the paragraph below referred to as the Bank) will expire. The last credit payment of EUR 10,400 thousand will be made on 31 December 2021.

The Group received information from the Bank, that the Bank would consider extending the repayment term for the outstanding balance of the credit for a period not longer than 5 (five) years after the date of signing the Agreement to be paid on the basis of equal monthly instalments, when the Group presents its audited financial statements for 2020, financial statements for 1H 2021, other related and/or requested by the Bank documents, and the Bank assesses the Group's financial position, forecast results of operations, compliance with the covenants stipulated in the Agreement, and provided there is no incident of default.

The credit agreement with the Bank contains the following covenants on financial indicators to be complied with by the Group:

- The Group's equity ratio;
- The Group's net debt to EBITDA ratio.

COVID-19 virus pandemic directly affects the local dairy industry, which strongly depends on the export. The export is particularly important for the Group, since it accounts for 83% of total annual turnover. After the World Health Organisation announced an outbreak of the coronavirus as a pandemic with effect from 11 March 2020, a lockdown was introduced in many countries worldwide, resulting in a closure of public institutions and areas, suspension of many business activities. Introduction of a nation-wide lockdown affected the foreign trade and caused interruptions in milk product logistic and supply among the EU Member States. Many countries in Europe suspended the activities of hotels, restaurants and public catering, which resulted in a considerable decline in consumption of milk products. Accordingly, this had a negative impact on the export of the Group's products, especially cheese, during the period March-May 2020.

The Hotel, Restaurant and Cafe (HoReCa) industry suffers the outcomes of the continuing pandemic and lockdown worldwide, and accordingly, in response to such situation, the Group focused on the following areas in 2020:

- geographical expansion of export in HoReCa industry;



## Notes to the consolidated and separate financial statements

### 28 Financial instruments and risk management (continued)

- increasing the sales of cheese and cheese products in the existing geographical markets (sales increased in Chile, China, Israel, Saudi Arabia);  
- geographical expansion of export of industrial products and increasing the number of customers: in 2020, sales of dry milk products were higher by 38% compared to 2019. This was driven not only by higher production volumes, increasing quantity of orders from customers, but also by the newly attracted customers – successful launching in the markets of China and Australia, increase of sales in the markets of Great Britain, Russia and Vietnam.

In 2020, the equity ratio was 45%, which was considerably higher compared to the contractual minimum ratio of 30%. The contractual net debt to EBITDA ratio was set not in excess of 3.5, compared to the actual ratio of 2.5 as at 31 December 2020.

In 2021, the Group's budgeted EBITDA amounts to EUR 10,769 thousand, budgeted interest-bearing liabilities amount to EUR 16,990 thousand as at 31 December 2021. In view of these projections, the Group's net debt to EBITDA ratio will be 1.6 as at 31 December 2021. In 2021, the Group's budgeted pre-tax profit amounts to EUR 6,599 thousand. This will result in an increase in the Group's equity and will, accordingly, have impact on the equity ratio set in the agreement with the bank.

The change in the Group's EBITDA in 2021 compared to 2020 will be driven by higher prices of cream and cheese products, higher sales volume of dry milk products and lower distribution expenses. It is projected that the Group's EBITDA will increase by EUR 2,540 thousand as a result of all those factors.

In 2021, the Group's management will also focus on export of its products by expanding the geographical coverage of export and by increasing sales and prices of cheese, cheese products and dry milk products. It is projected that the Group's revenue will grow by 8.7% in 2021 compared to 2020, and that export will account for not less than 83% of total sales.

The Group's management expects to use its positive cash flows for repayment of non-current borrowings amounting to around EUR 2,973 thousand, and to reduce other current financial commitments by around EUR 500 thousand.

The Group's management believes that the above circumstances will provide basis for extending the credit agreement with OP Corporate Bank plc., with the outstanding credit balance to be repaid over five years.

#### Foreign exchange risk

Exposure to foreign exchange risk, at the exchange rates effective as at 31 December 2020, was as follows:

<b>GROUP (COMPANY) (EUR '000)</b>	<u>USD</u>	<u>PLN</u>
Trade and other receivables, net of tax	1,612	127
Cash and cash equivalents	-	22
Trade payables	-2	-1
Net exposure	<u><b>1,610</b></u>	<u><b>148</b></u>

**Notes to the consolidated and separate financial statements****28 Financial instruments and risk management (continued)**

Exposure to foreign exchange risk, at the exchange rates effective as at 31 December 2019, was as follows:

<b>GROUP (COMPANY) (EUR '000)</b>	<u>USD</u>	<u>PLN</u>
Trade and other receivables, net of tax	766	170
Cash and cash equivalents	-	5
Trade payables	-	-
Net exposure	<b>766</b>	<b>175</b>

During the year the exchange rates against the euro were as follows:

	<u>Average</u>	<u>2019</u>
	<u>2020</u>	
USD	1.1418	1.1196
PLN	4.4419	4.2978

The exchange rates applied against the euro as at 31 December were as follows:

	<u>2020</u>	<u>2019</u>
USD	1.2281	1.1189
PLN	4.5565	4.2567

**Analysis of sensitivity to changes in the exchange rates**

The Company's foreign exchange risk arises from purchases and sales denominated in currencies other than the euro. In 2020, the major portion of the Company's transactions were conducted in the euros, and therefore, the Company was not exposed to significant foreign exchange risk.

**Interest rate risk**

The Group's and the Company's borrowings bear variable interest rates linked with EURIBOR + a margin and EONIA + margin.

Interest rates applied to the Group's and the Company's financial instruments as at 31 December 2020 were as follows:

<u>GROUP</u>		EUR '000	<u>COMPANY</u>	
Net book amount	Net book amount		Net book amount	Net book amount
31 12 2020	31 12 2019		31 12 2020	31 12 2019
<b>Financial instruments with fixed interest rates</b>				
-	-	Pieno Logistika AB	-	4
-	63	Non-current portion of loans granted	-	63
290	150	Short-term loan granted to management personnel	290	150
-500	-1,400	Current borrowings from management personnel	-500	-1,400
<b>-210</b>	<b>-1,187</b>		<b>-210</b>	<b>-1,183</b>

## Notes to the consolidated and separate financial statements

## 28 Financial instruments and risk management (continued)

<b>GROUP</b>		EUR '000	<b>COMPANY</b>	
Net book amount			Net book amount	
31 12 2020	31 12 2019		31 12 2019	31 12 2019
<b>Financial instruments bearing variable interest rates</b>				
-17,394	-23,613	Bank borrowings	-4,743	-7,083
-	-	Kelmės Pieninė AB	-80	-320
-3,140	-1,437	Factoring	-1,452	-1,437
-626	-1,033	Lease liabilities	-657	-1,047
<b>-21,160</b>	<b>-26,083</b>		<b>-6,932</b>	<b>-9,887</b>
<b>-21,370</b>	<b>-27,270</b>		<b>-7,142</b>	<b>-11,070</b>

**Analysis of sensitivity of cash flows to instruments bearing variable interest rates**

A shift in interest rates by +/- 100 basis points (bps) would increase/decrease equity and profit/(loss) by the amounts set out in the table below. This analysis assumes that all other variables, in particular exchange rates, are held constant. The analysis for 2019 was performed using the same basis.

<b>GROUP</b>		Impact (EUR '000)	<b>COMPANY</b>	
Profit (loss)			Profit (loss)	
100 bp increase	100 bp decrease		100 bp increase	100 bp decrease
<b>At 31 December 2020</b>				
-214	214	Financial instruments bearing variable interest rates	-71	71
<b>At 31 December 2019</b>				
-273	273	Financial instruments bearing variable interest rates	-111	111

**Fair value of financial instruments / Fair value hierarchy**

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

The table below analyses financial instruments carried at fair value, by valuation method.

The following methods and assumptions are used by the Group and the Company to determine the fair value of these financial instruments:

**Financial instruments that are not measured at fair value**

The main financial instruments of the Group and the Company that are not measured at fair value are trade and other amounts receivable, term deposits, trade and other amounts payable, non-current and current borrowings. The Group's and the Company's management is of the opinion that the carrying amounts of these financial instruments approximate their fair values because borrowing costs are linked to an interbank lending rate EURIBOR, and other financial assets and liabilities are of short-term nature; therefore, their fair value variation is not significant.

**Financial instruments measured at fair value**

The Group and the Company have no financial instruments measured at fair value.

## Notes to the consolidated and separate financial statements

## 28 Financial instruments and risk management (continued)

**GROUP**

At 31 December 2020

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	-	-
Trade and other receivables	-	-	7,927	7,927
Cash and cash equivalents	181	-	-	181
Borrowings and lease liabilities	-	-	-21,660	-21,660
Trade and other payables	-	-	-8,579	-8,579
	<b>181</b>	<b>-</b>	<b>-22,312</b>	<b>-22,131</b>

At 31 December 2019

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	63	63
Trade and other receivables	-	-	7,772	7,772
Cash and cash equivalents	298	-	-	298
Borrowings and lease liabilities	-	-	-27,483	-27,483
Trade and other payables	-	-	-11,538	-11,538
	<b>298</b>	<b>-</b>	<b>-31,186</b>	<b>-30,888</b>

**COMPANY**

At 31 December 2020

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	-	-
Trade and other receivables	-	-	9,073	9,073
Cash and cash equivalents	155	-	-	155
Borrowings and lease liabilities	-	-	-7,432	-7,432
Trade and other payables	-	-	-11,647	-11,647
	<b>155</b>	<b>-</b>	<b>-10,006</b>	<b>-9,851</b>

At 31 December 2019

EUR '000

	Level 1	Level 2	Level 3	Total
Non-current amounts receivable	-	-	63	63
Trade and other receivables	-	-	11,179	11,179
Cash and cash equivalents	231	-	-	231
Borrowings and lease liabilities	-	-	-11,287	-11,287
Trade and other payables	-	-	-10,742	-10,742
	<b>231</b>	<b>-</b>	<b>-10,787</b>	<b>-10,556</b>

## Notes to the consolidated and separate financial statements

### 28 Financial instruments and risk management (continued)

#### Capital management

The Board's policy is aimed at maintaining a significant portion of equity compared to borrowed funds in order to avoid damaging trust of investors, creditors and the market and ensuring the development of operations in the future and compliance with externally imposed capital requirements. Capital is defined as equity attributable to equity holders

The Board also aims to maintain balance between a higher rate of return, which could be achieved by obtaining more borrowed funds, and security, which is ensured by a larger amount of equity.

The Group and the Company manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of their activities. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. There were no changes in the objectives, policies or processes during the financial years ended 31 December 2020 and 31 December 2019.

The Law on Companies of the Republic of Lithuania require that the Group and the Company keep equity at no less than 50% of the share capital.

The Group has a commitment to comply with the external capital requirements set by the banks. Based on the requirements of the banks (equity – revaluation reserve) / (total assets) ratio should not be less than 30%. Management monitors the compliance with the requirements set for the Group. Further details are given in Note 21.

### 29 Events after the reporting period

Until 28 February 2021, the Group's subsidiary Kelmės Pieninė AB was engaged in two types of activities: production and sale of fresh milk products, and production and sale of dry milk products. In order to ensure a more effective management of those two types of activities, at the end of 2020 the activities were separated as a result of business spin-off and establishment of Kelmės Pienas UAB, a subsidiary of Kelmės Pieninė AB, to which the business of fresh milk products (as economic activities to be further continued and as a complex) was transferred in 2021. Kelmės Pieninė AB will transfer the agreements, assets and related contractual rights and obligations that are exceptionally related to fresh milk products. The decision regarding the spin-off of fresh milk product segment was made in order to restructure the operations of the Group companies, ensure efficiency, optimisation and diversification of operations. The final transfer was effected on 28 February 2021. Following the transfer of business, Kelmės Pieninė AB will continue its activities of production of dry milk products.

On 1 April 2020, the Company finalised the acquisition of 70% of shares of Baltic Dairy Board SIA, and the total investment amount was EUR 271 thousand. Baltic Dairy Board SIA is a Latvian company specialising in the production and trade of high added value milk product ingredients, and processing of milk and whey. Based on preliminary unaudited data, the sales of Baltic Dairy Board SIA amounted to EUR 4.9 million, and net profit amounted to EUR 1.47 million in 2020.

Through its investments in the capital of Baltic Dairy Board SIA, Vilkyškių Pieninė AB seeks to strengthen and expand the existing product portfolio of high added value milk ingredients. The new Group company in Latvia is one of few companies in Northern Europe creating or producing products intended for infant food production (galactooligosaccharide products). The Group will benefit from the newly arising synergy among the current Group companies and Baltic Dairy Board SIA in the processes of whey processing and purchases of raw materials.

There were no other events after the reporting period that could have material impact on the financial statements for the year ended 31 December 2020.

## Notes of the consolidated and separate financial statements

### 30 Correction of errors

#### Recognition of investment property is the Company's statement of the financial position

In its financial statements for the year ended 31 December 2020, the Company presented retrospectively the correction of error relating to the previous reporting periods. In its financial statements for the year 2018 and 2019, the Company presented property that is rented for the Group companies and that is not occupied by the Company, as property, plant and equipment. Such property should have been classified as investment property in the Company's financial statements. The Company is using revaluation model for both, the investment property and the building category of the property, plant and equipment. In its financial statements for the year 2020, the Company corrected retrospectively the retained earnings, as well as revaluation reserve that was affected by the error. The total impact of incorrectly presented revaluation amount on separate statement of profit or loss is EUR 31 thousand. As the amount is not significant it was not correct directly in the separate statement of profit or loss but corrected directly in the separate statement of financial position in the shareholder's equity part. The approved financial statements for the previous reporting periods were not subject to restatement.

#### Separate statement of financial position

	At 31 December 2018 (as reported)	Correction	At 31 December 2018 (corrected)	At 31 December 2019 (as reported)	Correction	At 31 December 2019 (corrected)
Investment property		5,692	5,692		5,568	5,568
Property, plant and equipment	20,633	(5,692)	14,941	19,069	(5,568)	13,501
<b>Total assets</b>	<b>54,521</b>		<b>54,521</b>	<b>50,704</b>		<b>50,704</b>
Reserves	2,491	(820)	1,671	2,374	(789)	1,585
Retained earnings	20,664	820	21,484	16,722	789	17,511
<b>Total shareholder's equity</b>	<b>29,919</b>		<b>29,919</b>	<b>25,860</b>		<b>25,860</b>

# Annual report of “Vilvi group” for 2020

## I. ISSUER OVERVIEW

### 1. Reporting Period for this Report

This consolidated Report is for 2020.

### 2. Issuer Information and Contact Details

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

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

#### “Modest” AB

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

#### Kelmės pieninė AB

Name of subsidiary	Kelmės pieninė AB (hereinafter – Kelmės pieninė AB)
Legal form	Public limited company
Date of registration	3 August 1993, VĮ Registrų centras
Date of re-registration	4 July 2007
Head office	Gaurės g. 23, LT-72340 Tauragė
Registration No.	110109
Company register code	162403450
Telephone	+370 427 61246
Fax	+370 427 61235
E-mail	<a href="mailto:kelmespiniene@vilvi.eu">kelmespiniene@vilvi.eu</a>
Website	<a href="http://www.vilvigroup.lt">www.vilvigroup.lt</a>

## **Kelmės pienas UAB**

Name of Kelmės pieninė AB subsidiary	Kelmės pienas UAB (hereinafter – Kelmės pieninė AB)
Legal form	Public limited company
Date of registration	17 November 2020, VĮ Registrų centras
Date of re-registration	4 July 2007
Head office	Raseinių str. 2, LT-86160 Kelmė
Company register code	305658215
Telephone	+370 427 61246
E-mail	kelmespienas@vilvi.eu
Website	<a href="http://www.vilvigroup.lt">www.vilvigroup.lt</a>

## **Pieno logistika AB**

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

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

The main business activity of “Vilvi Group” is production and sale of dairy products (EVRK 10.51).

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

Subsidiary company “Modest” AB makes mozzarella cheese, mould cheese, smoked, melt cheese and other cheese products.

Subsidiary company Kelmės pieninė AB produces fresh dairy products: kefir, sour cream, yogurts, cottage cheese, glazed curd bars, butter and dry milk products – WPC, SMP, permeate and whey powder.

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

Kelmės pienas UAB – subsidiary of Kelmės pieninė AB established in the end of 2020 did not do any activities during the reporting year.

## **5. Agreements with Brokerages for Securities Public Turnover**

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

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

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

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

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

The securities of the subsidiary companies are not publicly traded.



## II. OVERVIEW OF OPERATIONS

“Vilvi Group” produces a wide range of delicious dairy products based on original recipes, many of them acknowledged for their taste and quality at international trade fairs. We are proudly continuing the long-standing traditions of cheese production that originated in the picturesque region of Lithuania surrounded by wonderful nature. The lush flood-meadows of the Nemunas River inspire us to create and share what nature has so generously bestowed on us.

**Our mission** is to provide people across the whole world more opportunities to enjoy dairy products.

### **Our Values:**

**Quality** – we produce high-quality dairy products and abide by the highest standards.

**Innovations** – we continually delight our consumers by introducing new products and providing opportunities to experience new taste sensations. We constantly invest in new technologies and expand our product range. We are interested in creating and sharing the results of our work. After all, it is how new traditions are being born, is not it?

**Competence** – in the hands of our dairy masters dairy foods turn into exclusive and original high-quality products.

**Honesty** – we are open and reliable. Our customers’ trust and respect are extremely important to us. The basis of our activity includes the time-proved relations with our business partners and professionalism of our employees.

### **7. Issuer’s Jurisdiction**

In its operations, “Vilvi Group” follows the Lithuanian law, government resolutions and legal acts on companies, in particular the Lithuanian law on the securities market, as well as the Company’s own Statutes.

### **8. Brief History of Issuer**

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

Initially, there was no other owners’ equity apart from the privatized buildings, and bank loans were taken to provide with the needed working capital.

### **Key Events in Issuer’s History**

**1993 – 1995:** the dairy’s water tower, boiler house and milk separation unit were renovated, and milk separation was launched. The cheese production department started making of low-fat fermented cheese *Peptatas*. A butter production unit was also launched. Since 1997, the cheese production department started making the Tilsit-type cheese, also launching production of Gouda-type fermented cheese a year later.

**1997-2000:** buildings and production equipment were renovated, boiler house BWE and cold warehouse were built, also renovated electricity power substation.

**1999- 2000:** 2.5 MEUR was invested into the new TetraPakTebel cheese production facility. As a result, new fully computerised and automated cheese production line was installed, enabling the company to make EU-compliant products.

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

**2001:** The Company acquired the Tauragė dairy facility of the Mažeikiai branch of Pieno žvaigždės AB. Since 2007, it houses the head office of “Modest” AB, a subsidiary of Vilkyškių pieninė AB.

**2003-2005:** The Company adopted accounting and enterprise resource planning solution Microsoft Dynamics Nav. An EU-compliant wastewater treatment facility, made by the Dutch company

NewWaterTechnology, was installed, and investments were made into cheese packaging equipment in the same year. Boiler house of Tauragė production facilities was reconstructed to use new fuel type.

As of 17 **May 2006**, a total of 9,353,000 common registered shares of Vilkyškių pieninė AB were listed on the Current List of the NASDAQ OMX Vilnius exchange. As of 1 January 2008, the shares are listed in the Official list of NASDAQ OMX Vilnius exchange.

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

In **2006**, the Company’s cheeses production facility was expanded significantly. Maximum production capacities of the Company increased from 10,000 to 14,000 tonnes per year. The Company used the support from the EU funds.

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

**2007:** “Modest” AB was allocated 0.6 MEUR in support from EU structural funds. “Modest” AB used the funds to upgrade its fleet of refrigerated vans for product transportation and to modernise its production processes. It installed new milk processing technologies and packaging line for its main product Mozzarella cheese.

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

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

**2011:** was invested into new cold storage equipment, expand the existing wastewater treatment and equipment washing capacities. Also, investments were mainly made into refrigeration equipment, a cheese cutting and packaging line. The installation of the Equinox warehouse management system was also started.

**2012:** a new cheese production line was assembled (4.6 MEUR in value), increasing output by 30 percent. In addition, 2.7 MEUR packaging and plastic-coating line was installed.

**2013:** the trademark of Vilkyškiai was recognized as Brand of the year 2013 in Lithuania.

**2013:** among other investments, about 1.5 MEUR was invested to expand the whey processing unit’s daily capacity to 600 tonnes. By the end of the year, the whey ultrafiltration project was also completed — it is a technology that breaks whey proteins into their basic components.

In **2013** Kelmės pieninė AB installed a new TetraTop packaging line for liquid dairy products. This packaging is innovative and preserving environment. Reliable carton packaging protects product from environmental effects – light, air, microorganisms and it is more comfortable to use.

**2013:** after “Modest” AB completed the modernisation of its blue cheese production facility, its output is about 300 tonnes per year.

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

In **2014- 2015**, Kelmės pieninė AB and “Modest” AB renovated its compressor station.

**In 2015**, Vilkyškių pieninė AB signed a contract to connect to a gas distribution system with *Lietuvos dujos* AB as dry milk products production factory need gas.

**In 2015** the trademark of Vilkyškiai was recognized as Brand of the year 2015 in Lithuania.

In **2016** Kelmės pieninė AB started the Project of dry milk products factory. For the implementation of it, Kelmės pieninė AB signed a support agreement with the National Paying Agency under the Ministry of Agriculture of the Republic of Lithuania for 4 million EUR support.

On April **2017**, Vilkyškių pieninė AB has been announced as the Lithuanian investor of the year 2016. The title has been gained for investing to the whey processing factory in Tauragė.

In the end of **2017** production was started in the new dry milk products factory in Tauragė. Over the past two years the company invested about 28 million EUR to this project. The project was also funded by EU funds, with a budget of 4 MEUR. Kelme Pieninė AB dry milk products factory is currently the most modern in the region, with a fully automated production process and packaging line.

**2017:** Vilkyškių pieninė AB was awarded as “Lithuanian Export Prize 2017” winner. The Company was recognized as the most contributing to the growth of the economy and exports.

**2018** Vilkyškių pieninė AB was announced as winner of prestigious award “Golden Phenix” and received nomination “Sponsor of Culture of the Year” for cultural activities.

**2019** “Modest” AB has implemented the Mozzarella cheese grating line, which allows to produce large quantities of grated Mozzarella and to meet customers’ needs both in Europe and in other world markets. Company invested 0.55 MEUR.

**2019** Kelmės pieninė AB has reconstructed boiler house to use natural gas instead of diesel fuel. The new boiler house is fully automated and more energy efficient therefore it is more economical and ecological.

**2020:** In order to strengthen the brand's global recognizability, it was decided to unify the business group’s identity in all of the markets across the world. Since September 15, 2020 AB Vilkyškių Pienine Group begins operations under the “**Vilvi Group**” brand name uniting the whole group.

2020: In the largest Europe’s brand study on sustainability – Sustainable Brand Index™ Vilkyškių pieninė brand was 12<sup>th</sup> in overall ranking among Lithuanian brands. It was ranked among top 5 in the food and beverage category in Lithuania.

**2020:** In order to better manage Kelmės pieninė AB activities, its subsidiary company Kelmės pienas UAB was founded which will take over fresh milk products (cottage cheese, yogurts, sour cream, cream, butter and other) business. Kelmės pieninė AB will transfer only fresh milk products related agreements, assets and related rights and obligations to its subsidiary. It is planned to complete the transaction by the 28<sup>th</sup> of February of 2021.

**2020:** Kelmės pieninė AB started research and experimental development project *Creation of innovative food supplement for elderly people to prevent senescence weakness and insufficient nutrition*. The project is carried out in cooperation with Lithuanian University of Health Sciences. Successful research and significant results are ensured by long-term experience and partnership of the Company and the University. The project is financed according to 2014 – 2020 European Union investment programme *Research and experimental development and innovation promotion* No 01.2.1-LVPA-K-856 *Experiment*.

## **9. Main Investments of “Vilvi Group” During Reporting Period**

During 2020 the Group of companies invested 3.405 MEUR.

## **10. Patents & Licenses**

Product quality, customer needs satisfaction and food safety requirements are priorities at Vilvi Group. To maintain high product quality, quality management and food safety systems are constantly monitored, revised and improved.

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

Vilkyškių pieninė AB has obtained certification of its Quality Management and Food Safety systems under the international standard ISO 22000/ FSSC 22000. This certification scheme is part of the Global Food Safety Initiative (GFSI) and is equivalent to such internationally recognised standards as BRC and IFS.

Until 2013, Kelmės pieninė AB worked in accordance with ISO 22000/ FSSC 22000 standards, but in 2015 it extended the scope of certification and now covers the processing of all products.

“Modest” AB is also certified under ISO 22000/FSSC 22000 certification scheme for product development, production and sale.

The quality management and food safety systems are subject to continuous monitoring, review and improvements with a view to maintaining the high quality of the Company’s products. Every year “Vilvi Group” audits according to ISO 22000 / FSSC 22000 certification schemes.

In order to attract buyers in Islamic countries, Vilkyškių pieninė AB, “Modest” AB and Kelmės pieninė AB (dry milk products) have been certified according to Halal rules. From year 2015 certification for Halal products continues every year. Halal products are associated with product safety, health, quality, ecology. These products are used by people of other religions as well.

In 2017, factory of dry milk products of Kelmės pieninė was registered and started to operating. It received the veterinary approval number, which granted the right to export production to all EU and other third countries. The factory has established a physicochemical research laboratory equipped with state-of-the-art ultra-reliable equipment for ensuring the quality control of products. The laboratory carries out research using analyzers operating on the basis of infra-red analyzers and using reference (classical) methods of investigation.

In 2018 Kelmės pieninė AB, dry milk products certified according to ISO 22000/FSSC 22000 Certification Scheme.

In 2019 the laboratory of Vilkyškių pieninė AB received Food business operator laboratory approval permit.

In 2020, Kosher certificate issued to Kelmės pieninė AB, dry milk products. All “Vilvi Group” companies were certified according to the updated ISO 22000/FSSC 22000 certification schemes.

## **11. Human Resources**

One of the strategic goals of Vilvi Group is to become leading employer in the regions where it operates. Therefore, human resource policies are oriented to formation of value creation culture, overall team wellbeing cooperating and developing professional and personal skills. Vilvi Group companies create environment for knowledge sharing and skills development through internal and external training, employees are encouraged to offer their ideas and participate in attraction of new personnel.

The Company implements Career Management System project that includes more than 200 administrative employees. The aim of the project is to evaluate the viability of existing employees in their internal career promotion.

The Company cooperates with educational institutions and recruitment agencies to recruit employees with necessary qualification. Professional information, career planning and excursions to production sites are organized.

An important task of the employee policy of the Vilvi Group is to ensure the safety, health and decent working conditions of its employees. Each year, the Company’s employees can obtain free health and vision check-ups and flu vaccinations. The designated occupational safety and health professional continuously monitors and ensures that workplaces comply with safety and health regulations. Psychosocial factor risk analysis and stress reduction at work gets special attention.

As Covid-19 infection hit the country the companies of Vilvi Group in order to protect employees from the virus threat continuously monitor their health. Production and administrative premises are often cleaned, disinfected and ventilated. Employees are discouraged to interact personally if no necessity exists and while interacting safe distance is kept, face masks and other personal safety means are obligatory. Production premises are additionally disinfected using mobile smoke generators after each shift

Vilvi Group took initiative and regularly tests its employees for Covid-19 infection so it can timely react and take preventive measures to stop the spread of the virus.

Vilvi Group has adopted Remuneration System that ensures clear, reasonable and equitable wages.

Confidential information directly related to business and employee personal data are managed in accordance with General Data Protection Regulation (GDPR). The Group adopted *IT Security Policy* and *Rules for Management of Personal Data* and others.

Vilvi Group is an active member of the community. The Group support and participate in cultural and educational events, promote active social life in the regions, strengthen ties and cooperation with local communities.

## 12. Environmental Protection

“Vilvi Group” has an environmental protection policy aimed at reducing the environmental impact of its operations, ensuring integrated pollution prevention measures, minimizing the use of resources and waste generation, so that its operations do not affect air, water and soil. “Vilvi Group” performs regular environmental impact analysis and assessment.

Based on the European Parliament and Council IPPC Directive 2008/1/EC, Vilkyškių pieninė AB is attributable to the Annex I installations and is required to have an IPPC permit. The Company obtained its first IPPC permit from the Klaipėda Regional Environmental Protection Department on 10 August 2004, which was renewed on 4 December 2020.

Kelmės pieninė AB IPPC permit was revoked according to the criteria of the Order of the Minister of the Environment of the Republic of Lithuania D1-330 "On the Rules for Updating and Eliminating the Issues of Integrated Pollution Prevention and Control Authorization". The activities performed by the company do not meet the criteria specified in the annexes to the order, therefore the IPPC permit is revoked, instead of it was issued boiler pollution permit No. (30.3) - A4-33. in accordance with the provisions of Paragraphs 40 and 41 of the Rules.

“Modest” AB IPPC permit was revoked according to the criteria of the Order of the Minister of the Environment of the Republic of Lithuania D1-330 "On the Rules for Updating and Eliminating the Issues of Integrated Pollution Prevention and Control Authorization". The activities performed by the company do not meet the

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

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

Production wastewater is treated at the Company’s own combined biomechanical treatment facility. In 2020, Vilkyškių pieninė AB treated 354 tho m3 of wastewaters. The resulting sludge is given to local waste management bodies and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be up to 99 percent. In 2020, an automatic wastewater disposal control system was installed to prevent excess sewage sludge from entering the environment together with treated waste water.

Production wastewater generated by Kelmės pieninė AB, during the production of fresh milk products is discharged into Kelmės vanduo UAB water treatment facilities, while wastewater generated during the production of dry milk products is discharged to UAB “Tauragė waters”. During 2020, 86,897 m3 of wastewater was discharged in Kelmė, 243,990 m3 in Tauragė.

Kelmės pieninė AB Tauragė Division produces powdery, dusty products therefore it is very important to minimize hard particle and waste emissions to air and environment. Air polluted with hard particles is directed towards filters and cleaned there is emitted to environment. According to drying factory equipment manufacturers’ data whey, permeate, skimmed milk are odorless materials therefore no odors are released into environment.

“Modest” AB has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels. Wastewater of “Modest” AB is discharged into the urban wastewater system operated by Tauragės vandenys UAB. Monitoring is carried out by Tauragės vandenys UAB.

Wastewater meter was installed in order to account wastewater more accurately. Rain water is collected and cleaned with oil product filter and afterwards released to Beržė river.

The Companies of the Vilvi Group invest in environment-friendly solutions. They responsibly choose packaging designs and materials.

- In 2020 WPC stretch hood film used to wrap palettes of production was switched from 100 microns to 80 microns so plastic use is reduced.
- In 2020 melt cheese packaging was switched to thinner plastic material packaging covered with carton material. New packaging is 5 grams lighter.
- Since 2018 fresh milk products are transported in multiple-use boxes thus minimizing disposable carton box use.
- Each product packaging is labelled with information how to properly dispose and sort it after product is consumed.

Production waste is managed and accounted according to approved environment requirements in GPAIS (product, packaging, and waste accounting information system).

In all Companies of the Group waste is disposed according to Republic of Lithuania regulatory norms therefore there is no negative impact on environment.

### 13. Company Results of Operations

Taking into account the goals and strategy of “Vilvi Group”, we use the selected long-term values that are the most important indicators for assessing the Company's and our Group's activities. The indicators are financial and relative.

#### Key financial indicators of the Company:

	2016	2017	2018	2019	2020
Revenue (EUR tho)	102,260	130,325	126,242	140,492	148,738
EBITDA (EUR tho)	6,111	7,124	-1,055	-2,504	2,995
EBITDA margin, pct	6.0	5.5	-0.8	-1.8	2.0
Operating profit (EUR tho)	4,237	5,272	-2,974	-4,322	1,394
Operating profit margin, pct	4.1	4.0	-2.4	-3.1	0.9
Profit before tax (EUR tho)	7,493	7,044	-2,712	-5,061	640
Profit before tax margin, pct	7.3	5.4	-2.1	-3.6	0.4
Net profit	6,991	6,202	-2,028	-4,059	1,371
Profit margin, pct	6.8	4.8	-1.6	-2.9	0.9
Earnings per share (EUR)	0.59	0.52	-0.17	-0.34	0.11
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2020 **sales revenue** of the Company amounted to 148.7 million EUR and comparing to the sales revenue of 2019 which was 140.5 million EUR increased by 5.9 percent.

**EBITDA** – profit before interest, taxes, depreciation and amortization is a measure of the company's earnings before the company's financing policy, as well as the assessment of the effect on profit on profit tax. Vilkyškių pieninė AB calculates this indicator by adding depreciation and amortization to operating profit and subtracting grants. In 2020 EBITDA of the Company was 3.0 million EUR and in 2019 it was -2.5 million EUR. In the reporting financial year EBITDA margin was 2.0 percent and in 2019 it amounted to -1.8 percent. The **EBITDA margin** is the ratio of EBITDA and revenue.

**Operating profit (EBIT)** - Profit before interest and taxes. It shows the company's profit earned during the activity and investment cycles, but before the assessment of the impact of the company's financing policy on profit and the deduction of corporate income tax. This indicator is reflected in the profit and loss statement in

the operating profit line. Operating profit in 2020 was 1.4 million EUR, operating profit margin was 0.9 percent. 2019 operating loss was 4.3 million EUR, operating profit margin was -3.1 percent.

**Net profit (loss)** is the amount shown in the line of the income statement summarizing all items of income and expense recognized during the period and showing the increase (decrease) in economic benefits. In 2020 net profit was 1.4 million EUR, net profit margin was 0.9 percent., while in 2019 net loss was 4.1 million EUR, net profit margin -2.9 pct.

**Key financial ratios of the Company:**

	2016	2017	2018	2019	2020
Return on equity (ROE), pct	24.4	18.5	-6.8	-15.7	5.0
Return on assets (ROA), pct	12.8	11.3	-3.7	-8.0	2.8
Return on Capital Employed (ROCE), pct	13.3	15.9	-9.4	-13.7	4.4
Debt ratio	0.48	0.39	0.45	0.49	0.44
Deb/equity ratio	0.91	0.63	0.82	0.96	0.79
Quick liquidity ratio	1.40	1.53	1.04	0.83	0.99
Asset turnover ratio	1.87	2.38	2.32	2.77	3.05
Equity ratio	0.52	0.61	0.55	0.51	0.56

**Calculating Relative Indicators:**

1. Return on equity (ROE) is the ratio of net profit to equity.
2. Return on assets (ROA) - the ratio of net profit to assets.
3. Return on Capital Employed (ROCE) – operating profit/ total assets – current assets
4. Debt ratio is the ratio of all company liabilities and assets.
5. Debt and equity ratio is the ratio of all liabilities and equity of the company.
6. Liquidity ratio is the ratio of current assets and current liabilities.
7. Asset turnover - the ratio of sales and assets.
8. Equity ratio – the ratio of equity and assets.

In 2020, **assets totaled** 48.8 million EUR or 1.9 MEUR less than in 2019. The carrying amount of **long-term assets** decreased by 0.7 percent comparing to 2019 and amounted to 31.4 million EUR. In 2020, **equity** was 27.2 MEUR, up by 5.3percent from the previous year 2019 (2019: equity 25.9 MEUR).

## 14. “Vilvi Group” Results of Operations

**Key financial consolidated indicators of “Vilvi Group”:**

	2016	2017	2018	2019	2020
Revenue (EUR tho)	90,490	113,939	103,162	114,581	120,873
EBITDA (EUR tho)	8,413	10,882	3,140	3,698	8,271
EBITDA margin, pct	9.3	9.5	3.0	3.2	6.8
Operating profit (EUR tho)	5,683	8,113	-884	-206	4,332
Operating profit margin, pct	6.3	7.1	-0.9	-0.2	3.6
Profit before tax (EUR tho)	4,970	7,560	-1,870	-1,448	3,142
Profit before tax margin, pct	5.5	6.6	-1.8	-1.3	2.6
Net profit	4,455	6,686	-1,186	-446	3,872
Profit margin, pct	5.0	5.9	-1.1	-0.4	3.2
Earnings per share (EUR)	0.37	0.56	-0.10	-0.04	0.32
Number of shares (units, tho)	11,943	11,943	11,943	11,943	11,943

In 2020, **sales revenue** amounted to 120.9 MEUR, increased by 5.5 percent from 114.6 MEUR in 2019.

**EBITDA.** In 2020 EBITDA of the Group was 8.3 million EUR and in 2019 it was 3.7 MEUR, increased by 4.6 million EUR. In the reporting financial year EBITDA margin was 6.8 percent (2019: 3.2 percent).

**Operating profit (EBIT).** In 2020 operating profit was 4.3 million EUR, operating profit margin was 3.6 percent. 2019 operating loss was 0.2 million EUR, operating profit margin was -0.2 percent.

**Net profit (loss).** In 2020 net profit was 3.87 million EUR and in 2019 net loss was 0.4 million EUR (decreased by 0.8 million EUR). In the reporting year 2020, the net profit margin was 3.2 percent (in 2019 - 0.4 per cent).

**Key financial consolidated ratios of “Vilvi Group”:**

	2016	2017	2018	2019	2020
Return on equity (ROE), pct	15.4	19.5	-3.8	-1.4	11.1
Return on assets (ROA), pct	6.0	8.2	-1.4	-0.6	5.0
Return on Capital Employed (ROCE), pct	10.1	13.2	-1.5	-0.4	7.8
Debt ratio	0.61	0.58	0.62	0.60	0.55
Deb/equity ratio	1.57	1.37	1.61	1.51	1.20
Quick liquidity ratio	0.90	1.00	0.81	0.72	0.64
Asset turnover ratio	1.22	1.40	1.25	1.47	1.57
Equity ratio	0.39	0.42	0.38	0.40	0.45

**Calculating Relative Indicators:**

1. Return on equity (ROE) is the ratio of net profit to equity.
2. Return on assets (ROA) - the ratio of net profit to assets.
3. Return on Capital Employed (ROCE) – operating profit/ total assets – current assets
4. Debt ratio is the ratio of all company liabilities and assets.
5. Debt and equity ratio is the ratio of all liabilities and equity of the company.
6. Liquidity ratio is the ratio of current assets and current liabilities.
7. Asset turnover - the ratio of sales and assets.
8. Equity ratio – the ratio of equity and assets.

In 2020, **assets totaled** 76.9 MEUR or 1.5 percent less than in 2019. In 2020, **long-term assets** decreased by 3.5 percent and totaled 55.2 MEUR.

In 2020, **equity** was 35.0 MEUR, up by 12.4 percent from the previous year (2019: 31.1 MEUR).

As at 31 December 2020, the total value of **loans** was 21,034 TEUR, decrease by 20.5 percent comparing to 31 December of 2019.

**“Vilvi Group” production output, tonnes:**

	2016	2017	2018	2019	2020
Cheese, cheese products and other	82,960	87,370	86,702	112,877	109,266
Fresh milk products	17,492	14,576	15,120	12,277	12,696
Dry milk products	0	2,966	8,321	15,310	19,006

In 2020 cheese, cheese product and other production output 109.3 tho tonnes, down by 3.2 percent comparing to 2019. Production of fresh milk products 12.7 tho tonnes, up by 3.4 percent comparing to 2019. Production of dry milk products 19.0 tho tonnes in 2020 up by 24.1 percent comparing to 2019.

**Basic indicators milk purchases by “Vilvi Group”:**

	2016	2017	2018	2019	2020
Basic indicators milk, tonnes	243,633	249,992	267,785	268,555	287,370
Cost of basic indicators milk, EUR tho	45,683	65,713	67,695	68,720	70,747
Milk price, EUR/t	187.5	262.9	252.8	255.9	246.2

In 2020, a total of 287 tho tonnes of basic indicators milk was purchased, an increase by 7.0 percent as compared with 2019. The price of milk in 2020 decreased by 3.8 percent from the year 2019.



## 15. Sales and Marketing

“Vilvi Group” sales by product segment, EUR thousand:

	2016	2017	2018	2019	2020
Cheese, cheese products and other	69,650	94,111	76,870	81,909	84,134
Fresh milk products	20,840	18,731	18,721	17,803	16,252
Dry milk products	0	1,097	7,571	14,869	20,487
<b>Total revenue</b>	<b>90,490</b>	<b>113,939</b>	<b>103,162</b>	<b>114,581</b>	<b>120,873</b>

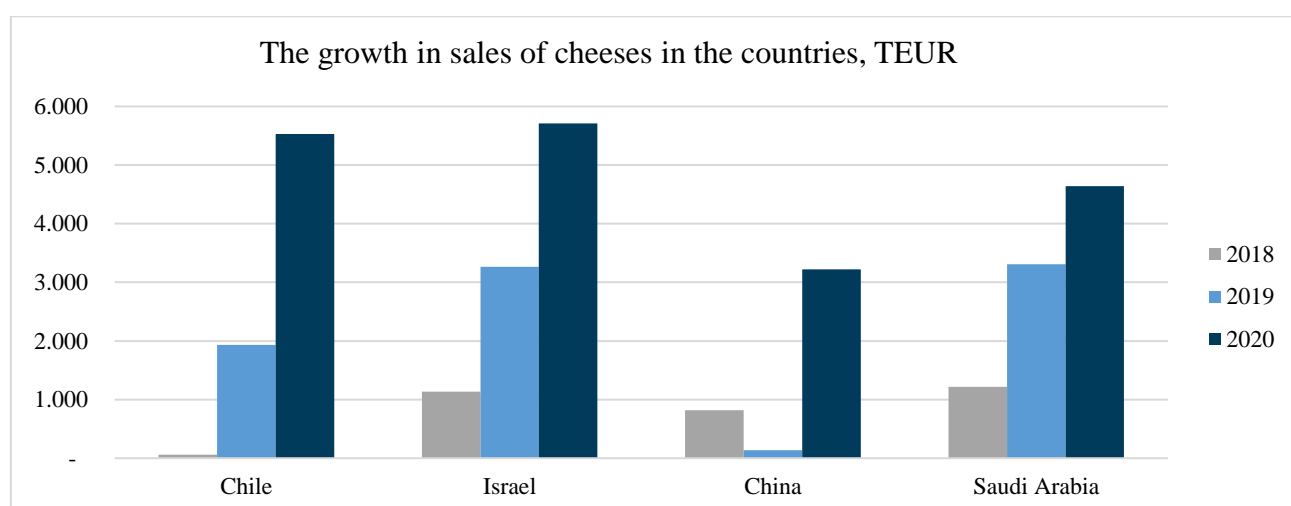
In 2020 Vilvi Group sales revenue grew by 9.3% in export markets, but contracted by 10.2% in Lithuania market compared to year 2019. In 2020 exports amounted to 83% of total group sales, which is 3% more than in previous year.

As in the previous years the largest part of export are sales of cheese, cheese products, cream and dry milk products.

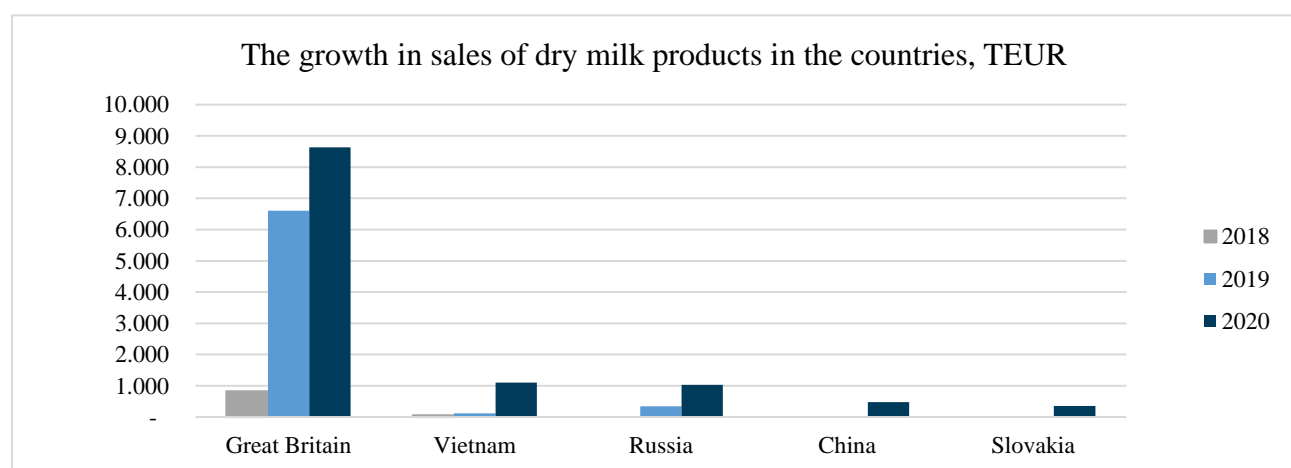
Export growth drivers:

- **Cheese, cheese products and other.** In 2019-2020 the Company put effort to develop HoReCa sector sales. The Company expanded market geography by using product advantages and knowledge of competitive environment.

In 2020 year cheese and cheese product sales particularly grew in Chile, China, Israel and Saudi Arabia.



- **Dry milk products.** In 2020 sales revenue grew by 38 % compared to 2019. The growth was achieved due to larger orders of current customers as well as new customer acquisition. In 2020 the Company successfully entered dry milk products market in China and Australia, sales grew in Great Britain (since 2021 customer re-based its operations to Poland), Russia and Vietnam.

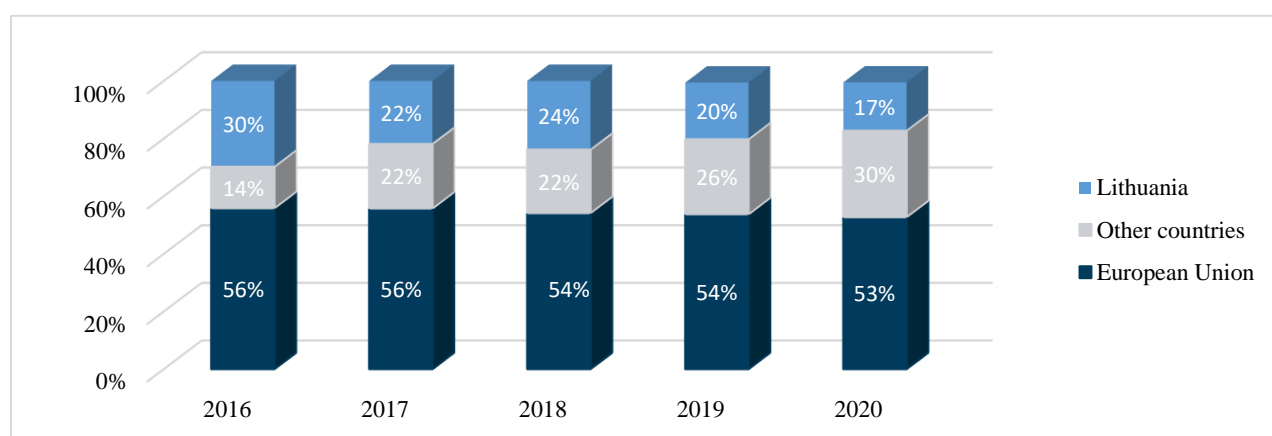


In March 2020 the Company met Covid-19 pandemic challenge. Immediately plans for various scenarios were prepared to manage raw material supply, production and sales processes. As expected in March-May the Company experienced drop in prices as well as in quantities sold in cheese category since HoReCa sector was the one that was mostly affected by imposed constraints. However, product diversification, continuous communication with current customers allowed to return to regular production-sale mode. Wide geographic market dispersion allowed to take advantage of the movement of pandemic wave from East to West (e.g. when European market declined, China region re-opened).

Dry milk products category was not impacted by the pandemic.

**“Vilvi Group” sales revenue by geographical segments, EUR thousand:**

	2016	2017	2018	2019	2020
European Union	50,545	63,531	55,865	61,591	63,745
Lithuania	26,934	24,891	24,585	22,526	20,234
Other countries	13,011	25,517	25,712	30,464	36,894
<b>Total revenue</b>	<b>90,490</b>	<b>113,939</b>	<b>103,162</b>	<b>114,581</b>	<b>120,873</b>



**16. Exhibitions and Awards**

Since **2011**, the Company takes part in one of the largest exhibitions ANUGA in Germany, SIAL in France and Gulfood in United Arab Emirates, where the products presented have repeatedly been among the most innovative, i.e. they have won the SIAL Innovation Award.

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

In **2015** Company participated in the exhibitions Food Ingredients Beijing 2015 took place in China and Food Ingredients Paris 2015. The Company introduced whey powder products (protein concentrate (WPC 80) and the permeate) in both exhibitions. Our participation in this trade fair coincided with an important event of Lithuania and China signing a protocol that permits the export of dairy products.

Since **2016** Vilkyškių Pieninė AB participated in the exhibition SIAL China. It is the largest exhibition of food innovations held in Asia. The Company introduce cheese products, the whey protein concentrate (WPC 80), permeate and other dry milk products.

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

In **2017-2018** Dry milk products and GymON protein powder were presented at the international sports exhibitions in Germany, Frankfurt – FIBO and Food Ingredients, GymOn products were presented and tasted, new customer search was conducted. GymON star Žydrūnas Savickas met with fans.

In **2018** Vilkyškių pieninė AB participated in exhibition Food West Africa for the first time. The company was searching for new partners during it, Company also participated for the first time in Amsterdam at

PLMA's World of Private Label private label exhibition and Food Taipei 2018 exhibition in Taiwan, where met with current and future customers and presented mozzarella cheese.

In **2019** Vilkyškių pieninė AB traditionally participated in the food exhibitions Gulfood 2019 in Dubai, United Arab Emirates and ANUGA 2019 in Cologne, Germany. In both exhibitions the Company presented cheese and dry milk products.

In **2019** Vilkyškių pieninė AB took part in Gulfood Manufacturing, in Dubai, The United Arab Emirates and Food Ingredients 2019 in Paris, France and presented its industrial products.

In November **2019** Vilkyškių pieninė AB participated in the exhibition FHC China 2019 in Shanghai in China. The mozzarella cheese and dry milk products were presented to Chinese market.

In February **2020** Vilkyškių pieninė AB traditionally took part in the international exhibition of food industry “Gulfood 2020” in Dubai, The United Arab Emirates. The main focus was on mozzarella cheese and milk/whey powder. The Company did not take part in other exhibitions because of Covid-19 pandemic.

## 17. Risk Factors Associated with Issuer ‘s Business

### Key risks in the business of “Vilvi Group”:

The Group operates in the business of dairy processing. The main factors that may pose business risks for the Company are possible changes in the raw material and product markets, competition, as well as changes in the legal, political, technological and social environment that are directly or indirectly related to „Vilvi Group“ business.

POLITICAL FACTORS	ECONOMIC FACTORS	SOCIAL FACTORS	TECHNOLOGICAL FACTORS
<b>External risk</b>			
Economic anomalies.	Negative demand and/or price changes in cheese, dry milk products and fresh milk products markets.	Social circumstances in the country, drop in the purchasing power of inhabitants.	High market supply milk products and high competition may provoke negative and risky technological factors.
Home country and other countries policies and disturbances.	Sale of goods risk arises either because of too large or too small inventory levels of fresh milk products. In the first case it may be that goods will need to be sold with discount as they have shorter validity term. In another case if the orders are not met fines may be imposed.	Migration of young employees from regions to cities.	Raw material/food counterfeiting, intentional contamination.
Policies and demotion of milk consumption and perceived milk unhealthiness.	Unfair competition. Cyber attacks.	Emigration to more developed countries.	Relationships with suppliers. It is necessary to select trusted suppliers by performing their evaluation.
Frequent change of laws and sanctions.	Diseases of humans and animals. Natural cataclysms and ecological disasters.	Aging and low-income society.	
<b>Internal risk</b>			
Cyber security requirements violation, browsing forbidden internet sites for personal needs.	Production theft.	Lack of personnel due to emigration.	Intentional or unintentional contamination, damage. Non-compliance to specifications of product production
	Negligent attitude towards duties.	Lack of high qualification employees.	Methods of production and products sensitivity.
	Fraud seeking financial gain.	Violation of hygiene requirements.	Violation of temperature requirements
			Production of matured cheese is lengthy process that may take 1-3 months. This does not allow to quickly react to rapid changes in cheese market which in turn may affect cashflow and operating results.

In addition to the above risks, The Group companies are also at credit risks. The risk of breach of contract by business partners is subject to certain control procedures. In the end of 2019, for 2 years term, the Company obtained credit insurance for its overseas customers with the insurer *Euler Hermes*. The risk of each client is assessed individually.

Credit risk associated with cash in banks is limited, as the Company works only with Lithuania’s largest banks (mainly AB SEB Bankas). On 31 December 2020, the Company’s debt-to-assets ratio was 0.55. The balance of outstanding loans on 31 December 2020 was 21,034 tEUR. Repayment is performed under the established schedule, without any delays.

## 18. Competition

Vilkyškių pieninė AB estimates that it has a 14 percent share of the Lithuanian market as measured by quantity of processed milk, i.e. it is in fourth place behind competitors Rokiškio sūris AB, Pieno žvaigždės AB and Žemaitijos pienas AB.

On foreign markets, „Vilvi Group“ has to compete against local manufacturers, who have the advantage of lower transportation costs. However, „Vilvi Group“ compensates it by offering a range of higher value-added cheese products.

„Vilvi Group“ offers industrial products in dry milk product segment, which are oriented to exports. Company has developed its own brand GymOn of whey protein powder concentrate for athletes that is offered to end-consumer. This product is distributed to supermarkets, sports shops, pharmacies and sold via own internet shop [www.gymon.lt](http://www.gymon.lt). It is also sold via Amazon online platform to reach Western European consumers, it is offered in German, Spanish, Italian and French Amazon platforms.

## 19. Key Events After Fiscal Year-End

Information regarding key events after the end of fiscal year is provided in the Vilkyškių pieninė AB financial statements for the year ended 31 December 2020, in Chapter 29.

## 20. Business Plans and Forecasts

In 2021, the main tasks of “Vilvi Group“ increase sales in the face of the global pandemic in order to create greater value for the company's shareholders; expand markets for dry milk products and shredded cheese, set strong market positions in China, Malaysia, Indonesia and Arabic countries; in all Companies of the Group strive for maximum production efficiency by automating and robotizing processes.

Kelmės pieninė AB main tasks – to increase the quantity of processed milk to 80 tonnes per day and produce the products that have higher profit margin. Continue to increase the production load on dry milk products and expand sales markets

“Modest” AB main task is to increase production capacity and sales of mozzarella (up to 550 t/month) and grated cheese (up to 1,800 tonnes/year).

The big focus of the Companies of the Group will be on developing innovative products, environmental protection, personnel management, and ensuring safe and healthy working conditions and Covid-19 prevention.

Successfully start with UAB Kelmė pienas activities, purifying the available assortment, optimizing production processes.

### III. OTHER INFORMATION ABOUT ISSUER

#### 21. Structure of Issuer’s Share Capital

„Vilvi Group“ Share Capital:

Type of share	Number of share	Share face value, EUR	Total face value, EUR	Type of share
Vilkyškių pieninė AB	Common registered shares	11,943,000	0.29	3,463,470
Kelmės pieninė AB	Common registered shares	2,457,070	0.29	712,550
“Modest” AB	Common registered shares	5,617,118	0.29	1,628,964
Pieno logistika AB	Common registered shares	371,333	0.29	107,687
Kelmės pienas UAB	Common registered shares	2,500	1.00	2,500

#### 22. Information on Treasury Stock

The Company does not hold its own shares.

#### 23. Rights of Shareholders

Shareholders have these non-proprietary rights:

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

Shareholders have the following proprietary rights:

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

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

#### 24. Restrictions on Transfer of Securities

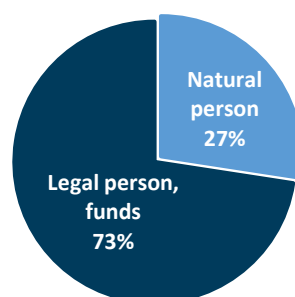
There are no restrictions on the transfer of securities.

## 25. Information About Shareholders

The total number of shareholders of Vilkyškių pieninė AB on 31 December 2020 was 1134. The following are the major shareholders, who own more than 5 percent of the Issuer’s stock:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Swisspartners Versicherung AG Zweigniederlassung Österreich	6,067,206	51%	51%
Multi Asset Selection Fund	2,035,729	17%	17%
Minority shareholders	3,840,065	32%	32%
<b>Total stock</b>	<b>11,943,000</b>	<b>100%</b>	<b>100%</b>

Vilkyškių pieninė AB shareholder structure by legal subject



### Kelmės pieninė AB shareholders

The total number of shareholders of Kelmės pieninė AB on 31 December 2020 was 1. The major shareholder, who owns more than 5 percent of the Issuer’s stock was 1:

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

### Kelmės pienas UAB shareholders

The total number of shareholders of Kelmės pienas UAB on 31 December 2020 was 1. The major shareholder, who owns more than 5 percent of the Issuer’s stock was 1:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Kelmės pieninė AB	2,500	100%	100%
<b>Total stock</b>	<b>2,500</b>	<b>100%</b>	<b>100%</b>

### “Modest” AB shareholders

The total number of shareholders of “Modest” AB on 31 December 2020 was 85. The major shareholder, who owns more than 5 percent of the Issuer’s stock was 1:

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

### Pieno logistika AB shareholders

The total number of shareholders of Pieno logistika AB on 31 December 2020 was 169. The major shareholder, who owns more than 5 percent of the Issuer’s stock was 1:

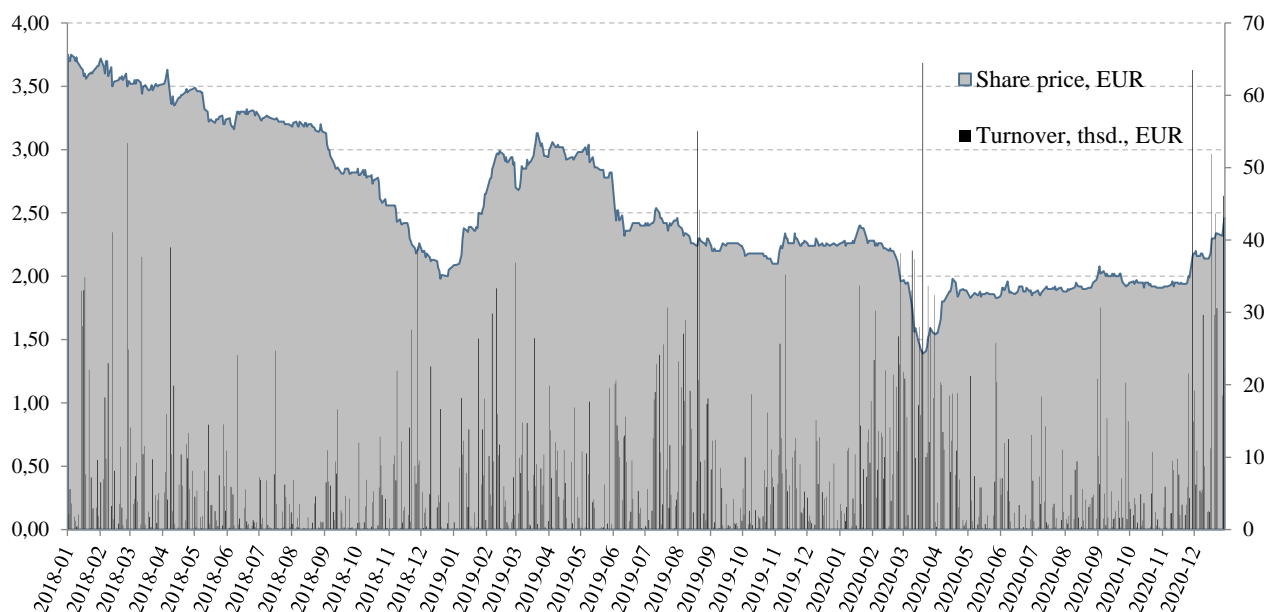
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Vilkyškių pieninė AB	218,781	58.9%	58.9%
Minority shareholders	152,552	41.1%	41.1%
<b>Total stock</b>	<b>371,333</b>	<b>100%</b>	<b>100%</b>

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

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

## 27. Trading in Issuer’s Securities on Regulated Markets

The change of price of Vilkyškių pieninė AB shares and trade volume in 2018-2020.



Comparison of Vilkyškių pieninė AB share price and Nasdaq OMX Vilnius Index, 2018-2020.



Security trading history of Vilkyškių pieninė AB during 2016-2020:

Price	2016	2017	2018	2019	2020
Open	1.76	2.34	3.72	2.09	2.26
High	2.43	3.94	3.76	3.13	2.48
Low	1.35	2.25	1.95	2.07	1.39
Average	1.74	3.12	3.09	2.47	1.93
Last	2.35	3.75	2.05	2.24	2.46
P/E ratio*	6.30	6.70	-	-	7.59
Traded volume	828,726	1,045,396	472,421	762,071	1,138,435
Turnover, million	1.43	3.26	1.46	1.88	2.20
Capitalisation, million	28.07	44.79	24.48	26.75	29.38

\*P/E ratio – share market price and profit per share ratio

## 28.Dividend

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

### Dividends and the size of them

1. The Law on Public Companies of the Republic of Lithuania stipulates that the dividend constitutes a share of profit payable to a shareholder in proportion to the face value of the stock held by the shareholder.
2. The Company’s shareholders cannot vote to pay a dividend at a general meeting of shareholders, if 1) the Company is insolvent 2) the distributed result for the fiscal year ended is negative 3) the Company’s equity is smaller than the sum of its authorised capital and reserves, or in cases where it would become smaller following a dividend payout.
3. The Company’s Board shall submit to the General Meeting of Shareholders an amount of dividend based on the audited net profit result for the fiscal year ended.
4. If the Company has been profitable, the Company’s board shall allocate a certain part of revenue for dividend as set out in Clause 2.6, reinvesting the rest of the revenue so as to increase the Company’s capitalisation.



5. The Company shall pay dividend in cash.

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

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

Vilkyškių pieninė AB dividend payments in the past 5 years:

Dividends	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)	2020 (for 2019)
Dividend (EUR)	-	1,433,000	1,672,020	-	-
Dividend per share (EUR)	-	0.12	0.14	-	-
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

Kelmės pieninė AB dividend payments in the past 5 years:

Dividends	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)	2020 (for 2019)
Dividend (EUR)	3,931,312	2,285,075	786,262	1,719,949	5,651,261
Dividend per share (EUR)	1.60	0.93	0.32	0.70	2.30
Number of shares	2,457,070	2,457,070	2,457,070	2,457,070	2,457,070

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

## 29. Employees

On 31 December 2020, there were 830 employees working at “Vilvi Group”.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	29	24	5	-	-	3,997
Specialists	301	112	83	99	7	1,311
Workers	500	13	148	297	42	924
	<b>830</b>	<b>149</b>	<b>236</b>	<b>396</b>	<b>49</b>	<b>1,166</b>

On 31 December 2019, there were 828 employees working at “Vilvi Group”.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	28	23	5	-	-	3,919
Specialists	298	105	86	101	6	1,258
Workers	502	14	156	294	38	872
	<b>828</b>	<b>142</b>	<b>247</b>	<b>395</b>	<b>44</b>	<b>1,107</b>

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

## 30. “Vilvi Group” Governing Bodies

According to the Articles of Association of Vilkyškių pieninė AB, the Company’s governing bodies are the General Meeting of Shareholders, the Board and the Chief Executive Officer. No supervisory council is set up. The Board of the Company represents the shareholders and performs oversight and control functions.

The decisions taken by the General Meeting of Shareholders, where they concern issues falling within the remit of the General Meeting of Shareholders as specified in the Articles of Association, are binding to all shareholders, the Board, the CEO and other employees of the Company.

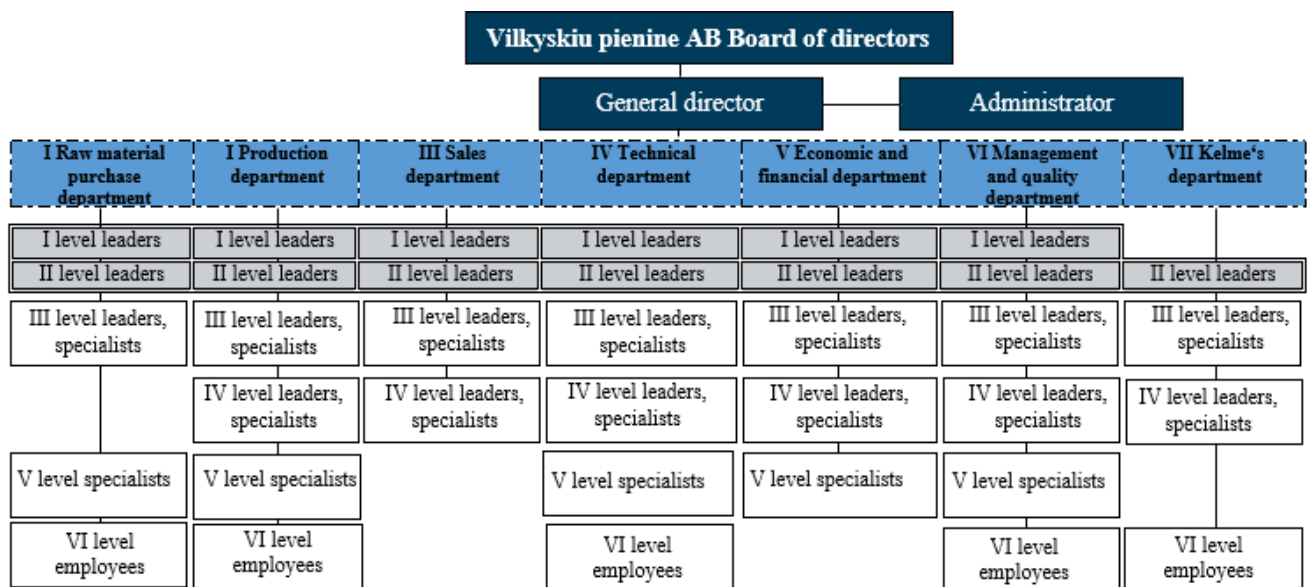
Board members are elected for a term of four years. The Chairman of the Board is elected for a tenure of four years by the Board from among its own members. Members of the Board are elected by a General Meeting of Shareholders in accordance with the Law on Public Companies.

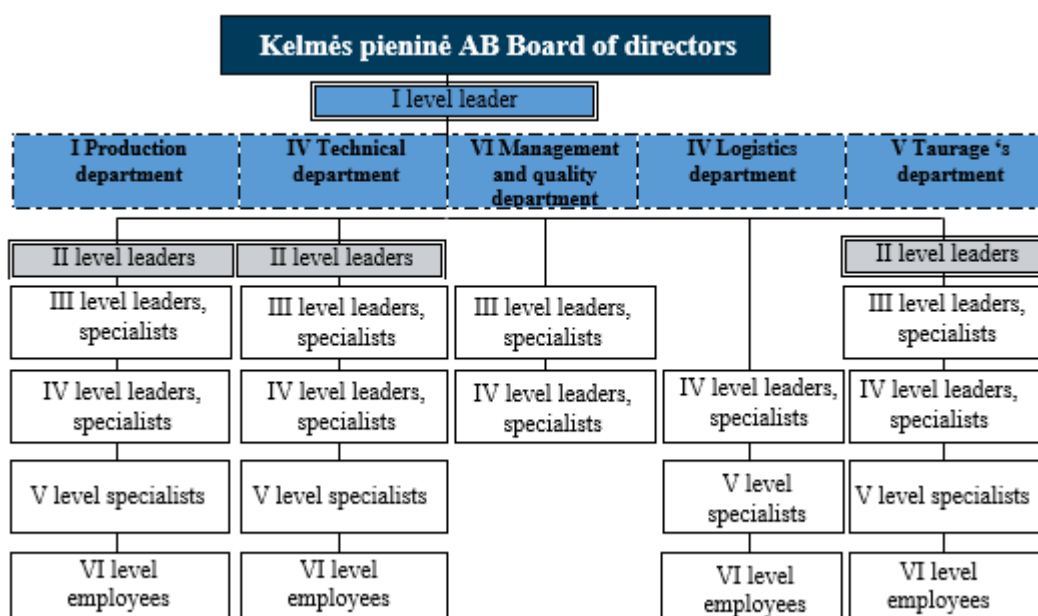
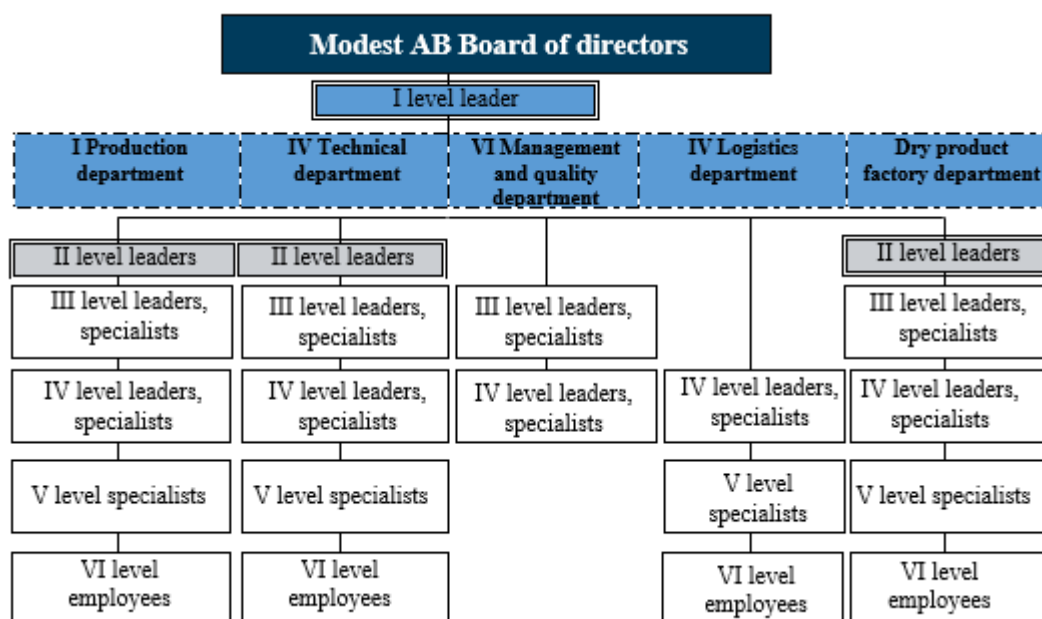
The Board sets up two committees – Audit Committee and Salaries Committee – each consisting of three members.

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

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

### The structure of „Vilvi group“ management





One-person management body "Pieno logistika" AB - Director

### 31. Procedure of Amendments to “Vilvi Group” Articles

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

### 32. Activities of the Board

In 2020, Board meetings were held regularly according to the schedule, required quorum was present at each of them. During 2020, 16 ordinary board meetings took place. The Board approved the 12-month financial statements for 2019, the 2020 three-month, six-month and nine-month interim financial statements, the 2019 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2019 profit (loss) for an ordinary meeting of shareholders.

In regular meetings the Board discussed business development and investment, granting/extension of loans, structure of the group's companies and other current issues.

Kelmės pieninė AB and “Modest” AB hold their board meetings regularly to discuss issues that are within their scope.

### 33. Board & Administration Members

#### Vilkyškių pieninė AB Board Members

**Gintaras Bertašius** – a Board Chairman since 30 January 2006, re-elected for a four-year term on 27 April 2018, CEO of Vilkyškių pieninė AB. Has higher education diploma in mechanical engineering. Membership in other companies’ governing bodies: board chairman of “Modest” AB, Kelmės pieninė and Kelmės pienas UAB. On 31 December 2020 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder’s meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

**Sigitas Trijonis** – a Board Member since 30 January 2006, re-elected for a four-year term on 27 April 2018, Chief Technology Officer of Vilkyškių pieninė AB. Has higher education degree in mechanical engineering. As of 31 December 2020, he held 425,607 shares of Vilkyškių pieninė AB, 3.56 percent of the stock and voting rights. Has no seats in other companies’ governing bodies.

**Rimantas Jancevičius** – a Board Member since 30 January 2006, re-elected for a four-year term on 27 April 2018. Has a college diploma as livestock engineer. Chief Purchasing Officer at Vilkyškių pieninė AB. As of 31 December 2020, he held 302,763 shares of Vilkyškių pieninė AB, 2.54 percent of the stock and voting rights. Has no seats in other companies’ governing bodies.

**Vilija Milaševičiūtė** – a Board Member since 30 April 2009, re-elected for a four-year term on 27 April 2018. Has higher education in finance and credit. Chief Economics and Financial Officer of Vilkyškių pieninė AB. Membership in other companies’ governing bodies: A board member of “Modest” AB, Kelmės pieninė AB, Kelmės pienas UAB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As of 31 December 2020, she held 8,848 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights

**Linus Strėlis** – a Board Member since 7 March 2008, re-elected for a four-year term on 27 April 2018. Has higher education. Membership in other companies’ governing bodies: Director of LS Capital UAB (CRN 133118295, address: V. Kudirkos g. 9, Kaunas) and Biglis UAB (CRN 133688345, address: V. Kudirkos g. 9, LT-50283 Kaunas), council chairman of Association of Social Enterprises (Socialinių imonių asociacija) (CRN 300542018, address: Raudondvario pl. 107, Kaunas), board member of Umega AB (CRN 126334727, address: Metalo g. 5, LT-28216 Utena) and East West Agro AB (CRN 300588407, address: Tikslas g. 10, Kumpiai, LT-54311 Kauno r.), a member of the supervisory board in SIA Preses nams. A member of EISME fund committee of Lords LB Asset Management UAB (CRN 301849625, address: Jogailos g. 4, LT-01116 Vilnius.). As of 31 December 2020, did not have any shares in Vilkyškių pieninė AB.

**Andrej Cyba** – a Board Member since 7 March 2008, re-elected for a four-year term on 27 April 2018. Has higher degree in business administration and management. Membership in other companies’ governing bodies: CEO of PEF GP1 UAB (CRN 302582709, address: Maironio g. 11, Vilnius), PEF GP2 UAB (CRN 302582716, address: Maironio g. 11, Vilnius) and Piola UAB (CRN 120974916, address: Mindaugo g. 16-52, LT-03225 Vilnius). Business Development Manager of INVL Asset Management UAB (CRN 126263073, address: Gynėjų g. 14, LT-01109 Vilnius); board member of Auga Group AB (CRN 126264360, address: Konstitucijos pr. 21C, Quadrum North, LT-08130 Vilnius); chairman of the Board in FMĮ INVL Finasta UAB (CRN 304049332, address: Gynėjų g. 14, LT-01109 Vilnius); chairman of the supervisory Board at IPAS INVL Asset Management (CRN 40003605043, address: Smilšu iela 7-1, LV1050, Rīga) and AS Pirmais atklātais pensiju fonds (CRN 40003377918, address: Rīga, Smilšu iela 7-1, LV-1050). As of 31 December 2020, did not have any shares in Vilkyškių pieninė AB.

#### Vilkyškių pieninė AB Members of Administration

**Gintaras Bertašius** – CEO and Chairman of the Board. Works at the Company since 1993. Has higher education diploma as mechanical engineer. Membership in other companies’ governing bodies: board chairman of “Modest” AB, Kelmės pienas UAB and Kelmės pieninė AB. On 31 December 2020 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in

shareholder’s meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

**Vilija Milaševičiūtė** – Chief Economics and Financial Officer, a Board Member, working at the Company since 2000. Has higher education in finance and credit. Membership in other companies’ governing bodies: a board member of “Modest” AB, Kelmės pieninė AB, Kelmės pienas UAB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As of 31 December 2020, she held 8,848 shares of Vilkyškių pieninė AB, 0.07 percent of the stock and voting rights.

**Vaidotas Juškys** – Executive Officer, working at the Company since 2010. Has a higher education in IT. As of 31 December 2020, he held 10,578 shares of Vilkyškių pieninė AB, 0.09 percent of the stock and voting rights. Has no seats in other companies’ governing bodies.

**Sigitas Trijonis** – Chief Technology Officer, a Board Member, working at the Company since 1993. Has higher education in mechanical engineer. As of 31 December 2020, held 425,607 shares of Vilkyškių pieninė AB, 3.56 percent of the stock and voting rights. Has no seats in other companies’ governing bodies.

**Rimantas Jancevičius** – Chief Purchasing Officer, a Board Member, working at the Company since 1996. Has college diploma as livestock engineer. As of 31 December 2020, held 302,763 shares of Vilkyškių pieninė AB, 2.54 percent of the stock and voting rights. Has no seats in other companies’ governing bodies.

**Arvydas Zaranka** – Chief Production Officer, working at the Company since 1995. Has college degree in dairy technology. Membership in other companies’ governing bodies: a board member of “Modest” AB. As of 31 December 2020, held 1,933 shares of Vilkyškių pieninė AB, 0.02 percent of the stock and voting rights.

**Rita Juodikienė** – Management and quality director. Working at the company since 2002. Has a master degree in business management. Membership in other companies’ governing bodies: a board member of Kelmės pieninė AB and Kelmės pienas UAB. As of 31 December 2020, held 2,175 shares of Vilkyškių pieninė AB, 0.02 percent of the stock and voting rights.

The bonuses to the CEO and CFO totaled in 2020 134.2 tEUR, or 67.1 tEUR per person on average.

The salaries were paid out to Vilkyškių pieninė AB board members in 2020:

	Board members (4 members), EUR tho	Average size per month, EUR
salary	307.2	6,400

In 2020, the Company did not issue any loans, guarantees or letters of credit to members of its governing bodies. Also, the Company did not pay its board members or employees any salaries, bonuses or other payments from the profits of the Company’s subsidiaries.

### Members of Kelmės pieninė AB board and administration

**Gintaras Bertašius** – Chairman of the Board, re-elected for a four-year term on 29 April 2020. Participation in the governing bodies of other companies: board chairman and CEO of Vilkyškių pieninė AB, “Modest” AB, and Kelmės pienas UAB. Holds higher education degree in mechanical engineering. On 31 December 2020 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder’s meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

**Vilija Milaševičiūtė** – a member of the board, re-elected for a four-year term on 29 April 2020. Holds higher degree in finance and credit. Participation in the governing bodies of other companies: Chief Economics and Financial Officer and a board member of Vilkyškių pieninė AB, a board member of “Modest”, AB Kelmės pienas UAB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As 31 December 2020, held 8,848 shares in Vilkyškių pieninė AB, i.e., 0.07 percent of the stock and voting rights.

**Rita Juodikienė** – a member of the Board, re-elected for a four-year term on 29 April 2020. Has master degree in business management. Participation in the governing bodies of other companies: Quality and management director of Vilkyškių pieninė AB and a board member of Kelmės pienas UAB. As of 31 December 2020, held 2,175 shares of Vilkyškių pieninė AB, 0.02 percent of the stock and voting rights.

**Jolita Valantinienė** - CEO of Kelmės pieninė AB, working at the company since 2017. Has master degree in management and business administration. Participation in the governing bodies of other companies: CEO of Kelmės pienas UAB. As of 31 December 2020, did not have any shares in Vilkyškių pieninė AB. Has no seats in other companies’ governing bodies.

In 2020, Kelmės pieninė AB did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

### **Members of Kelmės pienas UAB board and administration**

**Gintaras Bertašius** – Chairman of the Board. Participation in the governing bodies of other companies: board chairman and CEO of Vilkyškių pieninė AB, “Modest” AB and Kelmės pieninė AB. Holds higher education degree in mechanical engineering. On 31 December 2020 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder’s meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

**Vilija Milaševičiūtė** – a member of the board, re-elected for a four-year term on 29 April 2020. Holds higher degree in finance and credit. Participation in the governing bodies of other companies: Chief Economics and Financial Officer and a board member of Vilkyškių pieninė AB, a board member of “Modest” AB, Kelmės pieninė AB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). As 31 December 2020, held 8,848 shares in Vilkyškių pieninė AB, i.e., 0.07 percent of the stock and voting rights.

**Rita Juodikienė** – a member of the Board, re-elected for a four-year term on 29 April 2020. Has master degree in business management. Participation in the governing bodies of other companies: Quality and management director of Vilkyškių pieninė AB and a board member of Kelmės pieninė AB. As of 31 December 2020, held 2,175 shares of Vilkyškių pieninė AB, 0.02 percent of the stock and voting rights.

**Jolita Valantinienė** - CEO of Kelmės pienas UAB. Has master degree in management and business administration. Participation in the governing bodies of other companies: CEO of Kelmės pieninė AB. As of 31 December 2020, did not have any shares in Vilkyškių pieninė AB. Has no seats in other companies’ governing bodies.

In 2020, Kelmės pienas UAB did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

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

**Gintaras Bertašius** – Chairman of the Board. Holds higher education degree in mechanical engineering. Participation in the governing bodies of other companies: board chairman and CEO of AB Vilkyškių pieninė AB, a board chairman at Kelmės pieninė AB and Kelmės pienas UAB. On 31 December 2020 did not have any shares in Vilkyškių pieninė AB, however he continues to exercise the 50.8 percent voting rights in shareholder’s meetings (since April 2018, ownership rights of 6 067 206 shares of Vilkyškių pieninė AB have been taken by Swisspartners Versicherung AG Zweigniederlassung Österreich).

**Arvydas Zaranka** – a member of the board, re-elected for a four-year term on 5 April 2017. Participation in the governing bodies of other companies: Chief Production Officer of AB Vilkyškių pieninė. Has college degree in dairy technology. As of 31 December 2020, held 1,933 shares in Vilkyškių pieninė AB, i.e., 0.02 percent of share capital and voting rights.

**Vilija Milaševičiūtė** – a member of the board, re-elected for a four-year term on 5 April 2017. Participation in the governing bodies of other companies: Chief Economics and Financial Officer and board member in Vilkyškių pieninė AB, Kelmės pieninė AB, Kelmės pienas UAB and Šilumos tinklai UAB (CRN 179478621, address: Paberžių g. 16, 72324 Tauragė). Has higher education in finance and credit. As of 31 December 2020, held 8,848 shares in AB Vilkyškių pieninė, i.e., 0.07 percent of the stock and voting rights.

**Matas Pozingis** – CEO of “Modest” AB, working at the company since 2020. Has higher education degree in management and business administration. As of 31 December 2020, did not have any shares in Vilkyškių pieninė AB. Has no seats in other companies’ governing bodies

In 2020, AB “Modest” did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

### **34. Committees**

Members of the Audit Committee: Aušra Lobinienė (The Head of Internal Audit of Tauragė Credit Union), Vilma Morkaitienė (chief accountant of Bonus Modus UAB) and Milana Buivydienė (Vilkyškių pieninė AB employee). None of the Committee members hold senior positions in the Company’s administration or have shares in the Company.

During 2020, 5 meetings of the Audit Committee were held. The Audit Committee discussed and approved the following: the Company’s 2019 financial statements, the draft 2019 annual report, the draft 2019 profit (loss) distribution report, the 2020 internal audit plan and the 2020 budget, reviewed the salaries of the company's employees. Each meeting was attended by all members of the Committee.

No committees are formed in subsidiary companies.

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

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

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

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

### **37. Information About the Company’s Transactions with Related Parties**

Information about transactions with parties that are related to the Company has been included in the Vilkyškių pieninė AB financial statements for the year ended 31 December 2020, in Chapter 27.

### **38. Information About Detrimental Acts Concluded by the Issuer that Could Affect Issuer’s Operations**

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

## **Vilkyškių pieninė AB remuneration report of 2020**

### **General information**

AB Vilkyškių pieninė remuneration report has been prepared for the reporting financial period of 2020, which coincides with the calendar year. The remuneration report (hereinafter referred to as - the Report) was drawn up in accordance with the Law of the Republic of Lithuania on Financial Statements of Companies, the Employee Remuneration Policy of joint-stock company Vilkyškių pieninė group of companies (hereinafter referred to as - the Remuneration Policy) and other regulatory enactments.

The Employee Remuneration Policy of AB Vilkyškių pieninė group of companies was approved at the general meeting of shareholders on 30 April 2020. The remuneration report contains information about the remuneration of each member of the management and supervisory bodies, as well as information on other (non-)received benefits and other data.

### **Remuneration principles**

Members of the Board of the Company may be paid shares of profits, which are granted by the decision of the General Meeting of Shareholders of the Company in accordance with the procedure established by regulatory enactments. Following the decision of the General Meeting of Shareholders on the payment of a share of profits, the share of profits due to a particular member of the Board is determined by the decision of the Board, taking into account the contribution of a particular member of the Board to the Company's activities.

The remuneration of the manager of the Company, i.e., the General Director, is determined by the decision of the Board of the Company. When determining the amount of salary, the level of remuneration of the managers of companies of a similar size is assessed, taking into account the level of the position, as well as the personal competence, experience, knowledge and abilities of the manager.

The remuneration of AB Vilkyškių pieninė group of companies: top management, II-tier management, middle-tier management and other employees - consists of two main parts: fixed and variable. Incentives may also be paid.

Employees of the Company are paid: fixed part of remuneration (FPR) - the basic or hourly monthly cash salary of the employee specified in the employment contract, variable part of remuneration (VPR) - additional employee cash remuneration, determined based on the quality and results of work, achievement of goals raised by the Company and individual goals of the employee, level of competencies and compliance with the values of the Company and the Group of Companies. Other benefits (OB) are other potential benefits provided to employees as incentives.

### **Remuneration of the members of the Board for 2019 - 2020**

In AB Vilkyškių pieninė, two members of the Board do not work at the company and four members of the Board work under employment contracts; during 2020, no permanent or additional remuneration was paid to them for their work in the Board. The members of the Board working under an employment contract received remuneration only on the basis of employment.

Salaries accrued and paid during 2020 correspond to the amounts provided for in the remuneration policy approved by the company.



Annual pre-tax remuneration of the members of the Board working under an employment contract, in thousand euros.

Name, surname, position	2019			2020		
	Fixed salary	Variable salary	In total	Fixed salary	Variable salary	In total
Gintaras Bertasius, general director	95,2		95,2	98,3		98,3
Vilija Milaševičiūtė, director for economy and finance	58,4	10,3	68,7	58,7	10,9	69,6
Sigitas Trijonis, technical director	58,9	9,7	68,6	58,8	10,8	69,6
Rimantas Jancevičius, director for procuring raw materials	58,8	10,1	68,9	58,5	11,2	69,7

The manager of the company, i.e., the General Director, and the members of the Board did not receive any remuneration from the companies belonging to the group of companies. The salary was paid in accordance with the procedure, scope and terms provided for in the employment contract; they did not receive any other property benefits during 2020, including the award of shares or other concluded transactions in favour of and in the interests of the managers.

During the period reported on (year of 2020), no guarantees or sureties were given to the members of the Board, the manager of the Company, no assets or other property rights were transferred.

#### **Remuneration of employees of the parent company and the group of companies**

The salary fund of the group of companies in 2020 was equal to 11.418 MEUR (in 2019 - EUR 11.633 MEUR). The table below shows the average monthly salary of employees in 2016-2020 before taxes, in euros.

The average monthly salary of corporate group’s employees before taxes, in euros.

Employee group	2016		2017		2018		2019		2020	
	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary
<b>Managers</b>	27	3.011	27	3.425	30	3.616	28	3.919	29	3.997
<b>Specialists</b>	296	989	310	1.070	332	1.166	298	1.258	301	1.311
<b>Workers</b>	646	757	593	768	572	822	502	872	500	924
	953	888	930	937	934	1.026	828	1.107	830	1.166

The average monthly salary of AB “Vilkyškių pieninė” employees before taxes, in euros.

Employee group	2016		2017		2018		2019		2020	
	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary
<b>Managers</b>	22	3.087	22	3.502	23	3.693	22	4.020	21	4.198
<b>Specialists</b>	133	1.106	165	1.139	183	1.215	170	1.304	155	1.338
<b>Workers</b>	395	759	343	804	319	890	285	930	283	948
	550	937	530	1.010	525	1.125	477	1.197	459	1.228

The remuneration paid to the members of the Board and employees of AB Vilkyškių pieninė in 2020 was in accordance with the principles, grounds and conditions approved in the Remuneration Policy. No fixed or additional remuneration was paid to the members of the Company's Audit Committee and Remuneration Committee for their work in the committees.

### Final Provisions

The remuneration report for 2020 is an integral part of the consolidated annual report and is published on the Company's website <https://vilvigroup.lt> and <https://nasdaqbaltic.com> in accordance with the procedure established by regulatory enactments.

## Vilkyškių pieninė AB management report

The Companies’ management report has been compiled according to the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

### **1. Reference to the applicable code of corporate management and where it has been published and/or a reference to a public source of all the necessary information on corporate management practice:**

The Company’s management report for 2020, audited financial statements of the Company and its group, consolidated annual report, are published on the Company’s website [www.vilvigroup.lt](http://www.vilvigroup.lt) and on AB Nasdaq Vilnius securities exchange website [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com).

### **2. In case of deviations from and (or) non-compliance to the provisions of the applicable code of corporate management, the said provisions and the reasons for deviations and (or) non-compliance:**

Information on the Company’s non-compliance to the provisions of the code of the corporate management is provided in clauses 1.8, 3.2.5. And 3.2.10.

### **3. Information on the scale of the risk and risk management – description of management of the risk, related to financial accountability, risk mitigation measures and internal control system, applicable at the company:**

The Company’s information on the scale of the risk and risk management, risk mitigation measures and the internal control system, applicable at the company, is provided in the clauses 17 and 10 of the consolidated annual statement for 2020 and the note 28 of the financial statement.

### **4. Information on significant directly or indirectly managed shareholdings:**

Information on significant directly or indirectly managed shareholdings is provided in clause 25 of the consolidated annual statement for 2020.

### **5. Information on transactions with related parties, as established in the article 37<sup>2</sup> of the Law on Joint Stock Companies (indicating the parties of the transaction (legal form, title and code of the legal entity register, which collects and stores data on the said entity, domicile (address); name, surname and address for correspondence of a natural person) and the value of the transaction):**

In 2020, the company has not had any transactions with related parties, based on the criteria, indicated in the article 37<sup>2</sup>. More detailed information on transactions with related parties and financial relations with the company’s managers, is provided in note 27 of the financial statement for 2020.

### **6. Information on shareholders with special rights of control and description of these rights:**

The company has no shareholders with special rights of control.

### **7. Information on all current voting rights’ limitations, such as a limitation of voting rights for persons that have a certain percentage or number of votes, terms, when the voting rights can be used, or systems, based on which the material rights, granted by securities, are separated from the holder of the securities:**

The company does not apply any voting rights’ limitations. All shareholders have equal material and immaterial rights.

### **8. Information on rules on election and replacement of board members, also amendments of the company’s articles of association:**

The company has no rules on amendments of the Company’s articles of association, or election and replacement of the Company’s board members. The Company conducts its business in accordance with the Law on Joint Stock Companies of the Republic of Lithuania, the Company’s articles of association and other legislation. The Company’s articles of association are amended in accordance with the law of the Republic of Lithuania.

**9. Information on the power of attorney of the board members:**

Board members have not granted any powers of attorney to other persons with the purpose to conduct the functions, attributable to the competence of the board. The Company’s board members act in accordance with the Law on Joint Stock Companies, the Company’s articles of association.

**10. Information on the competence of the general meeting of shareholders, the shareholders’ rights and their implementation, if this information has not been established by the law:**

The competence of the general meeting of shareholders, the shareholders’ rights and duties are established in the legislation and the Company’s articles of association.

**11. Information on the composition of the management, control bodies and their committees, also their fields of activity and that of the head of the company:**

**General meeting of shareholders.** The competence, rights and obligations of the general meeting of shareholders virtually does not differ from the competence, rights and duties of a general meeting of shareholders, established in the Law on Joint Stock Companies of the Republic of Lithuania and other legislation, as well as the Company’s articles of association.

**Board** – a collegial management body, representing the Company’s shareholders for a period between their meetings, making decisions on the major issues of the Company’s economic activity, and implementing the company’s control. The board members act in accordance with the Law on Joint Stock Companies of the Republic of Lithuania and the Company’s articles of association. Currently, the board consists of 6 (six) members, the number of their terms of office is unlimited. Board members are elected by the General meeting of shareholders for no more than four years. There is no applicable rule on the election of the board members of the Company, the Company follows the provisions of the Law on Joint Stock Companies and the Company’s articles of association. There is no policy, related to age, gender, education, professional experience, applicable to the elections of the board members – they are elected based on their competence.

**The head of the Company is a director general**, who follows the Company’s articles of association, decisions of the general meeting of shareholders and decisions of the board. The head of the Company is elected by the board of the Company. The head of the Company organises the Company’s daily operations and conducts actions, necessary to ensure its functions, the implementation of the decisions, adopted by the Company's bodies and to ensure the Company’s business.

**The company has 2 committees:** the Appointing and Remuneration Committee and the Audit Committee. The Appointments and Remuneration Committee shall be formed by the Management Board. The members of the Audit Committee and the committee's operating regulations shall be approved by the General Meeting of Shareholders on a proposal from the Board. Each committee shall consist of 3 members.

**12. Description of the diversity policy, applicable to the election of the head of the Company, management and control bodies in terms of such aspects as, for example, age, gender, education, professional experience, methods of implementation and results in the reporting period. If a diversity policy is not applicable, reasons for non-application:**

The Company does not have a diversity policy, applicable to the election of the head of the Company, management and control bodies. Candidates to members of the Company’s management bodies are not subject to discrimination for their age, gender, education or professional experience. The Company draws no limitations for candidates in terms of gender or age. The major criterion in the election of the members of the management bodies is the candidate's competence.

**13. Information on the salary of each member of the management, control body (average salaries, paid during the reporting period, indicating premiums, allowances, bonuses and other payments individually):**

Information on average salaries, paid to the management bodies during the reporting period is provided in the Company’s remuneration report.

**14. Information on all mutual agreements between shareholders (their essence and conditions):**

The Company has no data on mutual agreements between its shareholders. In 2020, the Company has not entered into any agreements with its body members or employees that would result in compensations should they resign or be dismissed without a reasonable cause, or if their employment would cease due to a change

in control of the issuer. During the reporting period there were no harmful transactions that do not comply with the goals of the Company or the Group, common market conditions, violate the interests of the shareholders or other persons, or that had or could have a negative impact on the Company's business or results in the future.



## **“Vilvi group” 2020 social responsibility report**



## STATEMENT FROM THE GENERAL MANAGER



Valdybos pirmininkas ir generalinis direktorius  
Gintaras Bertasius

A handwritten signature in black ink, consisting of a long horizontal stroke followed by a loop and a short vertical stroke.

2020 – the Year of Extraordinary Challenges The changes in business environment, enforced on the entire world during the pandemic, did not leave our company group untouched either, demanding flexibility, focus and team effort from each of us. Nevertheless, the principles of responsible business remain a strong foundation of our constant improvement and development both in the face of the pandemic and other challenges of the dairy sector. Our long-time experience shows that a consistent responsible business strategy creates a long-term value both inside the group and beyond.

We will also remember 2020 as the year of introducing Vilvi Group – a brand, uniting all of our group’s companies. This transformation was determined by the group’s sustainable development, while the change itself is related to the potential that we’ve accumulated for the future works. Many years of experience and business responsibility helped to define a meaningful goal of providing more opportunities to enjoy high-quality dairy products for people all over the world.

Vilvi Group business is focused on the major interested parties: consumers, partners, shareholders, employees, local community, other market participants and the wider society. In 2020, the Group’s production was supplied to more than 320 business clients from 60 countries of the world, thus we’re planning our next steps keeping in mind the expectations of the increasing circle of the interested parties and firmly keeping to our promise to offer the global consumers a greater access to high-quality dairy products.

At the same time, considering the rapid global changes, our attention and investments focused on introducing new technology and developing new products – in 2020, the recent investment amounted to 2.6 million Eur.

The report provides a detailed picture of Vilvi Group business in environmental, social and management fields. Accountability for socially-responsible activities is our starting point for further development of the activities, fostered by a team of 800 dedicated employees, and transparent cooperation with interested parties.

## ABOUT THE REPORT

The report provides an overview of the activities of “Vilvi Group” in the area of responsible business conduct in 2020. The corporate social responsibility report illustrates how the responsible business approach and the principles of corporate governance are reflected in the day-to-day operations and plans of the Company. The report describes the Group’s strategic directions, actions and achievements of corporate social responsibility, and outlines the economic, social and environmental aspects of the Company's progress. We have prepared this report with reference to the NASDAQ environmental, social and governance reporting guidelines, the United Nations Global Compact and the European Commission guidelines on non-financial reporting (2017/C215/01). The report is available in Lithuanian and English.

The report is published on the Company's website [www.vilvigroup.lt](http://www.vilvigroup.lt), and on the website of the NASDAQ OMX Vilnius stock exchange [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com). The reporting period covers the period of January 1st – December 31, 2020. This report has not been independently audited. Please read this report together with the 2020 audited annual report of “Vilvi Group” consolidated and parent company.





## PRINCIPLES AND PRIORITIES OF RESPONSIBLE BUSINESS

“Vilvi Group” produces many delicious, original recipes of dairy products, many of which have received accolades at international exhibitions for their quality and taste. We are proud to continue our long and respectable history of cheese making, maintaining and sharing our traditions from a particularly scenic region of Lithuania. The lushness of the meadows watered by the Nemunas River inspires us to create and share what nature has so generously bestowed upon us.

What matters is not only what we create, but also how we do it. Therefore, in its activities, “Vilvi Group” follows the principles of the United Nations Global Compact. The 10 guiding principles define corporate responsibility in the areas of human rights, labor rights, environmental protection and anti-corruption. The Company also contributes to the United Nations Sustainable Development Goals. A social responsibility report is submitted on a regular basis to strengthen accountability, and it is made available together with the audited annual report of the Vilkyškių Pieninė AB consolidated and parent company.

Below are the long-term priorities of “Vilvi Group” related to economic, social and environmental aspects. In developing these activities, the Company seeks to meet stakeholder expectations and generate mutual benefits. The Group aims to improve its performance and to strengthen its positive impact both internally and externally, and its activities are regularly reviewed to set ever more ambitious goals.

### Responsible business priorities

Economic dimension	Environmental dimension	Social dimension
<ul style="list-style-type: none"> <li>• Creating value for shareholders;</li> <li>• Ensuring fair remuneration for employees;</li> <li>• Strengthening our brands;</li> <li>• Satisfying customer needs;</li> <li>• Improving production efficiency;</li> <li>• Developing innovative products;</li> <li>• Participating in the market transparently and ethically.</li> </ul>	<ul style="list-style-type: none"> <li>• Developing and implementing new, environmentally friendly technologies;</li> <li>• Reducing manufacturing waste;</li> <li>• Increasing reuse;</li> <li>• Using natural resources sustainably;</li> <li>• Ensuring a clean environment and high-quality air, land and water.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring human rights, gender equality and diversity;</li> <li>• Ensuring safe working conditions and an environment conducive to good health and personal development;</li> <li>• Developing an open dialogue and partnerships with key stakeholders;</li> <li>• Strengthening communities.</li> </ul>

## **ABOUT “VILVI GROUP”**



## ACTIVITIES AND STRUCTURE OF “VILVI GROUP”

### The main activities of “Vilvi Group”

The main activities of “Vilvi Group” – production and sale of milk products. The Companies of the Group produce cheese, cheese product, cream, various fresh milk products (kefir, sourcream, yogurt, cottage cheese, glazed curd bars and other) and dry milk and whey products (whey protein concentrate, whey permeate, skim milk powder, whey powder and proteins for active people).

### The structure of “Vilvi Group”

#### Vilkyškių pieninė AB



- Parent company. Established in 1993.
- Hard and everyday cheese, cream and whey processing.

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#### “Modest” AB



- Subsidiary. Established in 1992, since 2006 part of the Group.
- Mozzarella, blue cheese, smoked cheese, melted cheese, cream.

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#### Kelmės pieninė AB



- Subsidiary. Established in 1993, since 2008 part of the Group.
- Dry milk products: milk and whey powder.

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#### „Kelmės pienas“ UAB



- Subsidiary of Kelmės pieninė AB. Established in 2020.
- Operations will start in March 2021.
- Fresh dairy products.

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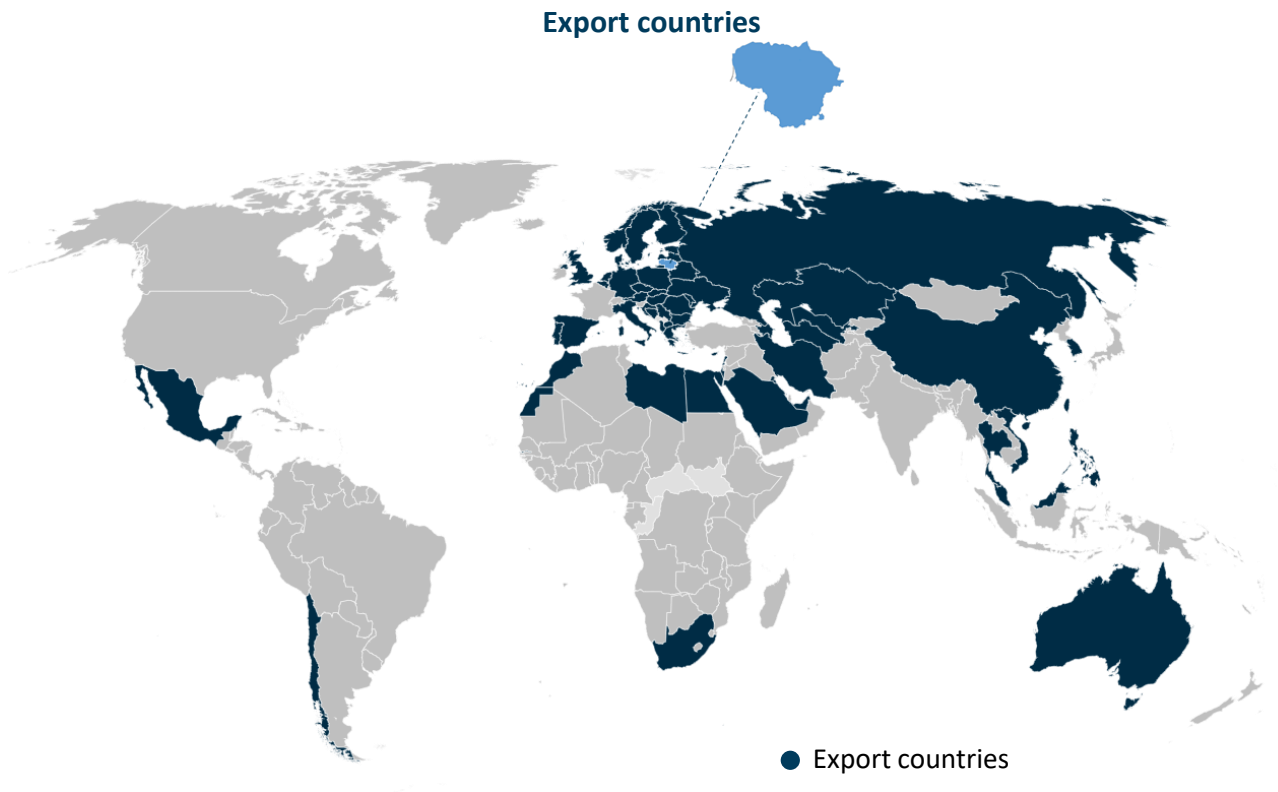
#### „Pieno logistika“ AB



- Subsidiary. Established in 2013.
  - Rental buildings.
-

## A global company

“Vilvi group” sells its products in 60 countries. Diversification of markets aided in keeping market positions during Covid-19 related quarantine. For the export to foreign markets, the Company is advancing the VILVI brand.



Albania	Gambia	Kuwait	Russia
Australia	Greece	Latvia	Saudi Arabia
Austria	India	Poland	Serbija
Azerbaijan	Iran	Lebanon	Singapore
Bahrain	Spain	Libya	Slovakia
Belarus	Italy	Macedonia	Finland
Belgium	Israel	Malaysia	Sweden
Bosnia and Herzegovina	United Arab Emirates	Malta	Thailand
Bulgaria	Montenegro	Mexico	Taiwan
Czech Republic	Kazakhstan	Moldova	Turkmenistan
Chile	China	Norway	Ukraine
Denmark	Kipras	The Netherlands	Uzbekistan
Great Britain	Republic of Korea	South Africa	Hungary
Egypt	Kosovo	Portugal	Vietnam
Estonia	Croatia	Romania	Germany

## “VILVI GROUP” MISSION

There are numerous places all over the world where people have limited access to quality dairy products, well-rounded nutrition, and taste experiences, which Lithuanians have been enjoying for many years. „Vilvi Group“ combining accumulated expertise and latest technologies as well as thoroughly following market dynamics and trends, bring solutions to markets where demand for accessible and authentic dairy experiences is still not a fully resolved issue.

“Vilvi Group“ achieves this goal because of its roots – rich Nemunas meadows, tasty and quality milk; cooperation with customers, partners and suppliers that is based on mutual responsibility and obligation. By inviting its customers to contribute to the mission of the Group – to meet its customer needs, develop business and grow market – „Vilvi Group“ has become the Group of Companies that is proud of its achievements.

*We strive to make sure that each of our partners, clients and customers receives unparalleled dairy solutions that ensure accessible well-rounded nutrition and wholesome taste experiences.*



## KEY NUMBERS OF 2020



**27** years of experience



**121** million euros consolidated turnover in 2020



**>800** employees



**2,6** million euros investment in the Group's infrastructural and technological renewal



**>19** thousand m<sup>2</sup> administrative and industrial space



**>287** thousand tonnes of milk bought



**>320** business clients in the European Union and other countries



**8,9** million euros national taxes paid



**83** percent export

## AWARDS IN 2020

- In 2011 launched study *SUSTAINABLE BRAND INDEX* in Sweden later included other countries of Schandinavia and in 2020 this largest study of brand sustainability in Europe included and Baltic countries.  
„Vilkyškių pieninė“ brand fell among the most sustainable brands in Lithuania – ranked honorable 12th, while in the food and beverage category among the 19 brands studied there is in TOP-5.  
In Lithuania, total of 49 brands were involved in the investigation, selected on the basis of market share, turnover and brand awareness. As many as 1200 respondents rated the environmental and social responsibility of enterprises in the study.
- In ranking published by „Verslo žinios“ *Lithuanian Business Leaders 500* Kelmės pieninė AB was listed among top 200 Lithuanian enterprises that create sustainable business, social value and are efective and tranparent.
- On February 28, “Modest” AB received an official “Maxima’s” message of thanks for the cherished production of Tauragė Region, which is willingly purchased and appreciated by the customers of the largest trading network in Lithuania.



## STAKEHOLDERS

“Vilvi group” has a wide range of internal and external stakeholders. Stakeholders are natural and legal persons and organizations that may be positively or negatively affected by the activities of the Group as well as those who are interested in the Group’s activities. The list is based on the Company’s internal information.

Stakeholders	Main points of interest
Business clients	Partnership, rational price of products and services, responsibility in product delivery, accurate and relevant information, quality assurance of products and services
Consumers	Product variety and availability, wholesome nutrition, social responsibility: transparency, reduction of environmental footprint
Employees	Wages, social guarantees, employment and social inclusion, career and development prospects, security during the pandemic
Management	The Group’s long-term value creation, product development opportunities
Shareholders	Achievement of the set financial goals, increase of operational efficiency and value of the Company
Service providers and contractors	Partnership, rational price of products and services, reliable service delivery and transaction settlement, accessible, precise and relevant information, quality assurance of products and services
Suppliers of main raw materials	Partnership, rational product price, responsibility in product delivery
Suppliers (fuel, electricity, waste management, water utility and other services)	Reliable service delivery and transaction settlement, effective cooperation
National regulatory authorities	Consistent regulatory compliance, performance monitoring, evaluation of reports, transparent dialogue
Local communities	Responsible employer and active member of communities, transparency, reduction of environmental footprint
The general public (organizations, associations, schools, universities and similar)	Joint projects, transparency, accountability, reduction of environmental footprint, career prospects
Research centers, consulting companies	Trainings, consultations, evaluation of indicators



## GROUP MANAGEMENT

### Vilkyškių Pieninė AB management bodies



- General meeting of shareholders;
- Collegiate governing body – the Board;
- The sole governing body – the general director.

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### Kelmės Pieninė AB, “Kelmės pienas” UAB and Modest AB management bodies



- General meeting of shareholders;
- Collegiate governing body – the Board;
- The sole governing body – the director.

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### AB „Pieno logistika“ management bodies



- General meeting of shareholders;
- The sole governing body – the director.

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### General meeting of shareholders

During the reporting period, the Group’s shareholders had equal rights (property and non-property), as provided in the law, other legislation and the Company’s Articles of Association. No shareholder had any special control rights; all shareholder rights are equal. The Company’s management bodies provided the right conditions for the exercise of shareholders’ rights during the reporting period.

### The Board

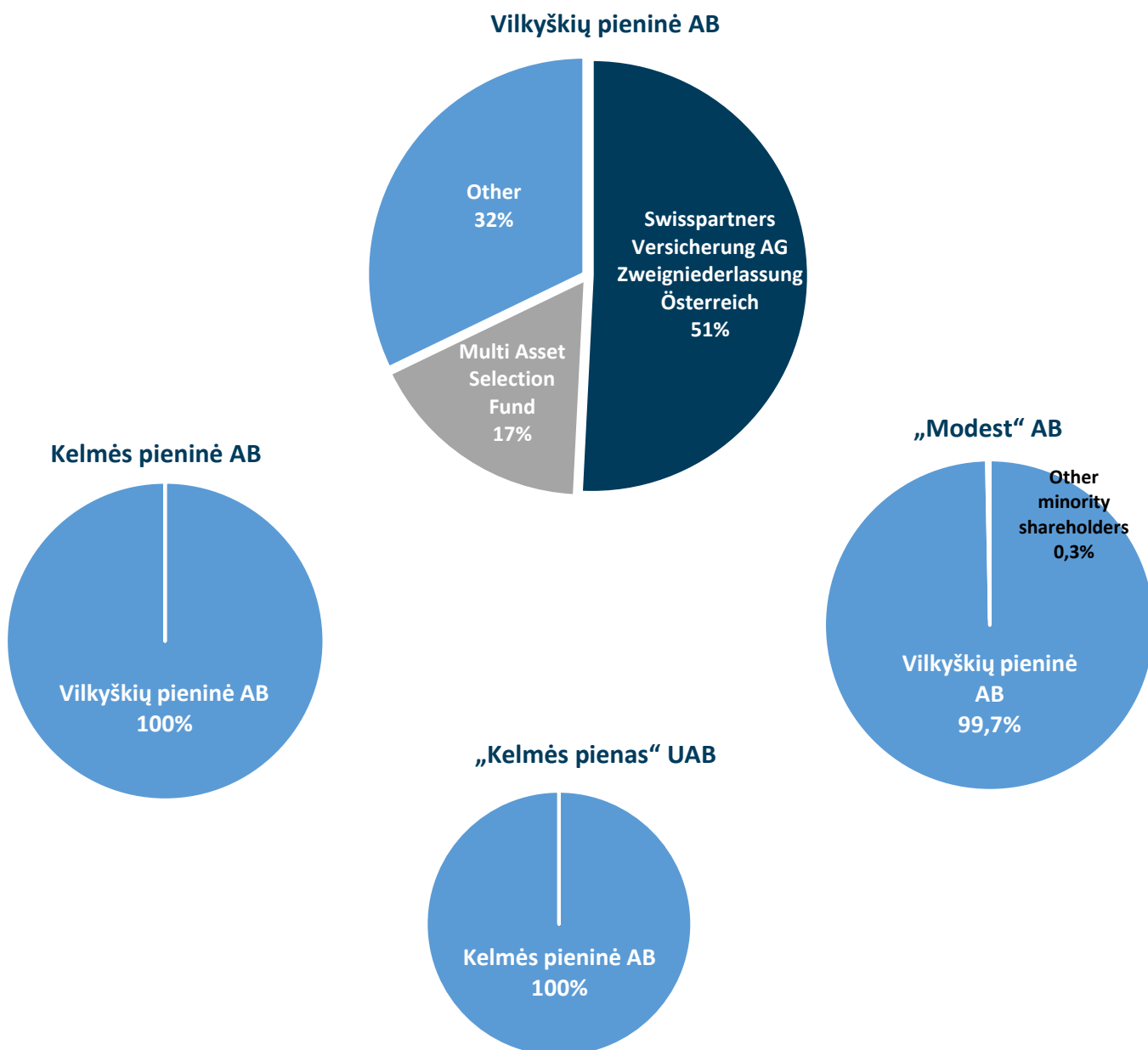
The Board of Vilkyškių Pieninė AB consists of six members, the Board of Kelmės Pieninė AB, “Kelmės pienas” UAB and Modest AB – three members. The members of the Board are elected for a four-year term by the general meeting of shareholders, pursuant to the Republic of Lithuania Law on Companies. The Board elects its chairman from among its members. See the section on the management bodies of the Vilkyškių Pieninė AB Group in the 2020 audited annual report of the Vilkyškių Pieninė consolidated and parent company. The Board forms two committees: Audit and Remuneration. Each committee consists of three members. See the section on committees in the 2020 audited annual report of the Vilkyškių Pieninė consolidated and parent company.

## General director

The competence of the general director, the procedure for his election and dismissal are established by the laws, other legislation and the Company’s Articles of Association. The general director is elected, revoked and dismissed by the Board of the Company. The general director manages and organizes the activities of the Company, acts on behalf of the Company and concludes transactions at his own discretion, except in cases specified in the legislation and the Company’s Articles of Association.

## Shareholder structure

The shares of Vilkyškių Pieninė AB were listed on the NASDAQ QMX Vilnius stock exchange on May 17, 2006. The Company’s shares are traded on the NASDAQ OMX Vilnius stock exchange only. ISIN code LT0000127508. Security shorthand VLP1L.



## **Risk assessment**

Risk management is an integral part of the activities “Vilvi Group”. The Company identifies, analyzes and assesses risks by examining the Company's objectives, activities and external environment. The Board and the directors’ meeting are responsible for establishing and overseeing the Group’s overall risk management program.

Risk management policies and systems are systematically reviewed to reflect changes in market conditions and the performance of the Group. Through its training and management standards and procedures, the Group aims to create a disciplined and constructive environment of control, in which each employee has a clear role and responsibility. More about „Vilvi Group“ risks see *Chapter Risk Factors Associated with Issuer ‘s Business in Annual report of “Vilvi group” for 2020.*

## **Action against corruption and bribery**

“Vilvi Group” does not tolerate any corruption and bribery and advocates for fair business and transparent cooperation with authorities and other stakeholders.

Transparent, honest and open business operations are some of the most important elements of an impeccable corporate reputation and success. “Vilvi Group” pays all taxes in a transparent manner, maintains responsible accounting practices and follows a transparent remuneration policy.

The Group ensures transparency in its procurement and requires potential and existing suppliers to operate in a transparent and fair manner. The Group trades its products on the basis of transparency and does not engage in any transactions that involve bribing or suggestions to act in non-transparent ways. “Vilvi Group” is open to observations and suggestions of the responsible authorities.

The Group is politically neutral and does not provide any financial support to political parties, groups or politicians.

## **ENVIRONMENTAL PROTECTION**



## PRIORITIES AND PRINCIPLES

“Vilvi Group” strives to protect the environment, use natural resources sustainably, and implement modern, efficient and environmentally safe technologies in its manufacturing practices. The Company is also implementing pollution prevention measures, improving energy efficiency as well as aiming to reduce production waste. The Board and management of the Company oversee and regularly include climate-related topics in their agendas. “Vilvi Group” periodically carries out environmental impact analysis and evaluation.

## ACTIVITIES

### Investing in more environmentally-friendly technologies

“Vilvi Group” uses gas, which is environmentally preferable to fuel oil or wood shavings. AB. In the second half of 2019, Kelmės Pieninė AB transitioned from using diesel to liquefied gas in the boiler room. The use of gas contributes to stabilizing the technological process and increasing the equipment load during the workday. It also saves well water, does not increase wastewater and efficiently uses energy resources.

At the end of 2016, a gas pipeline was extended to the town of Tauragė. Vilkyškių Pieninė AB, being the largest and main user of the gas pipeline, has significantly contributed to the introduction of gas as an energy source in Tauragė municipality. To date, over 68 households have been connected to the pipeline.

The Group has implemented the best available techniques (BAT), and the resource input and pollutant emission levels are consistent with those attained in the European Union.

Vilkyškių Pieninė AB (since 2011), Kelmės Pieninė AB (since 2016) and Modest AB (since 2014) are equipped with modern, fully automated refrigeration compressors using the organic refrigerant ammonia.

Vilkyškių Pieninė AB is equipped with a regenerative heat energy exchange system, which enables the storage and usage of both heat and cooling energy.

The negative impact on the environment of the Vilkyškių Pieninė AB Group is also being reduced through the annual renewal of the vehicle fleet.

### Energy use and sources

The energy management principles applied in the “Vilvi Group” contribute to the more efficient usage of energy resources.

“Vilvi Group” use green electricity. 100 % of the green electricity is sourced from renewable energy sources – wind, water and biomass. This way, the Company makes a significant contribution to reducing CO2 emissions in the country and globally..

Vilkyškių pieninė AB has installed heat exchange system:

- Milk is warmed from 6°C to 26°C not using steam. This gives 2 700 000 kWh of heat energy economy annually which equals to 216 000 kg of natural gas. Thus less nitrogen oxide and carbon dioxide are emitted to atmosphere;

- Whey is cooled from 38°C to 23°C. This gives 2 700 000 kWh of cooling energy economy annually which equals to 950 000 kWh of electricity.

Kelmės Pieninė AB is equipped with milk and whey dryers that have energy recovery systems.

Thanks to the energy recovery systems, significant savings in thermal energy are made and the consumption of gas and the amount of heat released into the environment are reduced. The hot air remaining after the drying process is returned to the system and heats the freshly drawn air. The air used in the incinerator is reused in the same manner. This allows for more efficient operations, the conservation of natural resources, and limits the contribution to the greenhouse effect. The products of natural gas combustion, used to generate heat in the dryers, are less harmful to the environment.

#### Direct energy use, 2020

Vilkyškių pieninė AB	Kelmės pieninė AB	Modest AB	The Tauragė branch of Kelmės Pieninė AB
Industrial steam generated by own boiler 17 188 MWh	Industrial steam generated by own boiler 27 390 MWh	Natural gas 40 634 MWh	

#### Indirect energy use, 2020

Vilkyškių pieninė AB	Kelmės pieninė AB	Modest AB	The Tauragė branch of Kelmės Pieninė AB
Electricity from renewable sources 12 285 MWh	Electricity from renewable sources 2 302 MWh	Electricity from renewable sources 9 601 MWh	

#### Energy sources – energy used by type, 2020

Vilkyškių pieninė AB	Kelmės pieninė AB	Modest AB	The Tauragė branch of Kelmės Pieninė AB
12 liquefied petroleum gas; 88 % electricity from renewable sources	80,9 % natural gas; 19,1 % electricity from renewable sources		

### Consumption of water

#### Water consumption, 2020

Vilkyškių pieninė AB	Kelmės pieninė AB	Modest AB	The Tauragė branch of Kelmės Pieninė AB
330 855 m3	96 896 m3	122 105 m3	128 775 m3

## Pollution prevention

“Vilvi Group” has developed a program for monitoring the impact of the watering place on groundwater, and carries out observations, environmental impact assessments, data collection and analysis. The monitoring program is used to control the potential impact on groundwater by the petrol station in the parent company located in Vilkyškiai. It monitors air emissions, sources of pollution and wastewater.

### Environmental impact indicators for the parent company Vilkyškių Pieninė AB

Pollution source or equipment	Pollutant	Medium of pollutant discharge	Fiscal period norm, in tonnes	Total amount discharged in 2020, in tonnes	Total amount discharged in 2019, in tonnes
Biological wastewater treatment equipment	Fat	Water bodies	3,2850	1,5672	1,9173
	Phosphorus	Water bodies	0,6570	0,0962	0,3345
	Ammonium nitrogen	Water bodies	2,1120	0,2466	0,3833
Surface wastewater	BOD	Water bodies	0,2436	0,0575	0,0214
	Suspended solids	Water bodies	0,2100	0,1776	0,0194
	Oil	Water bodies	0,0029	0,00198	0,0009
Boiler room I	Carbon monoxide (A) CO	Atmosphere	0,4178	1,915*	0,4178
	Nitrogen oxide (A) NOx	Atmosphere	0,5570	2,5531*	0,5570

\*According renewed TIPK permission, norms and their calculation methods have changed. Therefore indicators differ from the last year's.

## Consumption of paper and plastic

Production waste is managed and accounted according to approved environment requirements in GPAIS (product, packaging, and waste accounting information system).

**100 % – 12 tonnes** – of stationery paper used in 2019 was FSC and Ecolabel certified. This means that the cut-down trees are replanted and that the paper production process uses fewer resources.

The Companies of “Vilvi Group” seek to reduce use of plastics – water in plastic bottles are replaced with glass jugs, and disposable plastic dishes and table tools are replaced to multiple use dishes.

“Vilvi Group” especially cares about nature preservation, therefore products are packaged in a way that allows consumer to easily sort them.

The Companies of the Vilvi Group invest in environment-friendly solutions. They responsibly choose packaging designs and materials.

- In 2020 WPC stretch hood film used to wrap palettes of production was switched from 100 microns to 80 microns so plastic use is reduced.
- In 2020 melt cheese packaging was switched to thinner plastic material packaging covered with carton material. New packaging is 5 grams lighter.
- Since 2018 fresh milk products are transported in multiple-use boxes thus minimizing disposable carton box use.
- Each product packaging is labelled with information how to properly dispose and sort it after product is consumed.





## **EMPLOYEES**



## PRIORITIES AND PRINCIPLES

We set ourselves ambitious goals in terms of our employees and personnel. One of the strategic goals of “Vilvi Group” is to become a leading employer in counties. Therefore, the employee policy is oriented towards forming and improving the employer identity, strengthening employee inclusion and collaboration. We integrate these principles in all the steps of an employee’s path in the organization.

“Vilvi Group” has clearly defined procedures that define working conditions, equal opportunities, remuneration, employee promotion and development of collaboration.

We are focused on continuous development and growth of our employees and the formation of a common culture across the companies of the Group. We foster corporate culture to increase the employees’ desire to come to work, develop a sense of belonging and optimism as well as to ensure the safety and comfort of the workplace.

“Vilvi Group” regularly monitors employee turnover, conducts research on employee motivation and engagement. In order to build a stable team, we strive to cultivate good relationships internally and to provide opportunities for improvement, growth, acquisition of new responsibilities and participation in decision-making.

## ACTIVITIES

### Attraction and integration of new employees

In order to keep improving conditions for the employees, the Company has put a system in place for recruiting new employees. The consistent process of onboarding new employees provides a smoother transition to the corporate culture, increases the efficiency of employee integration and learning, increases motivation to work in the organization, and gradually reduces the cost of recruiting new employees. There is also targeted action to attract new talent in close cooperation with regional, vocational and higher education institutions. Much emphasis is placed on the selection process and the positive experience of the candidate.

In 2019 the annual turnover rate was 26 percent. This is in line with market trends: according to an analysis conducted by “Korn Ferry Hay Group”, average employee turnover in Lithuania in 2020 was about 21 percent.

Existing employees are encouraged to get involved in the recruitment of new employees via the approved „Bring a Friend” procedure, whereby employees can recommend individuals for work at “Vilvi Group” and receive a cash bonus for doing so.

*11 referrals in 2020 via the „Bring a Friend” system (2019 – 18).  
9 employees hired in 2020 with the help of the „Bring a Friend” system (2019- 14).*

Traditions are an important part of fostering our culture. As a result, each workday begins with a joint 10-minute discussion between the employees over coffee. Employees are also congratulated on the occasion of their birthday, wedding, childbirth; we also organize celebrations of the Company's birthday and Christmas as well as educational tours and orienteering on bicycles. During pandemic meetings and gatherings are organized via distance communication means.

## Diversity at work: Kelmės Pieninė AB

“Vilvi Group” advocates for equality and diversity and contributes significantly to the integration of people with disabilities into the labor market.

In 2020 Kelmės pieninė AB employed 197 people, 40 percent of which belong to target groups (according to disability, work capacity and special needs level), have lost professional and general work capacity, cannot compete on equal terms in labour market. Average age of employees is 47 years old.

Employees are provided with working conditions that allow them to work according to their own potential. Employees are offered opportunities to attend meetings, lectures, outings, celebrations and other events related to employee awareness, education and motivation. According to official statistics, in Lithuania the poverty risk for persons with disabilities was twice as high as for persons without disabilities. Therefore, the contribution of Kelmės Pieninė AB to the integration of persons with disabilities into the labor market contributes to solving this acute issue.

## Assurance of human rights and gender equality

“Vilvi Group” does not tolerate human rights violations and discrimination. Equality and non-discrimination are ensured by the Company's internal policy on equal opportunities, which provides each employee with opportunities in employment, professional development and career advancement regardless of gender, age, social status, or other factors unrelated to the professional characteristics of the employees.

The Group adheres to the laws governing overtime and working hours, respects the right of workers to rest and recuperate, does not tolerate any form of harassment or violence and opposes any form of discrimination as well as forced child labor. During weekly individual meetings with management or the HR department, all employees can express their views and complaints regarding unsatisfactory working conditions or relationships with colleagues or other topics.

In 2020, no discrimination or other incidents related to human rights violations were detected in “Vilvi Group”.

In order to ensure better conditions for employees with young children, with the help of European Union funds, in 2010 the Company established a childcare facility, referred to as the “kindergarten” by the residents of the town of Vilkyškiai. Since 2013, after the termination of the project funds, this kindergarten is being partially funded by Vilkyškių Pieninė AB. Therefore, while the employees are working, their offsprings are participating in pre-school education.

### Employees of the Group by gender



### Middle-management of the Group by gender



### Top management of the Group by gender



### Gender diversity of the Board and supervisory bodies

33 % members of the Board are women	100 % committee chairs are women (2 committees: Audit and Remuneration)
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### Clear, justified and fair remuneration

Every employee contributes to the value creation of the Company, so in order to be a competitive employer, we advocate for clear, reasonable and equitable wages. Remuneration is based on the principles of gender equality, non-discrimination and fair pay as well as the legislation of the Republic of Lithuania and the approved remuneration system "Vilvi Group". The remuneration system clearly indicates the categories of staff and the posts assigned to those categories. The remuneration arrangements contained within the system and its annexes are applied in such a way as to prevent any discrimination on gender or other grounds. Men and women receive equal pay for equal work or work of equal value.

We value transparent and clear remuneration; therefore, we have engaged the services of the "Korn Ferry Hay Group", the world's leading provider of accurate remuneration information and analysis. The research of the salary market by the "Korn Ferry Hay Group" enables the comparison between the remuneration system of "Vilvi Group" with the local market and helps to ensure the competitiveness and rationality of the salaries.

The content of the work carried out by the staff, the mandatory qualification requirements (if applicable to a specific post), the mandatory and voluntary professional development procedures are laid down in the staff regulations and/or employment contracts.

We pay special attention to the internal promotion and professional development of our employees. In the case of vacancies at higher levels, such vacancies are first offered to employees meeting the requirements. Employees may be awarded bonuses for their qualifications and/or bonuses for additional work or the completion of additional tasks or duties. Various lump-sum benefits are also granted in the event of a marriage, the birth of a child or the death of a close family member.

## **Assurance of occupational safety and employee health**

An important task of the employee policy of the Vilkyškių Pieninė AB Group is to ensure the safety, health and decent working conditions of its employees.

As Covid-19 infection hit the country the Companies of Vilvi Group in order to protect employees from the virus threat continuously monitor their health. Two times per shift employees are tested for increased body temperature thus ensuring that only individuals without acute upper respiratory diseases are at workplace. Production and administrative premises are often cleaned, ventilated, and disinfection of often touched-surfaces is carried out every two-hours. Production premises are additionally disinfected using mobile smoke generators after each shift. In the premises strict hygiene requirements are applied, flow of employees is regulated, employees are discouraged to interact personally if no necessity exists and while interacting safe distance is kept, face masks and other personal safety means are obligatory.

Vilvi Group took initiative and regularly tests its employees for Covid-19 infection so it can timely react and take preventive measures to stop the spread of the virus. The employees were instructed and taught how follow new requirements and to avoid possible contacts with Covid-19 infected or people in selfisolation and what measures to take if one gets infected with the virus.

The designated occupational safety and health professional continuously monitors and ensures that workplaces comply with safety and health regulations.

There were 16 occupational accidents at “Vilvi Group” in 2020. All of them were minor and did not cause serious bodily injury or consequences for the workers. To protect employees from possible repetitive risk of injury they were additionally instructed in workplace and safety devices were installed.

In 2020 the Companies of the Group organized training of civil safety: extreme disaster case – dangerous chemical pollution in production site. During training responsible employees practiced their roles in the extreme situation scenario.

In 2019, 255 employees took part in required professional trainings (see table).

No.	Trainings	VILKYŠKIŲ PIENINĖ AB	KELMĖS PIENINĖ AB	MODEST AB	
1.	Training for operations that require more knowledge than received during the initial instructions to ensure work and health safety.	21	42	60	<b>123</b>
2.	Compulsory hygiene skills training.	17	12	25	<b>54</b>
3.	Pressure vessel operator training.			3	<b>3</b>
4.	Training on working in explosive environment.		7	11	<b>18</b>
5.	Training of supervisors, supervising works in wells and other underground structures and closed containers.	1			1
6.	Training of employees, working in wells and other underground structures and closed containers.	10		2	12
7.	Training of employees, working with refrigeration equipment.			4	<b>4</b>
8.	Training of employees, responsible for consumer electricity utilities.	2	1	1	<b>4</b>
9.	Lifting crane work supervisor training (re-certification).	2			<b>2</b>
10.	Training of employees, operating consumer flammable gas systems.		2	1	<b>3</b>
11.	Training of operators, working with automated boilers fired with gas and liquid fuels.			3	<b>3</b>
12.	Metalworker training on working with flammable gas systems.			1	<b>1</b>
13.	Training of employees under the eight-hour informal department head training programme.	2	1	3	<b>6</b>
14.	Training of employees and operators, working with forklifts, lifting platforms and their equipment.			2	<b>2</b>
15.	Training of employees, lifting loads with mechanical, self-propelled loaders.			8	<b>8</b>
16.	Training of employees, working in heights.			3	<b>3</b>
17.	Training of employees to acquire initial electrical safety category.	1		1	<b>2</b>
18.	Training of operators, conducting works with equipment of up to 1000 V (medium category).	2		4	<b>6</b>
	<b>Total:</b>	<b>58</b>	<b>65</b>	<b>132</b>	<b>255</b>

Each year, the Company’s employees can obtain free health and vision check-ups and flu vaccinations. In 2020, 358 employees took advantage of such opportunities, whose value amounted to 34 000 euros.

*51 employees underwent health check-ups.*

*163 employees vaccinated.*

*125 employees benefited from other health and wellness services.*

### Professional development of the employees

“Vilvi Group“ devotes significant attention to the development of employees’ competencies. Each year, employee development plans are drawn up, taking into account the goals of the Group and the relevance of the employees’ competencies. Particular attention is paid to the training of key

professions to ensure efficient and high-quality work, customer service and job safety. Vilkyškių pieninė AB has a book library where employees can find professional, motivational and fiction books.

In 2019 we launched a Career Management System (CMS) project that includes more than 200 administrative employees. The aim of the project is to evaluate the viability of existing employees in their internal career promotion.

Employees partake in general in-house trainings as well as in conferences and seminars organized by external suppliers.

In 2020 we extended the internal training program to promote peer-to-peer collaboration, improve internal communication, stress and change management, leadership development, and self-awareness.



*180 employees participated in general competence development trainings.  
505 hour long trainings for specialists (10,52 hour for specialist on average).  
867 hour long trainings for managers (16,35 hour for managers on average).*

## COMMUNITIES





## PRIORITIES AND PRINCIPLES

“Vilvi Group” is an active member of the community. Implementing the principles of responsible business in the social area, Vilkyškių Pieninė AB cooperates with local communities and the general public in order to ensure the protection of human rights, to strengthen relations between business and academia, and to contribute to youth employment and career development. Support for community and various initiatives according to pre-established criteria is provided as a complementary social responsibility implementation tool that contributes to strengthening partnerships and implementing our priorities.

## ACTIVITIES

### Supporting youth career orientation

The Company willingly shares its competencies and resources. Before the pandemic, “Vilvi Group” factories welcome groups for educational visits and the Company organizes presentations about vocational preparedness and career planning. Particular attention is paid to representatives of the engineering field as their skills are in greatest demand.

The Company actively cooperates with educational institutions: it enables students of the institutions of higher education and vocational schools to apply theoretical knowledge and acquire practical skills over the course of a 2 to 3-month internship, thus improving youth employment opportunities. Familiarizing themselves with work in a manufacturing company also allows students and graduates to explore a new field and contributes to helping them make more informed career choices. In the long term, this allows the Company to shorten the process of recruitment and selection of candidates for positions that are the hardest to fill. Therefore, the implementation of the internship program is one of the Company's strategic directions.

*130 persons from 9 educational and employment institutions visited the companies of, “Vilvi Group” in 2019; in 2020 there were no visits because of pandemics.  
8 persons carried out internships in 2020 – 2 of them were employed on a permanent basis.  
In 2020 9 employees moved up in career positions.*

### Strengthening and supporting communities

“Vilvi Group” promotes and develops community spirit – it supports and participates in cultural and educational events that provide entertainment and educational activities for both children and adults. In this way, we contribute to a more active social life in the county, strengthen mutual relations and cooperation.

*In 2020 we provided over 10 tEur worth of financial and in-kind contributions towards childrens’ wellbeing, education, culture, sports and local community-building*

Through close cooperation, we have been supporting local communities financially and in-kind not only in the town of Vilkyškiai, but also in the towns of Pagėgiai, Tauragė and Kelmė. In 2020, as in

2019, the Company supported with products to Lithuanian Samaritan Community, autosports club *Vilkyčiai*, *Skaudivilė Region Community* and many others. For many years the Group supports *Pagėgiai* school, *Pagėgiai* and *Vilkyškiai* feasts, international organ music festival.

*In 2020 during COVID-19 pandemic Vilvi Group provided with 7000 units of most necessary means for protection (masks, gloves, and overalls) to medicine personnel of Tauragė hospital*

### Cooperation with the basketball team “Žalgiris”

Promoting sports and reflecting Lithuanian traditions, since 2009 *Vilkyškių Pieninė AB* has been sponsoring the “Žalgiris” basketball team. The Company contributes to the organization of tournaments, and the employees cheer for the Žalgiris team at every match.





- G R O U P -

EST. 1934 VILKYŠKIAI

**Vilkyškių pieninė AB**

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## Vilkyškių pieninė AB corporate governance report form for the year that ended on 31 December 2020

The public limited liability company *AB "Vilkyškių pieninė"* (hereinafter referred to as the "**Company**"), acting in compliance with Article 22 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

### 1. Summary of the Corporate Governance Report:

According to the Articles of Association of the Company, the bodies of the Company are the General Meeting of Shareholders, the Management Board, and the Manager of the Company. The Company does not have a Supervisory Board, but the supervisory functions, provided for in the Law on Companies of the Republic of Lithuania, are actually performed by the Management Board (although at the moment this supervisory function for the Board is not legalized in the Articles of Association of AB Vilkyškių Pieninė, but it will be done before 2022, after the term of the Board expires), which is not an executive body of the Company and consists of four representatives of the Company and two independent members. The Management Board elects and removes the Manager of the Company, determines his/her remuneration and other terms of the employment agreement. The company is managed by the Manager of the Company. The Company has two committees - Audit Committee and Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall perform the functions of the Remuneration and Nomination Committees. Internal control of the Company is performed by the internal auditor of the Company as well.

The Company does not currently comply with the requirement established by Paragraph 3.2.5. of the Corporate Governance Code, because the Chairman of the Management Board is the Manager of the Company. Also, the Articles of Association of the Company do not establish the supervisory function performed by the Management Board (the term of the Board has not expired). These requirements will be taken into account during the election of the new Management Board and the chairman of the Management Board when the term of the Management Board will expire in 2022.

More information on the Company's Governance, shareholders' rights, activities of the Management Board and Committees, Management Board members, as well as systems of internal control and risk management is provided in the Company's Consolidated Annual Report for the year that ended on 31 December 2020.

**2. Structured table for disclosure:**

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
<p><b>Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights</b></p> <p><b>The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.</b></p>		
<p>1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.</p>	Yes	<p>Shareholders are furnished with equal opportunity to access the and documents established in the legal acts, as well as to participate in the corporate decision-making process.</p> <p>The Company's documents and information established in the legal acts are publicly available on the Company's website and through the information disclosure system used by Nasdaq Vilnius in Lithuanian and English.</p>
<p>1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.</p>	Yes	<p>The capital of the Company consists of ordinary registered shares, which grant their owners equal personal property and non-property rights. Each share grants one vote at the general meeting of shareholders.</p>
<p>1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	Yes	<p>The Articles of Association of the Company, which set out the rights conferred to the holders of Company's shares, are publicly available on the Company's website.</p>
<p>1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.</p>	Yes	<p>Transactions shall be approved in accordance with the procedure set forth in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. Where necessary, important transactions are subject to approval of the general meeting of shareholders, despite the fact that such a procedure is not established in the Articles of Association of the Company. We plan to clearly establish this during the amendment of the articles of association of the Company.</p>
<p>1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of</p>	Yes	<p>The Articles of Association of the Company provide that all persons, who on the day of the meeting are the shareholders of the Company, their authorized representatives, or persons with whom the voting rights transfer agreement has been concluded shall</p>

<p>shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.</p>		<p>have the right to participate and vote in the general meeting of shareholders. A shareholder who has the right to vote and is familiar with the agenda may also inform the general meeting of shareholders in writing about his or her “for” or “against” choice with respect to each resolution individually. These notifications shall be credited to the quorum of the general meeting of shareholders as well as the voting results. Meetings of the Company’s shareholders are held at the registered office of the respective company of the Company Group (during quarantine shareholders are encouraged to vote in writing). Ordinary meetings of shareholders are held in the second half of April.</p> <p>The notice convening the general meeting of shareholders shall state that the proposed new draft resolutions must be submitted in writing at any time before the general meeting of shareholders.</p>
<p>1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company’s commercial secrets are not revealed.</p>	<p>Yes</p>	<p>All documents and information related to the general meeting of shareholders, including notice of the meeting convened, draft resolutions, resolutions and minutes of the meeting, are announced publicly and at the same time in two languages - Lithuanian and English - through the Nasdaq regulated notice distribution system and on the Company’s website</p>
<p>1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>Shareholders of the Company may exercise the right to participate in the shareholders’ meeting either in person or through a representative, if the person has a proper Power of Attorney or a voting rights transfer agreement has been concluded in accordance with the procedure established by legal acts. The Company shall also furnish the opportunity to shareholders to vote by filling</p>

		out a general ballot as required by law.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	No	<p>The Company does not comply with the provisions of this recommendation as the Company does not provide the possibility for the shareholders to participate and vote in the general meeting of shareholders by means of electronic communication.</p> <p>The company is considering this issue and the need for its implementation, possibilities, etc.</p>
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	<p>The Company informs about the educational background, work experience, and position of the candidates to the members of the collegial body during the general meeting of shareholders by submitting the curriculum vitae of the candidates in the material of the meeting.</p> <p>The name of the proposed audit firm shall be submitted to the general meeting in advance as a draft resolution.</p> <p>As of 2020, during the election a new member to the collegial body, the Company will publish the above information on each member in the draft resolutions of the general meeting.</p>
1.10. Members of the company's collegial management body, heads of the administration <sup>1</sup> or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders, as well as candidates proposed to members of the collegial body participate in the general meeting of shareholders.

**Principle 2: Supervisory board**

**2.1. Functions and liability of the supervisory board**

**The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.**

**The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**

<p>2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.</p>	<p>Not applicable</p>	<p>The Supervisory board is not formed in the Company.</p>
<p>2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.</p>	<p>Not applicable</p>	
<p>2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.</p>	<p>Not applicable</p>	
<p>2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent<sup>2</sup> members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.</p>	<p>Not applicable</p>	



<p>2.1.5. The supervisory board should oversee that the company’s tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.</p>	<p>Not applicable</p>	
<p>2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.</p>	<p>Not applicable</p>	
<p><b>2.2. Formation of the supervisory board</b>  <b>The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.</b></p>		
<p>2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.</p>	<p>Not applicable</p>	<p>The Supervisory board is not formed in the Company.</p>
<p>2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.</p>	<p>Not applicable</p>	
<p>2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.</p>	<p>Not applicable</p>	

<p>2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.</p>	<p>Not applicable</p>	
<p>2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.</p>	<p>Not applicable</p>	
<p>2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.</p>	<p>Not applicable</p>	
<p>2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.</p>	<p>Not applicable</p>	
<p><b>Principle 3: Management Board</b></p> <p><b>3.1. Functions and liability of the management board</b></p> <p><b>The management board should ensure the implementation of the company’s strategy and good corporate governance with due regard to the interests of its shareholders, employees and other</b></p>		

<b>interest groups.</b>		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	As the supervisory board is not formed in the Company, the Company's strategy is approved by the management board.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs <i>inter alia</i> the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	The functions specified in the recommendation are performed by the management board (except for AB Pieno logistika of the Company Group, where the management board is not formed), taking into account the needs of the Company, shareholders, employees, and other interest groups. The Management Board of Vilkyškių Pieninė AB actually performs the supervisory functions provided for in the Law on Companies of the Republic of Lithuania. Although at present this supervisory function is not established for the Management Board in the Articles of Association of Vilkyškių Pieninė AB, but it will be done before 2022, when the term of the Management Board will expire.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The management board ensures that the Company complies with laws and internal policies of the Company (e.g. Remuneration Policy, Procurement Process and Procedures, Equal Opportunities Policy, Personal Data Processing Rules, etc.), and, it also ensures the accountability of the management in accordance with the established internal measures of governance and control.
3.1.4. Moreover, the management board should ensure that the measures included into the <b>OECD Good Practice Guidance</b> <sup>3</sup> on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The management board ensures compliance with applicable laws, regulations, and standards.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and	Yes	When appointing the manager of the company, the management board takes into account the candidate's qualifications, experience, and competence.

competence.		
<b>3.2. Formation of the management board</b>		
<p>3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.</p>	Yes	<p>The Company follows the recommendations of this paragraph. The members of the management board have the necessary variety of knowledge, opinions, and experience to perform their tasks properly.</p> <p>There is one woman on the management board of AB Vilkyškių pieninė and one on the management board of AB Modest of the Company Group; and two women on the management board of AB Kelmės pieninė and on the management board UAB Kelmės pienas of the Company Group.</p>
<p>3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.</p>	Yes	<p>The curriculum vitae of the candidates to become members of the management board and information on the candidates' participation in the activities of other companies is submitted at the shareholder meeting together with draft resolutions without violating the requirements of the legal acts regulating the handling of personal data.</p> <p>In the annual report, the company indicates the necessary information about the members of the Management Board: education, qualifications, professional experience, current position, etc.</p>
<p>3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.</p>	Yes	<p>After the election, all members of the management board shall be familiarized with their rights and obligations under the legal acts of the Republic of Lithuania and the Articles of Association of the Company. Members of the management board are regularly informed at the Board meetings and</p>

		individually, as required or per own request of the members, about the Company's activities and its changes, material changes in the legal acts regulating the Company's activities, and other circumstances affecting the Company's activities.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	According to the Articles of Association of the Company, the members of the management board are elected for a term of four years, without limiting the number of their terms.  The Articles of Association of the Company provide for the possibility of re-election of the entire management board or its individual member.
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	No	AB Vilkyškių pieninė does not comply with the recommendation of Paragraph 3.2.5. as the chairman of its management board is the manager of the company. The impartiality of supervision is ensured by other five members of the management board.  This recommendation will be taken into account when the term of the Management Board expires in 2022 and a new Management Board will be elected.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	Yes	In 2020, the management board members attended the management board meetings (a quorum was present during all meetings), with each member devoting sufficient time to perform the duties of the management board member. Most board meetings were held remotely (due to quarantine restrictions).  There were no management board members who attended less than half of the management board meetings during fiscal year of 2020.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent <sup>4</sup> , it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular	Yes	Currently the management board (the term of which will expire in 2020) has 2 independent members.  The election of a new management board will take into account the independence criteria set out in the Law.

<p>member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.</p>		
<p>3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.</p>	<p>Yes</p>	<p>Members of the management board of AB Vilkyškių pieninė, AB Modest, AB Kelmės pieninė, and UAB Kelmės pienas may be compensated for their work in the management board with tantiemes approved by the general meeting of shareholders. No tantiemes were paid to management board members in 2020.</p>
<p>3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.</p>	<p>Yes</p>	<p>According to the information available to the Company, the members of the management board act in good faith with respect to the Company, following the interests of the Company and not their own or those of third parties, adhering to the principles of honesty, reasonableness, confidentiality, and responsibility, trying to remain independent during the decision-making.</p>
<p>3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.</p>	<p>No</p>	<p>The Company has no practice of the assessment of the management board activity and public disclosure, but at the end of each year, the management board members review the management board's annual performance goals and evaluate their achievement. The management structure of the Company is published annually in the annual report of the Company.</p>
<p><b>Principle 4: Rules of procedure of the supervisory board and the management board of the company</b></p> <p><b>The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.</b></p>		

<p>4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.</p>	<p>Not applicable</p>	<p>The Supervisory board is not formed in the Company.</p>
<p>4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterrupted resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.</p>	<p>Yes</p>	<p>Management board meetings are held at least once a month at the end of the month, and more frequently if the need arises.</p>
<p>4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.</p>	<p>Yes</p>	<p>The members of the management board shall be provided in advance with the information of the meeting convened, the agenda of the meeting, and any material related to the issues to be discussed at the meeting. Each member of the governing body shall have access to the materials of the meeting before the date of the meeting. As a general rule, the published agenda of a meeting shall not be changed, unless otherwise decided at a meeting where all the members of the management board of the Company are present, and the material submitted for the meeting shall be sufficient for the additional issue to reach a decision on the issue that is not announced in the agenda.</p>

<p>4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.</p>	<p>Not applicable</p>	<p>The recommendations of paragraph 4.4. cannot be applicable in the Company as no supervisory board is formed.</p>
<p><b>Principle 5: Nomination, remuneration and audit committees</b></p> <p><b>5.1. Purpose and formation of committees</b></p> <p><b>The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.</b></p> <p><b>Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.</b></p>		
<p>5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees<sup>5</sup>.</p>	<p>Yes</p>	<p>AB Vilkyškių pieninė has 2 committees: Nomination and Remuneration Committee and Audit Committee.</p> <p>Nomination and Remuneration Committee is formed by the management board.</p> <p>The members of the Audit Committee and the Regulations of the Committee is approved by the general meeting of shareholders on the recommendation of the management board.</p>
<p>5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.</p>	<p>Yes</p>	<p>AB Modest, AB Kelmės pieninė, AB Pieno logistika, and UAB Kelmės pienas have no committees.</p> <p>The functions of the Nomination and Remuneration Committee shall be carried out by a formed single Nomination and Remuneration Committee.</p>



<p>5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Not applicable</p>	
<p>5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.</p>	<p>Yes</p>	<p>Each committee of AB Vilkyškių pieninė is composed of 3 members.</p> <p>All members of the Audit Committee have financial education, and 2 of them are independent members.</p> <p>All members of the Nomination and Remuneration Committee shall have managerial experience and one of them shall be an independent member.</p>
<p>5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.</p>	<p>Yes</p>	<p>The activities of the Nomination and Remuneration Committee of AB Vilkyškių pieninė are regulated by the Regulations approved by the management board.</p> <p>Regulations of the Audit Committee of AB Vilkyškių pieninė are approved by the general meeting of shareholders.</p> <p>Both committees regularly inform the collegial body about their activities and results.</p> <p>Information on Committee activities and attendance of Committee meetings is presented in the consolidated annual report of 2020.</p>
<p>5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts</p>	<p>Yes</p>	<p>The members of the collegial body, who are not members of the Committee, shall participate in the meetings of the committees, if necessary, at the invitation of the respective Committee. If necessary, the Committee may invite relevant Company personnel, responsible for the matters discussed in the Committee, to attend the meeting. The chairman of the committee is</p>

<p>would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.</p>		<p>also provided with the possibility to communicate with the shareholders as necessary.</p>
<p><b>5.2. Nomination committee</b></p>		
<p>5.2.1. The key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;</li> <li>2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought;</li> <li>3) devote the attention necessary to ensure succession planning.</li> </ol>	<p>Yes</p>	<p>The functions of the Nomination Committee specified in this recommendation are essentially performed by the Nomination and Remuneration Committee of AB Vilkyškių pieninė.</p>
<p>5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.</p>	<p>Yes</p>	
<p><b>5.3. Remuneration committee</b></p>		
<p>The main functions of the remuneration committee should be as follows:</p> <ol style="list-style-type: none"> <li>1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration,</li> </ol>	<p>Yes</p>	<p>The functions of the Remuneration Committee specified in this recommendation are essentially performed by the Nomination and Remuneration Committee of AB Vilkyškių pieninė.</p> <p>The Nomination and Remuneration Committee submits proposals to the collegial body on the remuneration policy, reviews it regularly, and monitors its implementation.</p>

<p>performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.</p>		
<p><b>5.4. Audit committee</b></p>		
<p>5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee<sup>6</sup>.</p>	<p>Yes</p>	<p>The functions of the Audit Committee are defined in the Regulations of the Audit Committee approved by the General Meeting of Shareholders.</p>
<p>5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.</p>	<p>Yes</p>	<p>The members of the Committee shall be provided with all the detailed information necessary for the performance of its functions.</p>
<p>5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.</p>	<p>Yes</p>	<p>After the members of the Audit Committee decide who must attend the meeting of the Committee, these persons shall be invited, ensuring that the members of the managerial bodies would not be present at the same meeting.</p>

<p>5.4.4. The audit committee should be informed about the internal auditor’s work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.</p>	<p>Yes</p>	<p>Internal and external auditors shall regularly present their activity plans and reports to the Audit Committee.</p>
<p>5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.</p>	<p>Yes</p>	<p>The Audit Committee shall have the opportunity to periodically verify whether employees have the possibility to lodge a complaint or report anonymously any suspected violations by the Company. Complaints are submitted to the Company's HR Department, which must ensure the anonymity of the complaint.</p>
<p>5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.</p>	<p>Yes</p>	<p>Reports of the Audit Committee are presented at management board meetings twice a year.</p>

**Principle 6: Prevention and disclosure of conflicts of interest**

**The corporate governance framework should encourage members of the company’s supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**

The Corporate Governance Framework should recognize the rights of the stakeholders as established by law and promote active cooperation between the company and its stakeholders in the creation of the well-being, jobs, and financial stability of the Company. Within the context of this principle, the term “stakeholders” includes investors, employees, creditors, suppliers, customers, the local community, and other persons with interests in a particular company.

<p>Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.</p>	<p>Yes</p>	<p>Management board members avoid situations where their personal interests may be in conflict with the company's interests.</p>
<p><b>Principle 7: Remuneration policy of the company</b></p> <p><b>The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.</b></p>		
<p>7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.</p>	<p>Yes</p>	<p>The remuneration policy approved by the management board is published in the consolidated annual report of the Company of 2020 and available on the Company's website.</p>
<p>7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.</p>	<p>Yes</p>	
<p>7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.</p>	<p>Yes</p>	<p>The approved Remuneration Policy does not provide for the possibility to receive remuneration depending on the Company's performance.</p>

<p>7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.</p>	<p>Yes</p>	<p>The Company adheres to the requirements of applicable laws (provisions of the Labor Code of the Republic of Lithuania) regarding termination payments.</p>
<p>7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.</p>	<p>Not applicable</p>	<p>The Company has no system of employee incentivisation or remuneration with Company shares.</p>
<p>7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.</p>	<p>Yes</p>	<p>The implementation of the Remuneration Policy is disclosed in the Remuneration Report, which is published on the Company's website.</p>
<p>7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting</p>	<p>Yes</p>	<p>In the event of a material change in the remuneration policy, such change shall be included in the agenda of the general meeting of shareholders.</p> <p>The Company does not employ schemes under which the remuneration is provided in shares or share options, or other rights to</p>

of shareholders.		purchase shares or receive remuneration based on the changes in the share price.
<p><b>Principle 8: Role of stakeholders in corporate governance</b></p> <p><b>The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.</b></p>		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	All stakeholders are provided with the possibility to participate in corporate governance and access to the necessary information.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company’s authorized capital, involvement of creditors in corporate governance in the cases of the company’s insolvency, etc.	Yes	All stakeholders are provided with the possibility to participate in corporate governance in the manner prescribed by law
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The stakeholders involved in the corporate governance process shall be granted access to the necessary information, without prejudice to the interests of the Company and other related parties.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	The Company provides the possibility to confidentially report any illegal or unethical practices to the collegial body performing the supervisory function.
<p><b>Principle 9: Disclosure of information</b></p> <p><b>The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.</b></p>		

<p>9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:</p>	<p>Yes</p>	
<p>9.1.1. operating and financial results of the company;</p>	<p>Yes</p>	<p>On a quarterly basis, the Company reports its operating and financial results on the Company's website and through the information disclosure system used by Nasdaq Vilnius.</p>
<p>9.1.2. objectives and non-financial information of the company;</p>	<p>Yes</p>	<p>Information on the Company's activities, objectives and corporate governance is disclosed through press releases and notifications on material events, as well as on the Company's website, and the information disclosure system used by Nasdaq Vilnius.</p>
<p>9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;</p>	<p>Yes</p>	<p>Information is provided on the Company's website and in its interim and annual reports.</p>
<p>9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;</p>	<p>Yes</p>	<p>Information is provided on the Company's website and in its interim and annual reports.</p>
<p>9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;</p>	<p>Yes</p>	<p>Information on the composition of committees and the number of meetings is provided in the annual reports.</p>
<p>9.1.6. potential key risk factors, the company's risk management and supervision policy;</p>	<p>Yes</p>	<p>The information is provided in interim and annual reports</p>
<p>9.1.7. the company's transactions with related parties;</p>	<p>Yes</p>	<p>Information is provided on the Company's website and in its interim and annual reports.</p>
<p>9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors,</p>	<p>Yes</p>	<p>The information is provided in interim and annual reports.</p>



suppliers, local community, etc.);		
9.1.9. structure and strategy of corporate governance;	Yes	Information is provided on the Company's website and in its interim and annual reports.
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.  This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	Yes	Information is provided in interim and annual reports, notifications on material events, on the Company's website, and in the Company's social report.
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, the company which is a parent company in respect of other companies discloses information about the consolidated results of the whole group of companies in the interim and annual reports.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The Company discloses in its consolidated annual report information on the amount of annual remuneration and other income paid to the Company's key management and members of the managerial bodies, as well as education, qualifications and participation in the activities and capital of other companies.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	AB Vilkyškių pieninė submits information via the information disclosure system used by Nasdaq Vilnius in Lithuanian and English at the same time, thus ensuring simultaneous disclosure of information to everyone. The Company seeks to publish the information before or after the Nasdaq Vilnius trading

		session and simultaneously submit it to all markets where the Company's securities are traded, and also makes it publicly available on the website.
<b>Principle 10: Selection of the company's audit firm</b> <b>The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.</b>		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	The Company adheres to this recommendation because the Company's annual consolidated financial information is audited by an independent audit firm.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	The management board of the Company (manager in AB Pieno logistika of the Company Group) submits the candidacy of the audit company to the meeting of shareholders. The Audit Company shall be approved by the general meeting of shareholders of the Company.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	In 2020, the audit company did not provide non-audit services to the Company.  Should the audit company provide non-audit services, then the Company would inform about it publicly.