Pieno žvaigždės AB

Financial statements for the
year ended
31 December 2019

Content

Company Details	1
Management's Statement on the Financial Statements	2
Independent Auditor's Report	3
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements	36
Confirmation of the Management	60
Annual management report for the year 2019	61

Company Details

Pieno žvaigždės AB

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

Board

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

Management

Aleksandr Smagin, CEO

Auditor

Ernst & Young Baltic UAB

Banks

SEB AB
Swedbank AB
Luminor bank AS Lithuanian branch
Perlo paslaugos UAB
AS SEB Banka

Management's Statement on the Financial Statements

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

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

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

Vilnius, 31 March 2020

Management:

Aleksandr Smagin
CEO

Audrius Statulevičius
Finance Director

Ramutė Plaušinienė
Chief Accountant

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Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Pieno Žvaigždės

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of AB Pieno Žvaigždės, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), which comprise the statement of financial position as of 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Inventory net realizable value and allowance for obsolescence	
Inventory balance of the Company amounts to EUR 11,608 thousand before impairment allowance and to EUR 11,388 thousand after impairment allowance as of 31 December 2019 (Note 11). This matter is significant to our audit since it is a material balance for the Company comprising 15% of the Company's total assets and requires management judgment in assessing whether the carrying value of inventories is not higher than their net realizable value at year-end. There is also significant management judgment required in determining the inventory obsolescence allowance, as it is based on the management's assessment of historical and forecast of inventory sales, physical obsolescence rates and other relevant factors. Changes to these assumptions could results in a material change in the carrying value of inventory.	We, among other audit procedures, have gained an understanding of how management evaluates net realizable value of inventory and calculates allowance for obsolescence. We have assessed the calculations of inventory net realizable value performed by the management based on review of subsequent sales after the year-end. We have tested the ageing of the inventories by obtaining primary documents supporting the date of acquisition for raw materials and the date of manufacturing for the finished goods on a sample basis. We also analyzed rates applied in calculation of allowance and compared the inventory obsolescence allowance to the Company's historic figures. Finally, we have considered the adequacy of disclosures in the financial statements in this area (Note 11).
Useful lives of property, plant and equipment	
As of 31 December 2019, the carrying amount of property, plant and equipment is EUR 43,839 thousand, depreciation expenses for the year 2019 are EUR 5,565 thousand. The management assessment and changes made during 2019 in determination of useful lives of property, plant and equipment involves significant judgment, which includes considerations related to various market and technological factors (Note "Critical accounting estimates" and Note 8). This is significant to our audit since the property, plant and equipment comprises 59% of the Company's total assets as of 31 December 2019 and the related depreciation charge comprises 3% from total expenses for the year then ended, and it required significant management judgment.	We, among other audit procedures, obtained the understanding of the management procedure for review and estimation of the useful lives of property, plant and equipment. We have performed evaluation of the accuracy of the management estimates by analyzing historical information on fully depreciated assets and their use in the Company's operations as at 31 December 2019. We have discussed the key assumptions applied by the management and reviewed the Company's plans to use, dispose, write-off or acquire significant items of property, plant and equipment. We evaluated the change in useful lives estimate for selected items by obtaining the explanations related to the changes made from the management and the authorized technical personnel. We have tested whether depreciation is properly calculated based on the new rates applied for those items, whose useful life was adjusted. We have also reviewed the adequacy of the Company's disclosures regarding useful lives of property, plant and equipment included in Note "Critical accounting estimates" and Note 8.

Building a better working world

Impairment of property, plant and equipment

As of 31 December 2019, the carrying amount of property, plant and equipment is EUR 43,839 thousand. The net profit margin of Company for the last three consecutive years was varying from negative -1% to positive 2.4%. The Company's profitability is affected by continuing trade restrictions imposed by Russia, fierce competition in the local market and volatile production prices. The above-mentioned circumstances indicate that certain Company's assets may be impaired. Determining the recoverable amount is a process, which requires significant management judgments and estimates in respect to projected future cash flows, discount rates and level of main production costs. These projections are exposed to significant variability due to uncertain market conditions as it is disclosed in Note "Critical accounting estimates" and in Note 8. This matter is important to our audit due to significance of the amount involved and high degree of related management estimation.

We obtained an understanding of the management's process in relation to the impairment assessment of the property, plant and equipment. We, among other audit procedures, have involved EY valuation specialist to assist us to review the Company's management assumptions and estimates used to determine the recoverable amount of property, plant and equipment. We have also considered the Company's management judgments regarding identification of cash generating units and allocation of assets to cash generating units based on our understanding of the Company's operations and by comparing accounting data with data used in impairment calculation model. We also tested arithmetical accuracy of the Company's discounted cash flows model, we compared revenue and costs forecast to historical performance levels and growth rates and assessed the applied discount rate. Moreover, we have tested the Company's analysis of the sensitivity of the impairment test results, in respect of the assumptions with the greatest potential effect on the test results. We have also reviewed the adequacy of the Company's disclosures regarding impairment of property, plant and equipment included in Note "Critical accounting estimates" and Note 8.

Other matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 15 April 2019.

Other information

Other information consists of the information included in the Company's 2019 Annual Report, including Corporate Governance Report and Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

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

We also have to evaluate, if the financial information included in the Company's Annual Report, including Corporate Governance Report, corresponds to the financial statements for the same financial year and if the Company's Annual Report, including Corporate Governance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's Annual Report, including Corporate Governance Report, corresponds to the financial information included in the financial statements for the same year; and
- The Company's Annual Report, including Corporate Governance Report, was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor
In accordance with the decision made by ordinary shareholders meeting on 26 April 2019 we have been chosen to carry out the audit of the Company’s financial statements. Our appointment to carry out the audit of the Company’s financial statements in accordance with the decision made by ordinary shareholders meeting is for two years. The audit of the financial statements for the year ended 31 December 2019 was our first annual audit of the Company.

Consistency with the audit report submitted to the audit committee
We confirm that our opinion in the section ‘Opinion’ is consistent with the additional Audit report which we have submitted to the Company and the Audit Committee.

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

Throughout our audit engagement period, we have not provided any other services except for the audit and translation services of the financial statements.

The partner in charge of the audit resulting in this independent auditor’s report is Asta Štreimikienė.

UAB ERNST & YOUNG BALTIC
Audit company’s licence No. 001335

Asta Štreimikienė
Auditor’s licence
No. 000382

31 March 2020

Statement of Comprehensive Income

thousand EUR	Note	2019	2018
Revenue from contracts with customers	1	170,596	168,662
Cost of sales	3	(137,205)	(138,862)
Gross profit		**33,391**	**29,800**
Other operating income	2	683	620
Other operating expenses	2	(58)	(97)
Selling and distribution expenses	3	(16,751)	(16,667)
Administrative expenses	3	(12,450)	(11,043)
(Impairment)/reversal of impairment of receivables	22	(117)	(120)
Operating profit (loss)		**4,698**	**2,493**
Finance income	4	148	91
Finance costs	5	(1,100)	(1,092)
Profit (loss) before tax		**3,746**	**1,492**
Income tax expense	6	364	706
Profit (loss) for the year		**4,110**	**2,198**
Total comprehensive income for the year		**4,110**	**2,198**
Basic earnings per share (EUR)	7	0.09	0.05
Diluted earnings per share (EUR)	7	0.09	0.05

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

thousand EUR	Note	31/12/2019	31/12/2018
Assets			
Property, plant and equipment	8	43,839	42,098
Intangible assets	9	120	136
Right-of-use assets	17	3,383	-
Other financial asset	10	22	22
Non-current receivables	12	38	683
Deferred tax	19	1,511	1,147
Total non-current assets		**48,913**	**44,086**
Inventories	11	11,388	13,423
Trade receivables	12	9,051	10,090
Prepayments	12	543	629
Other receivables	12	516	447
Cash and cash equivalents	13	3,599	4,795
Total current assets		**25,097**	**29,384**
Total assets		**74,010**	**73,470**
Shareholders' equity			
Share capital		13,089	13,089
Share premium		7,891	7,891
Reserves		1,570	2,200
Retained earnings (loss)		6,337	2,950
Total equity	14	**28,887**	**26,130**
Liabilities			
Grants	15	1,004	1,129
Interest-bearing loans and borrowings	16	18,620	13,500
Employee benefits	18	818	883
Lease liabilities	17	2,224	-
Total non-current liabilities		**22,666**	**15,512**
Derivative financial instruments	21	99	180
Interest-bearing loans and borrowings	16	3,920	13,037
Trade and other payables	20	17,312	18,611
Lease liabilities	17	1,126	-
Total current liabilities		**22,457**	**31,828**
Total liabilities		**45,123**	**47,340**
Total equity and liabilities		**74,010**	**73,470**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Statement of Changes in Equity

thousand EUR	Note	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total equity
1 January 2018		**13,089**	**7,891**	**1,570**	**630**	**752**	**23,932**
Net profit as at 31 December 2018		-	-	-	-	2,198	2,198
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	2,198	2,198
Transfer to/from reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
31 December 2018		**13,089**	**7,891**	**1,570**	**630**	**2,950**	**26,130**
Net profit for 2019		-	-	-	-	4,110	4,110
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	4,110	4,110
Transfer to/from reserves	14	-	-	-	(630)	630	-
Dividends	14	-	-	-	-	(1,353)	(1,353)
31 December 2019		**13,089**	**7,891**	**1,570**	**-**	**6,337**	**28,887**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Statement of Cash Flows

for the year ended 31 December

thousand EUR	Note	2019	2018
Cash flows from operating activities			
Profit (loss) for the year		4,110	2,198
Adjustments to:			
Depreciation and amortisation	8, 9, 17	6,254	6,803
Amortisation of grants	15	(167)	(121)
Gain on disposal and write-down of property, plant and equipment		(131)	(118)
Costs of doubtful and written-off debts	12	117	152
Change in vacation reserve	20	185	187
Impairment and write down of inventories		9	(1,016)
Change in the fair value of derivative financial instruments	21	(82)	(28)
Interest income/expense, net	4,5	856	886
Income tax expense	6	(364)	(706)
		10,787	**8,237**
Change in inventories		2,026	3,671
Change in trade receivables		1,739	1,098
Change in trade payables		(1,473)	2,887
Cash flows from operating activities		**13,079**	**15,893**
Interest paid		(919)	(936)
Net cash flows from operating activities		**12,160**	**14,957**
Investing activities			
Purchase of property, plant and equipment	8	(7,662)	(5,170)
Purchase of intangible assets	9	(53)	(102)
Proceeds from sale of property, plant and equipment		210	134
Interest income		63	50
Net cash flow used in investing activities		**(7,442)**	**(5,088)**
Financing activities			
Loans received		31,500	3,922
Repayment of borrowings		(35,460)	(9,892)
Payment of finance lease liabilities principal amount	17	(651)	(14)
Grants received		42	657
Dividends paid		(1,345)	(3)
Net cash flows from financing activities		**(5,914)**	**(5,330)**
Change in cash and cash equivalents		(1,196)	4,539
Cash and cash equivalents as at January 1	13	4,795	256
Cash and cash equivalents as at January 31	13	**3,599**	**4,795**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

General

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

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

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

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

The average number of employees in 2019 was 1,672 (in 2018: 1,654 employees).

Significant Accounting Policies

Statement of Compliance

The financial statements of Pieno Žvaigždės AB have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Except for the impact of the new standards and their amendments as well as new interpretations on the financial statements, the Company has consistently applied the accounting policy, set out in the financial statements, to all periods presented in these financial statements.

The Board of the Company approved these financial statements on 31 March 2020. The shareholders have a statutory right to approve these financial statements or not to approve them and require preparation of new financial statements.

Basis of preparation

The financial statements are presented in the euro being the functional currency of the Company, and are prepared on the historical cost basis, except for financial assets and financial liabilities, the fair value changes of which are recognised through profit or loss or comprehensive income.

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

In 2019, the Company signed a long-term credit agreement with SEB Bankas AB and Swedbank AB. This agreement was signed to refinance a long-term syndicated loan granted earlier by SEB Bank and Luminor Bank. The term of the new credit is five years with annual instalments of EUR 3.92 million. Securing long-term bank funding allows the Company for better managing of cash flows and planning of long-term investments (Note 16).

Notes to the Financial Statements

Significant Accounting Policies (continued)

Basis of preparation (continued)

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

The preparation of financial statements in conformity with IFRSs, as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical information and factors that reflect the present circumstances. On the basis of these assumptions and estimates, a conclusion is made about the values of assets and liabilities that cannot be determined from other sources. Actual results may differ from these estimates.

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

Judgements and estimates made by management in the application of IFRSs as adopted by the EU that have the most significant effect on the financial statements are discussed on paragraph „Critical accounting estimates and judgements".

Foreign currency transactions

Foreign currency transactions are translated to the euro at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the euro at the foreign exchange rate ruling at the date of the statement of financial position. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the euro at the rate of exchange at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the euro at the rate of exchange as at the date when the fair value was determined.

Property, plant and equipment

Owned assets

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

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

Borrowing costs that are directly attributable to the acquisition, construction or production of an item of property, plant and equipment where substantial period of time is necessary to get ready the asset for its intended use, are capitalised as part of cost of the asset. In 2019 and 2018 no borrowing costs were capitalised as part of cost of asset.

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

Notes to the Financial Statements
Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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

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

Subsequent costs

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

Depreciation charge

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

- buildings 20–40 years;
- machinery and equipment 5–25 years;
- vehicles and other non-current asset 4–20 years.

Intangible assets

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

The Company does not have internally generated goodwill and trademarks.

Subsequent costs

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are recognised in profit or loss as an expense as incurred.

Amortisation charge

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

Notes to the Financial Statements

Significant Accounting Policies (continued)

Financial instruments

Financial assets. The financial assets of the Company include cash, trade and other receivable amounts.

Trade receivables are recognised initially when they occur. At the time of initial recognition, all other financial assets are recognised when the Company becomes a party to the contractual terms of the instrument.

Financial assets (other than trade receivables without significant financing component), if not measured at fair value with the change in fair value carried in profit or loss in the statement of comprehensive income, are initially measured at fair value plus transaction costs directly attributable to acquisition or disposal. Trade receivables without significant financing component are initially recognised at transaction price.

Classification of financial assets. Financial assets are divided into three groups, depending on the method of their measurement:

- financial assets subsequently measured at amortised cost;
- financial assets subsequently measured at fair value through other comprehensive income (with recycling of cumulative gains and losses upon derecognition (debt instruments) and with no recycling of cumulative gains and losses upon derecognition (equity instruments));
- financial assets subsequently measured at fair through profit or loss.

The classification of financial assets depends on the financial asset management business model (assessing how the entity manages the financial assets to generate cash flows) and the characteristics of the contractual cash flows of the financial asset (whether the contractual cash flows only include principal and interest payments).

The Company has no financial assets measured at fair value in subsequent periods, the fair value changes carried under other comprehensive incomeFinancial assets measured at fair value in subsequent periods, the fair value changes carried in profit or loss include derivatives (Note 21).

A financial asset is stated at amortised cost if the following two conditions are met:

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

Financial assets that do not include cash flows that meet only the payment requirement of the principal part and the interest are measured at fair value with the change in the fair value carried in profit or loss in the statement of comprehensive income.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets measured at amortised cost in subsequent periods are measured using the effective interest rate method. Amortised cost is reduced due to impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised through profit or loss. Any gain or loss arising from derecognition is carried through profit or loss.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or (where appropriate) over a shorter period.

Financial assets measured at fair value with any fair value changes carried in profit or loss in the statement of comprehensive income are initially recognised at fair value. Subsequently, gains and losses from the change in fair value, including all interest and dividends, are recognised in profit or loss in the statement of comprehensive income.

Recognition, classification and measurement of financial liabilities

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. Subsequent to initial recognition, loans are stated at amortised cost using the EIR method and the difference between the proceeds received and the amount payable over the loan period is recognised in the statement of comprehensive income for the period, except for capitalised borrowing costs, which are described below.

Borrowing costs which are directly attributable to acquisition of assets that require time to prepare for an intended use or sale, construction or production, are capitalised in the cost of a respective asset. All other borrowing costs are expensed in the period they occur. Borrowings are classified as non-current if the completion of a refinancing agreement before the reporting date provides evidence that the substance of the liability at the reporting date was non-current.

Trade liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Such liabilities are carried at amortised cost using the effective interest rate method. Gain and losses are recognised in the statement of comprehensive income when trade payables are derecognised or amortised.

Derecognition of financial assets. A financial asset (or, where applicable 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.
- When the Company retains the right to cash flows but undertakes an obligation to settle the total amount to a third party as to transfer agreement within a short period of time.
- The Company transfers its rights to receive cash flows from the asset and (or):

(a) transfers substantially all the risks and rewards of the asset,

(b) neither transfers nor retains substantially all the risks and rewards of the asset, but transfers control of the asset.

When the Company transfers its rights to receive cash flows from an asset but does not transfer either risk or rewards of ownership related to the financial asset or control over the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Financial instruments (continued)

The Company reduces the gross carrying amount of the financial asset if it cannot reasonably expect to recover all or part of the financial asset. Writing down is an event of derecognition.

Derecognition of financial liabilities. A financial liability is derecognised by the Company when the obligation under the liability is discharged or cancelled, or expired. The Company also ceases recognition of a financial liability when its terms are changed and the cash flows of the amended liability are materially different. In this case, the new financial liability is recognised at fair value in accordance with the amended contractual terms.

In the event of derecognition of a financial liability, the difference between the carrying amount written off and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognised in profit or loss in the statement of profit or loss and other comprehensive income.

Offsetting of financial assets and liabilities. Financial assets and financial liabilities are offset when, and only when, the Company has a legally enforceable right to record the amounts and intends to make an offsetting, or dispose the asset to offset the liability.

Derivative financial instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposure. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit or loss as the Company's hedging insruments do not qualify for hedge accounting.

Measurement of fair value of financial instruments

The fair value of financial instruments traded in active financial markets is determined by reference to quoted market prices. Bid prices are used for financial assets and ask prices are used for financial liabilities. The Company uses other methods to establish fair value for all other financial instruments.

If the Company measures an asset or a liability initially at fair value and the transaction price differs from fair value, the difference is recognised in profit or loss unless that IFRS specifies otherwise. Assets and liabilities that are measured at fair value in the statement of financial position or are not valued at fair value, but information about them is disclosed, are categorized by the Company into a three-level fair value hierarchy based on the availability of the inputs.

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs. This category includes instruments measured at the quoted prices of similar instruments in active markets, the quoted prices of identical or similar instruments in less active markets or other valuation techniques, for which all significant inputs are either directly or indirectly observable from market data.
- Level 3: unobservable inputs. This category includes all instruments measured using unobservable inputs which have significant effect on the valuation of instruments. Instruments in this category are measured on the basis of quoted prices of similar instruments; to reflect the differences between instruments, unobservable adjustments or assumptions are necessary.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Financial instruments (continued)

Measurement of fair value of financial instruments (continued)

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

The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the market interest rates for items with similar terms and risk characteristics. Where the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the notes to the financial statements.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The costs of inventories are calculated using the FIFO method. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities.

Cash and cash equivalents

Cash includes cash on hand and cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Such investments mature in less than three months and are subject to insignificant risk of change in value.

In the statement of cash flows, cash and cash equivalents comprise cash on hand, cash at banks and deposits with the original maturity of less than 3 months.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Impairment

Impairment of financial assets

Based on IFRS 9 impairment is calculated for financial assets measured at amortised cost or fair value through other comprehensive income (excluding equity investments and contract assets). The impairment model is based on the estimated expected loss.

The Company applies the following models for determining impairment losses:

- general model (basic),
- the simplified model.

The general model is applied by the Company for financial assets measured at amortised cost, except for trade receivables and assets measured at fair value through other comprehensive income.

In the general model, the Company monitors changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages for determining impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Depending on the classification to individual stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the lifetime horizon of the instrument (stage 2 and stage 3).

On each last day of the reporting period, the Company analyses the features on the basis of which financial assets are classified into separate stages for impairment losses. The features may include changes in the borrower’s creditworthiness, serious financial problems for the borrower, significant adverse economic, legal, or market changes in the borrower’s environment.

For the purpose of estimating the expected credit loss (ECL), the Company applies default probability levels, implied from market quotes of credit derivatives, for entities with a given rating and from a given sector.

The Company includes forward looking estimates in the parameters of the expected loss estimation model by calculating the probability of insolvency parameters based on current market quotes.

The simplified model is applied by the Company for trade receivables.

Using the simplified model, the Company does not monitor changes in the credit risk level over the life of the instrument and estimates the expected credit loss by the end of the expected life of the instrument.

For the purpose of estimating the expected credit loss, the Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment (such as macro-economic factors of the market, employment rate, changes in consumer price index etc.).

The Company includes forward looking estimates in the parameters used in the expected loss estimation model through the management adjustment of the basic insolvency probability parameters.

In order to calculate the expected credit losses, the Company determines the probability parameters of the receivables default, calculated based on the historical analysis of the number of unpaid accounts, and the default probability parameters calculated on the basis of the historical value analysis of outstanding accounts. The expected credit loss is calculated when the receivable is recognised in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days past due.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Impairment (continued)

Impairment of non-financial assets

The carrying amounts of the Company's assets other than inventories and deferred income tax asset are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the Company makes estimate of the recoverable amount of such asset.

For intangible assets not yet ready for use, the recoverable amount is measured at each statement of financial position date.

For impairment testing, assets are grouped together into the smallest group of assets (as practically possible) that generates cash inflows. The Company has four cash generating units (CGU). The recoverable amount of an assets or CGU is greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are included in profit or loss.

Reversals of impairment on non-financial assets

An impairment loss on non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised, net of depreciation or amortisation.

Dividends

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

The withholding tax related to the payment of dividends is recognised when the obligation to pay such dividends arises.

Provisions

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

Notes to the Financial Statements
Significant Accounting Policies (continued)

Employee benefits

Short-term employee benefits are recognised as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. All pension obligations are borne by the State.

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

Under the remuneration plans employees are entitled to jubilee bonuses as well as retirement benefits. Each employee of retirement age who terminates his/her employment with the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries according to the laws of the Republic of Lithuania. The jubilee bonuses are paid to employees who have reached 50 and 60 years old.

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

The Company recognises the liability in the statement of financial position under the caption "Non-current liabilities" and reflects the current value of the benefits at the date of the statement of financial position.

Revenue from contracts with customers

Revenue of the Company is recognised in accordance to IFRS 15. The Company recognises revenue at the time and to the extent that the transfer of goods or services to customers would reflect an amount that the Company expects to receive in exchange for those goods or services. In applying this Standard, the Company takes into account the terms of the contract and all relevant facts and circumstances. Revenue in the Company is recognised using the 5-step model:

Step 1. Identification of the contract with the customer.

A contract is an agreement between two and/or more parties (subject to the terms of the purchase/sale) which creates the rights to be enforced and the obligations to be enforced
(not applicable, if the joint venture agreement is signed). A contract subject to IFRS 15 is recognised only if the following criteria are met:

- the parties have approved the contract (in writing, orally or in accordance with other usual business practices) and are bound by the obligations under the contract;
- there is a possibility to identify the rights of each party regarding the transferable goods and/or services;
- there is a possibility to identify the payment terms provided for the transferable goods and/or services;
- the contract is of a commercial character;
- there is a chance of getting a reward in return for the goods and/or services that will be passed on to the customer.

Contracts with the customer may be aggregated or disaggregated into several contracts, while retaining the criteria of the former contracts. Such aggregation or disaggregation is considered a change of contract.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Revenue from contracts with customers (continued)

Step 2. Identification of performance commitments in the contract.

The contract establishes a commitment to deliver goods and/or services to the customer. When goods and/or services can be distinguished, the commitments are recognised separately. Each commitment is identified in one of two ways:

- the product and/or service is separate, or
- a set of individual goods and/or services that are essentially the same and passed on to the customer in a uniform model.

Step 3. Determination of a transaction price.

The Company's transactions provide for fixed prices of the goods at the moment of the transfer of control. The Company takes into account the potential impact of non-monetary rewards and the impact of the consideration payable to the client (in the event of non-performance or partial performance of contractual obligations, the Company's consideration payable to customer for marketing services acquired from customer). It is probable that the potential impact of the non-monetary reward and the impact of the consideration payable to the client will not have influence (there have not been any material cases historically and none are expected arising from current year sales) on revenue recognition.

Step 4. Assigning a transaction price to performance obligations.

A performance obligation is a contractual undertaking to transfer a product or service that is segregated to the customer, or a set of segregated goods or services that are essentially the same and are transferred on to the customer according to the same model. The transaction price is allocated to each performance obligation based on the relative individual selling prices of the good or service promised in the contract. In cases when contract does not specify price of a product or service separately (for example, one price for two products), the Compnay determines the price. In assessing the transaction price, the Company assesses the discount or variable amount of consideration that relates only to a specific part of the contract. Similar transactions are measured equally.

Step 5. Recognition of revenue when performance obligations are fulfilled by the Company.

Revenue from sales is recognised as a representation of the delivery of goods or the rendering of services at the amount that correctly represents the performed obligation and the right to receive consideration in exchange for the goods and/or services. Revenue recognition depends on whether the liability is being settled over a certain period (continuous) or at a certain point in time. In any case, the transfer of control is taken into account. The Company recognises revenue from contracts with customers at the point in time.

The Company as well purchases marketing services from its customers. Based on agreements marketing related services acquired from customers (retailers) do not represent distinct services related to various advertising and marketing activities provided to the Company, and therefore all such marketing expenses incurred over the financial period are accounted as revenue reduction in the Company's statements of comprehensive income (Note 1).

Notes to the Financial Statements
Significant Accounting Policies (continued)

Grants

Asset-related government grants comprise grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are recognised in the statement of financial position when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants intended to compensate the Company for expenses incurred are recognised as other income in profit or loss in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recorded as a liability and subsequently recognised in profit or loss on a systematic basis over the expected useful life of the asset.

Expenses

Other operating income and expenses

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

Finance income and finance expenses

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

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

Corporate income tax for the period

Corporate income tax consists of current and deferred tax. Corporate income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The effective income tax rate applicable for companies of the Republic of Lithuania in 2019 was 15 % (15 % – in 2018).

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: differences arising at initial recognition of assets or liabilities that affect neither accounting, nor taxable profit. The amount of deferred tax depends on the expected future use of the asset and the settlement of future liabilities and substantially enacted tax rate expected to apply.

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

Notes to the Financial Statements

Significant Accounting Policies (continued)

Corporate income tax for the period (continued)

Starting from 1 January 2014 deductible tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments.

Such carrying forward is disrupted if the Company stops its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself.

The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

According to legislation on taxation in effect, the Tax Authorities may at any time during 3 succesive years after the end of the reporting tax year carry out a tax inspection of the Company and impose additional taxes or fines by reassesing taxes calculations. The Company's management believe that all the taxes are properly calculated and paid according to the prevailing tax laws and it is not aware of any circumstances that may give rise to a potential material liability in respect of taxes not paid.

Basic and diluted earnings per share

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

Segments

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

Notes to the Financial Statements
Significant Accounting Policies (continued)

Financial risk management

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

(a) Market risk

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

<u>Currency risk</u>

Major currency risks of the Company occur due to the fact that the Company is involved in imports and exports. The Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Company does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR.

<u>Interest rate risk</u>

The Company's borrowings are subject to variable interest rates, related to EURIBOR. The cash flow sensitivity analysis is presented in Note 22. The Company entered into interest rate swap agreement in order to hedge interest rate risk (Note 21).

The Company does not have any significant loans granted or receivable amounts with fixed interest rates presented at fair value.

(b) Credit risk

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

The Company has established procedures ensuring that sales are made to customers having a proper credit history without exceeding the limit of credit risk set by management. The concentration of credit risk is disclosed in Note 22 of the financial statements. The carrying amount of financial assets represents the maximum credit exposure (Note 22).

Notes to the Financial Statements
Significant Accounting Policies (continued)

Financial risk management (continued)

(c) Liquidity risk

A conservative management of liquidity risk enables the Company to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities. For analysis of liquidity risk please refer to Note 22.

Capital management

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

The Board also aims to keep balance between bigger return, which could be available if there was higher level of borrowed assets and security, which is provided by higher level of equity.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

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

Subsequent events

The events which occurred after the reporting period and provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. The post balance sheet events which are not adjusting events are disclosed in the explanatory notes when are material.

Right-of-use assets and lease liabilities

A. The Company is a lesee

<u>Policy applicable from 1 January 2019</u>

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Right-of-use assets and lease liabilities (continued)

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Buildings	5 years
• Vehicles and other equipment	1–5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in sub-section “Impairment of non-financial assets” of the section “Impairment”.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company’s lease liabilities are accounted for under the caption “Lease liabilities” (Note 17).

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (EUR 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Right-of-use assets and lease liabilities (continued)

<u>Policy applicable before 1 January 2019</u>

In the comparative period, the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. For the purpose of a finance lease, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Company's statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

B. The Company is a lessor

At inception of a contract, the Company, as a lessor, determines whether the lease is a finance lease or an operating lease. If the Company determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as revenue in the statement of profit or loss based on its lease nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent payments are recognised as revenue in the period in which they are earned.

The accounting policies applied by the Company as a lessor in the comparative period were similar to those in IFRS 16.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019:

- **IFRS 16: Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has made an assessment of the effect of the standard. The Company has adopted IFRS 16 using the modified retrospective approach of adoption with the date of initial application of 1 January 2019. Due to the chosen transition method by the Company in applying this standard, the comparative information in these financial statements has not been changed to reflect the requirements of the new standards.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases* – Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has lease contracts for various items of buildings, plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to paragraph "Right-of-use assets and lease liabilities" for the accounting policy applied before 1 January 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to paragraph "Right-of-use assets and lease liabilities " for the accounting policy applied after 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

<u>Leases previously classified as finance leases</u>
The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

<u>Leases previously classified as operating leases</u>
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were measured at an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, is recognised in the statement of financial position. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application, i.e. 1 January 2019.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

The Company also applied the available practical expedients wherein it:
- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied low value exemptions to leases with value less than EUR 5 thousand;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The effect (increase) of adopting IFRS 16 as at 1 January 2019 is, as follows:

	in thousand EUR
Assets	
Right-of-use assets	916
Total assets	**916**
Current liabilities	
Lease liabilities	90
Non-current liabilities	
Lease liabilities	826
Total liabilities	**916**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	in thousand EUR
Operating lease commitments as at 31 December 2018	1 300
Weighted average incremental borrowing rate as at 1 January 2019	2.5 %
Discounted operating lease commitments as at 1 January 2019	1 242
Less:	
Commitments relating to short-term and low value assets leases	326
Lease liabilities as at 1 January 2019	**916**

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be "negative compensation"), to be measured at amortized cost or at fair value through other comprehensive income. Management has made an assessment of the effect of the amendment and considers they have no significant impact on the financial statements.

Notes to the Financial Statements
Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. Management has made an assessment of the effect of the amendment and considers they have no significant impact on the financial statements.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has made an assessment of the effect of the interpretation and considers it have no significant impact on the financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has made an assessment of the effect of the amendment and considers they have no significant impact on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2015–2017 Cycle**, which is a collection of amendments to IFRSs. Management has made an assessment of the effect of the amendments and considers they have no significant impact on the financial statements.

  - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:**
    The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - **IAS 12 Income Taxes:**
    The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - **IAS 23 Borrowing Costs:**
    The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. This standard is not applicable to the Company.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management has not made an assessment of the effect of the amendments to the financial statements.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The management has not made an assessment of the effect of the amendments to the financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The management has not made an assessment of the effect of the amendments to the financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The management has not made an assessment of the effect of the amendments to the financial statements.

Notes to the Financial Statements

Significant Accounting Policies (continued)

Impact of the new standards and their amendments as well as new interpretations on the financial statements

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The management has not made an assessment of the effect of the amendments to the financial statements.

There are no other new or amended standards or their interpretations, which are not yet effective and which may have material impact on the Company.

Critical accounting estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis and based on historical experience and other factors that reflect the current situation and reasonable future events.

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

Impairment of property, plant and equipment

The Company at the end of each reporting period assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Recoverable amount is the higher of an asset’s or cash-generating unit's fair value less costs of disposal and its value in use (Note 8).

Impairment losses of amounts receivable

At the end of each reporting period, the management of the Company makes assumptions, on the basis of which decisions are made on the valuation of expected credit losses. The Company chose to use a provision matrix to determine the lifetime ECLs for trade receivables. The matrix is based on the Company’s historic, observed credit loss rates, which are then adjusted by forward-looking estimates that include the probability of a changing economic environment within the next year. At each reporting date the Company updates the observed default history and forward-looking estimates. The Company has identified that the loss rates are less than 0.4% from total receivables (during 2017-2019). Forward looking estimate is applied by accounting for additional allowance for the trade receivables that are yet not overdue based on historic loss rate (Note 22).

When calculating impairment for expected credit losses, the management discounts cash flows taking into account the risk of a default for each receivable. Management assumes that a default occurs when the amounts receivable outstanding for more than 90 days and loans granted are overdue for more than 180 days (Note 22).

Notes to the Financial Statements
Significant Accounting Policies (continued)

Critical accounting estimates and judgements (continued)

Write down of inventories to net realisable value

At least on a quarterly basis, the Company determines whether the carrying amount of its inventory does not exceed the net realisable value. In respect of obsolete or slow moving items this involves comparing the levels of inventory held to future utilisation and sales projections. In addition, all of the Company's product inventories are tested for potential decline of their expected selling prices below cost (Note 11).

Deferred tax assets

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

Non-current employee benefits

Recognition of provision for employee benefits requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the financial statements are disclosed in Note 18

Estimation of useful life of non-current assets

The useful life of the Company's non-current tangible asset is established individually for each asset, estimating the future economic benefit, planned period, heaviness and environment of use, the changes of the asset's useful features throughout the useful operation period, technological and economic progres, which may make the asset old-fashioned, as well as legal and other factors, limiting the useful life of non-current tangible assets.

In 2019, the Company has revised the useful lives of non-current tangible assets as according to IAS 16 "Property, plant and equipment" and adjusted useful lives for assets that are not fully depreciated as of 1 January 2019. Due to large volume of information, relevant changes were implemented in several stages and new useful lives of non-current tangible assets were set as of 1 January, 1 July, 1 November and as of 1 December, prospectively (Note 8).

Estimation of raw material cost allocation

The Company specializes in the production of dairy products, so the largest part of the production cost is the amount paid for the raw milk purchased. The main ingredients in raw milk are fat (cream) and protein (skim milk). Because of the variety of products with different fat and protein contents, management judgement is involved to identify what part of the raw milk price is attributed to fat and what is attributed to protein. The management of the Company determines the milk cost allocation ratios in a way that interrelated products margin remains similar.

Notes to the Financial Statements

1. Operating Segments

Basis for segmentation

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

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

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

Management of the Company reviews internal management reports of reportable segments at least on a quarterly basis. Other segments include production of ice-cream, other produce and goods, and services. None of these segments meet the quantitative thresholds (10% from total) for reportable segments in 2018 and 2019.

Information about reportable segments

Information on each reportable segment is presented below. The segment performance assessment is based on the segment's gross profit, since the management believes that this information is the most relevant for performance evaluation of respective segments. Segment information is prepared in accordance with the same accounting principles as used in the financial statements of the Company. Information related with total assets, total liabilities, interest income, interest expenses, pre-tax result, profit tax expenses, other non-cash items of the operating segements is not provided to the Board and General Manager. In management's opinion the allocation of these line items to the operating segments is not reasonable.

2019, in thousand EUR	Cheese	Dry dairy products	Fresh dairy products	**Total reportable segments**	All other segments	**In total**
Sales	33,535	5,964	118,614	**158,113**	12,483	**170,596**
Gross profit	4,030	(1,140)	27,602	**30,492**	2,899	**33,391**
Depreciation and amortisation	1,281	344	2,647	**4,272**	387	**4,659**
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	**-**	-	**-**
Impairment and write down of inventories	-	-	-	**-**	(9)	**(9)**
Acquisitions of property, plant and equipment	1,441	-	5,588	**7,029**	409	**7,438**

Notes to the Financial Statements

1. Operating Segments (continued)

2018, in thousand EUR	Cheese	Dry dairy products	Fresh dairy products	Total reportable segments	All other segments	In total
Sales	38,238	7,155	113,548	**158,941**	9,721	**168,662**
Gross profit	1,757	(2,340)	27,900	**27,317**	2,483	**29,800**
Depreciation and amortisation	(1,105)	(247)	(3,918)	**(5,270)**	(335)	**(5,605)**
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	**-**	-	**-**
Impairment and write down of inventories	-	951	25	**976**	40	**1016**
Acquisitions of property, plant and equipment	2,472	-	1,534	**4,006**	6	**4,012**

Geographic information

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

Revenue, in thousand EUR	**2019**	**2018**
Lithuania	97,466	92,769
Italy	13,946	17,592
Latvia	9,275	9,481
Germany	5,727	5,034
Great Britain	4,958	3,406
USA	2,243	2,791
Indonesia	4,965	4,216
Israel	5,037	3,530
Other countries	26,979	29,843
Revenue, total	**170,596**	**168,662**

Non-current assets, in thousand EUR	**2019**	**2018**
Lithuania	43,470	41,892
Poland	489	342
Total non-current assets	**43,959**	**42,234**

Major customers

The Company has one customer from whom the revenue related to segment of cheese and fresh dairy products in 2019 made 19.8% of the total revenue.

The Company has one customer from whom the revenue related to segment of cheese and fresh dairy products in 2018 made 18% of the total revenue.

Revenue recognition during the year ended 31 December:

thousand EUR	**2019**	**2018**
Recognised at a point of time	172,532	170,234
Marketing costs reducing the sales	(1,936)	(1,572)
Recognised over a period of time	-	-
	170,596	**168,662**

Notes to the Financial Statements

2. Other Activity

Other operating income:

thousand EUR	2019	2018
Income from rent and other services/goods	549	499
Net gain on disposal of property, plant and equipment	134	121
Other	-	-
	683	**620**

Other operating expenses:

thousand EUR	2019	2018
Expenses related to rent and other services/goods	(58)	(97)
Net loss from disposal of property, plant and equipment	-	-
	(58)	**(97)**

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

Cost of sales:

thousand EUR	2019	2018
Raw materials and consumables	(104 145)	(106 416)
Other expenses	(17 349)	(17 792)
Personnel costs	(13 856)	(12 234)
Depreciation and amortisation	(4 659)	(5 605)
Changes in finished goods and work in progress	2 804	3 185
	(137,205)	**(138,862)**

Selling and distribution, administrative expenses

thousand EUR	2019	2018
Personnel costs	(12 989)	(12 044)
Production delivery costs	(2 148)	(2 107)
Various services	(1 768)	(1 264)
Fuel	(1 738)	(1 774)
Marketing and advertising	(1 518)	(1 301)
Consumables and spare parts	(1 167)	(1 159)
Depreciation and amortisation	(975)	(1 198)
Utilities	(857)	(794)
Right-of-use assets depreciation **	(620)	-
Security services	(568)	(556)
Sponsorship	(567)	(509)
Repair	(567)	(526)
Insurance	(556)	(698)
Development of new products	(476)	(746)
Taxes (other than income tax)	(415)	(476)
Short-term operating lease expenses (cars and equipment)*	(320)	(868)
Communication expenses	(153)	(149)
Low-value assets rental expenses*	(69)	(767)
Transport	(23)	(54)
Revaluation and write down of inventories	(9)	1 016
Bad debts write-off	-	(32)
Other expenses	(1 698)	(1 704)
	(29 201)	**(27 710)**
Selling and distribution expenses	(16 751)	(16 667)
Administrative expenses	(12 450)	(11 043)
	(29 201)	**(27 710)**

*****Operating lease expenses out of IFRS 16 scope (short-term and/or low value)

** Right-of-use assets depreciation accounted under selling expenses as those are mostly related with goods transportation to clients

Notes to the Financial Statements

4. Finance Income

thousand EUR	2019	2018
Interest	63	50
Foreign exchange gain	3	13
Change in fair value of interest rate swap (gain)	82	28
Total finance income	**148**	**91**

5. Finance Costs

thousand EUR	2019	2018
Interest expenses on loans	(867)	(936)
Other*	(233)	(156)
Total finance costs	**(1,100)**	**(1,092)**

*****including other interest expenses, factoring account fees, interest on late payments, fines.

6. Income Tax Expense

thousand EUR	2019	2018
Change in deferred income tax	364	706
Total corporate income tax (expense)/income	**364**	**706**

Reconciliation of effective tax rate

thousand EUR	2019		2018	
Result before tax		**3 746**		**1 492**
Income tax using the prevailing tax rate	15%	(562)	15%	(224)
Expenses not deductible for tax purposes	5%	(173)	7.7%	(115)
Non-taxable income	(0,3%)	12	(0,3%)	4
Tax incentive (support, investments)	(29%)	1,087	(13,6%)	203
Current year tax losses for which no deferred tax asset was recognised	-	-	(56,2%)	838
	(9,7%)	**364**	**(47,4%)**	**706**

7. Earnings per Share

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

	2019	2018
No of shares in issue calculated using weighted average method, units '000	45,134	45,134
Net result for the year, in thousand EUR	4,110	2,198
Earnings per share (EUR)	0.09	0.05
Diluted earnings per share (EUR)	0.09	0.05

Notes to the Financial Statements

8. Property, Plant and Equipment

	Land and buildings	Machinery and equipment	Other assets	Construction-in-progress	In total
Cost of sales					
Balance as at 1 January 2018	39,328	97,276	22,030	1,359	159,993
Additions	-	1,692	213	2,107	4,012
Disposals and write-offs	(45)	(1,499)	(2,110)	-	(3,654)
Reclassifications	-	345	(345)	-	-
Transferred from construction in progress	1,347	1,994	3	(3,344)	-
Balance as at 31 December 2018	**40,630**	**99,808**	**19,791**	**122**	**160,351**
Balance as at 1 January 2019					
Additions	-	5,179	389	1,817	7,385
Disposals and write-offs	(122)	(3,278)	(1,848)	-	(5,248)
Reclassifications	-	(617)	617	-	-
Transferred from construction in progress	45	966	114	(1,125)	-
Balance as at 31 December 2019	**40,553**	**102,058**	**19,063**	**8,14**	**162,488**
Depreciation and impairment					
Balance as at 1 January 2018	21,317	76,222	17,615	-	115,154
Depreciation charge for the year	1,251	4,256	1,230	-	6,737
Depreciation of disposals	(38)	(1,498)	(2,102)	-	(3,637)
Balance as at 31 December 2018	**22,530**	**78,980**	**16,743**	**-**	**118,253**
Balance as at 1 January 2019					
Depreciation charge for the year	1,002	3,609	954	-	5,565
Depreciation of disposals	(105)	(3,276)	(1,788)	-	(5,169)
Balance as at 31 December 2019	**23,427**	**79,313**	**15,909**	**-**	**118,649**
Carrying amounts					
1 January 2018	18,011	21,054	4,415	1,359	44,839
31 December 2018	**18,100**	**20,828**	**3,048**	**122**	**42,098**
1 January 2019	18,100	20,828	3,048	122	42,098
31 December 2019	**17,126**	**22,745**	**3,154**	**814**	**43,839**

Pledges of property, plant and equipment

Property, plant and equipment with a carrying amount of 28,481 thousand EUR as at 31 December 2019 (in 2018: 22,509 thousand EUR) have been pledged to secure the bank loans (Note 16).

Depreciation charge

Depreciation is included in the following items:

thousand EUR	2019	2018
Cost of sales	4,659	5,605
Selling, distribution and administrative expenses	906	1,132
	5,565	**6,737**

Notes to the Financial Statements

8. Property, Plant and Equipment (continued)

As a result of changes in estimate, depreciation costs of the Company for 2019 have decreased by approximately EUR 900 thousand in comparison to useful lives valid in year 2018. In 2020 the additional effect of depreciation on these changes is expected to be approximately EUR 800 thousand less compared to 2019.

Acquisition cost of fully depreciated property, plant and equipment still in use amounts to EUR 39,902 thousand as at 31 December 2019 (in 2018: EUR 60,085 thousand).

Impairment of property, plant and equipment

The Company performed an impairment assessment for assets related to dry dairy products and cheese operating segments as at 31 December 2019 as historically dry dairy products and cheese segments has negative or low gross profit level. The testing did not reveal any impairment of the mentioned assets.

The recoverable amount of the assets (EUR 17,522 thousand as at 31 December 2019 and EUR 16,835 as at 31 December 2018) was based on their value in use, determined by discounting the forecasted future cash flows to be generated from continuing use of the assets. The recoverable amount of the assets was determined to be higher than their carrying amount.

The key assumptions used in the estimation of value in use were as follows: 2020-2024 annual revenue growth (pre-tax) 3.5% per year (4.6% - 2018), the discount rate (pre-tax) – 10% (8% - 2018), terminal growth rate (pre-tax) – 2% (1% - 2018). The budgeted cash flows was based on expectations of future outcomes taking into account historical results, adjusted for anticipated revenue and margin growth.

As at 31 December 2019 the management assessed impact of individual change of certain key assumptions on the amount of recoverable value. An increase of discount rate (pre-tax) from 10% to 11% would result in the asset’s value in use to be lower than the carrying amount by EUR 216 thousand. A decrease in annual revenue growth from (pre-tax) 3.5% to 2% would result in the asset’s value in use to be lower than the carrying amount by EUR 624 thousand. As at 31 December 2018 change in main assumptions did not result in the asset’s value in use to be lower than the carrying amount.

Notes to the Financial Statements

9. Intangible assets

thousand EUR	Computer software, etc.	In total
Cost of sales		
Balance as at 1 January 2018	1,228	1,228
Additions	101	101
Write-offs	-	-
Balance as at 31 December 2018	**1,329**	**1,329**
Balance as at 1 January 2019	1,329	1,329
Additions	53	53
Write-offs	(46)	(46)
Balance as at 31 December 2019	**1,336**	**1,336**
Amortisation and impairment		
Balance as at 1 January 2018	1,127	1,127
Charge for the year	66	66
Amortisation of written-off assets	-	-
Balance as at 31 December 2018	**1,193**	**1,193**
Balance as at 1 January 2019	1,193	1,193
Charge for the year	69	69
Amortisation of written-off assets	(46)	(46)
Balance as at 31 December 2019	**1,216**	**1,216**
Carrying amounts		
1 January 2018	101	101
31 December 2018	**136**	**136**
1 January 2019	136	**136**
31 December 2019	**120**	**120**

Amortisation is included in the administrative expenses.

As at 31 December 2019, the acquisition cost of fully amortized intangible assets still in use amounts to EUR 1,039 thousand (31 December 2018: EUR 1,029 thousand).

Notes to the Financial Statements

10. Other financial asset

thousand EUR	2019	2018
Investments	22	22
	22	**22**

The major part of investments as at 31 December 2019 and 2018 represents an investment in Žaliasis Taškas VŠĮ. It carrying value approximates it fair value as of 31 December 2019 and 2018. As well the Company is a sole participant of basketball club SSK VŠĮ, however, its results are not significant to these financial statetements.

11. Inventories

thousand EUR	31/12/2019	31/12/2018
Raw materials	5,306	4,707
Work-in-progress	2,191	3,960
Finished goods	3,851	4,747
Goods for re-sale	40	9
	11,388	**13,423**

The impairment of inventories as at 31 December 2019 amounts to 220 thousand EUR (as at 31 December 2018: EUR 446 thousand). In addition, the Company wrote down the inventory items no longer used by an amount of EUR 235 thousand in 2019 (2018 – EUR 435 thousand). The acquisition cost of Company’s inventories accounted at net realizable value as at 31 December 2019 amounted to EUR 1,087 thousand (31 December 2018 – EUR 2,070 thousand). The impairment and write down of the inventories is related to inventories no longer used and the decrease in their value to net realisable value.

Changes in the allowance for impairment of inventories (EUR thousand):

	2019	2018
Balance at beginning of year	**446**	**1,897**
Additional allowance made	9	-
Reversals of allowance made	-	(1,016)
Write-off	(235)	(435)
Balance at end of year	**220**	**446**

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

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

thousand EUR	2019	2018
Cost of sales (manufactured goods sold)	(137,205)	(138,862)
Sales, distribution and administrative expenses (consumption of inventories)	(2,905)	(2,933)
Other operating expenses (sold raw materials, spare parts)	(24)	(33)
	(140,134)	**(141,828)**

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

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

Inventories with the carrying amount of up to EUR 11,388 thousand as at 31 December 2019 (in 2018: EUR 13,423 thousand) have been pledged to secure the bank loans (Note 16).

The Company had a part of inventories with the carrying amount of EUR 467 thousand (31 December 2018 – EUR 382 thousand) held in third party warehouses.

Notes to the Financial Statements

12. Trade Receivables and Other Current Assets

thousand EUR	2019	2018
Trade receivables	8,648	10,037
Allowance for accounts receivable	(237)	(120)
	8,411	**9,917**

For trade receivables ageing see Note 22. The Company's management uses factoring services for collecting trade receivables. As factoring is without recourse on the financial statements trade receivables are disclosed net-off factored amount.

Prepayments and other current assets

Receivable VAT	118	43
Prepayments	543	629
Deferred expenses	398	404
Other receivables	-	129
Loans	678	727
	1,737	**1,932**
	10,148	**11,849**
Less: non-current part	(38)	(683)
	10,110	**11,166**

Specification of prepayments can be presented as follows:

thousand EUR	2019	2018
Advance payments for delivery of milk	242	460
Other prepayments	301	169
	543	**629**
Less: non-current part	-	-
	543	**629**

According to agreements with raw milk suppliers, prepayments for delivered milk shall be covered during the period of up to 1 year. A fixed rate interest, varying from 5% to 8%, is calculated on the outstanding prepayment balance.

Specification of loans may be presented as follows:

thousand EUR	2019	2018
Loans to management	600	600
Loans to employees	-	17
Loans to companies	78	110
	678	727
Less: non-current part	(38)	(683)
Short-term loans to management and employees	**640**	**44**

On 31 December 2017, the Company grated a loan of EUR 600 thousand to a member of the Company's management. The repayment deadline, as prescribed in the agreement, is 1 July 2020. Interest charged comprise 1 month EURIBOR plus fixed margin.

Notes to the Financial Statements

13. Cash and Cash Equivalents

thousand EUR	2019	2018
Cash at bank	3,438	4,645
Cash on hand	161	150
	3,599	**4,795**

As at 31 December 2019, part of cash at bank, comprising EUR 3,116 thousand is pledged to secure the bank loans (at 31 December 2018: EUR 4,242 thousand). The Company has no restrictions on used of pledged cash, therefore, it is disclosed as cash and cash equivalents on these financial statements.

14. Equity

As at 31 December 2019 and 2018, the issued capital comprised 45,134,419 ordinary registered shares at par value of 0.29 EUR each. All the shares are fully paid. There were no changes in issued capital during 2019 and 2018.

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

Legal reserve

Under Lithuanian legislation, an annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can be used only to cover the accumulated losses. As at 31 December 2019, the legal reserve was fully formed and amounted to EUR 1,570 thousand.

Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to be used should be restored to retained earnings and redistributed. Other reserves as at 31 December 2018 amounted to EUR 630 thousand. Part of other reserves as at 31 December 2018, amounting to EUR 350 thousand has been allocated for support, charity and bonuses, and the remaining EUR 280 thousand for remuneration to Board members. In 2019 these reserves were restored to retained earnings and as at 31 December 2019 no other reserves were accounted for.

There was no dividend payment in 2018. Dividends per share paid in 2019 were 0.03 EUR.

Dividends per share

	2019	2018
No of shares in issue calculated using weighted average method, units '000	45,134	45,134
Dividends per share (EUR)	0,03	-
Dividends	1 354	-

Notes to the Financial Statements

15. Grants

thousand EUR	2019	2018
Grants as at 1 January	3,009	2,352
Increase during the period	42	657
Written-off	(1,196)	-
Grants as at 31 December	**1,855**	**3,009**
Amortisation as at 1 January	1,880	1,759
Charge for the year	167	121
Written-off	(1,196)	-
Amortisation as at 31 December	**851**	**1,880**
Carrying amount at 1 January	1,129	593
Carrying amount at 31 December	**1,004**	**1,129**

Amortisation of the asset-related grants is calculated over the depreciation period of the related non-current assets and is carried in the statement of comprehensive income to reduce the depreciation charge. Amortisation of grants is stated under cost of sales in the statement of comprehensive income.

16. Loans and Borrowings

As at 31 December 2019, Company's loans and borrowings are as follows (in thousand EUR):

Creditor	Ref.	Maturity date	Currency	31/12/2019	31/12/2018
AB SEB bank, Luminor bank AS	(a)	January 2022	EUR	-	9,750
AB SEB bank, Luminor bank AS	(b)	January 2022	EUR	-	9,750
Luminor lizingas UAB	(c)	July 2019	EUR	-	37
AB SEB bank, Luminor bank AS	(d)	April 2019	EUR	-	3,500
AB SEB bank, Luminor bank AS	(e)	April 2019	EUR	-	3,500
AB SEB bank, Swedbank AB	(f)	July 2024	EUR	11,270	-
AB SEB bank, Swedbank AB	(g)	July 2024	EUR	11,270	-
AB SEB bank	(h)	July 2021	EUR	-	-
AB Swedbank	(i)	July 2020	EUR	-	-
Luminor bank AS	(j)	July 2020	EUR	-	-
Total liabilities				**22,540**	**26,537**
Less: current portion				(3,920)	(13,037)
Total non-current portion				**18,620**	**13,500**

1. The loan agreements referred to in headings (a), (b), (c), (d), (e) is expired as at 31 December 2019;
2. (f, g) Syndicated loan (AB SEB bankas and AB Swedbank) is signed in 2019. By This agreement syndicated loan (AB SEB bankas and AB Luminor bankas) was fully refinanced. Used loan balance as at 31 December 2019 is 22,540 thousand EUR.

Notes to the Financial Statements
16. Loans and Borrowings (continued)

3. (h) Credit Limit in Bank Account (AB SEB Bank). As at 31 December 2019 limit was not used.
4. (i) Credit Limit in Bank Account (AB Swedbank). As at 31 December 2019 limit was not used.
5. (j) Credit Limit in Bank Account (Luminor Bank AS). As at 31 December 2019 limit was not used.

Reconciliation of movement in interest bearing loans and borrowings

thousand EUR	**2019**	**2018**
Balance as at 1 January	26,500	32,521
Loans received	31,500	3,922
Repayment of borrowings	(35,460)	(9,892)
Loan interest	753	848
Loan interest paid	(753)	(848)
Lease payments	-	(14)
Balance as at 31 December	**22,540**	**26,537**

All loans and borrowings as at 31 December 2019 are denominated in EUR. All loans bear variable interest rates that are calculated as EURIBOR plus fixed margin. Interest rates are restated every 3 or 6 months depending on the loan contract, and for this reason the carrying amounts of the mentioned loans are assumed to approximate their fair values.

The bank loans are secured by pledging property, plant and equipment (Note 8), inventories (Note 11), part of current and future cash flows in bank accounts (Note 13) and the right of rent of commercial land.

All interest calculated during 2019 and 2018 is recognised in profit or loss of a respective year.

Covenants of Loan agreement

The Company made a higher investment into property, plant and equipment than stipulated in the loan agreement with the banks, however, the Company obtained the clarification from the relevant banks that this is not considerred as a major agreement breach as of 31 December 2019. Therefore, no adjustment to reclassify the loan balance from non-current to current was done which would have been required in the case of major breach.

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

%	**2019**	**2018**
Non-current borrowings	2.5%	2.45%

Loan repayment schedules

The contractual repayment of loans is as follows:

thousand EUR	**2019**	**2018**
Within one year	3,920	13,037
From one to five years	18,620	13,500
Over five years	-	-
Present value of liabilities	**22 540**	**26,537**

As at 31 December 2019, the Company was in compliance with the prescribed loan covenants.

Notes to the Financial Statements

17. Right-of-Use Assets and Lease Liabilities

The Company has lease contracts for various assets (buildings and vehicles) used in its operations. The Company's liabilities under its leases are secured by the lessor's title to the leased assets. The Company also has certain leases with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Buildings	**Vehicles**	**In total**
	in thousand EUR	**in thousand EUR**	**in thousand EUR**
1 January 2019	76	840	916
Additions	692	2 395	3 087
Depreciation expense	(145)	(475)	(620)
31 December 2019	**623**	**2,760**	**3,383**

Set out below are the carrying amounts of lease liabilities (included under the caption "Loan liabilities") and the movements during the period:

	2019
	in thousand EUR
1 January 2019	**916**
Additions	3,085
Interest	40
Payments	(691)
31 December 2019	**3,350**
Current	2,224
Non-current	1,126

Notes to the Financial Statements

17. Right-of-Use Assets and Lease Liabilities (continued)

The maturity analysis of lease liabilities is disclosed below:

	2019
Minimum payments	
Within one year	1,193
Two to five years	2,304
After five years	-
In total	**3,497**
Future finance costs	
Within one year	(66)
Two to five years	(81)
After five years	-
In total	**(147)**
Carrying amount	**3,350**

The following are the amounts recognized in profit or loss:

	2019 in thousand EUR
Depreciation expense of right-of-use assets	620
Interest expense on lease liabilities	40
Expenses relating to short-term leases (included in cost of sales)	186
Expenses relating to leases of low-value assets (included in administrative expenses)	389
Total amount recognized in profit or loss	**1,235**

Notes to the Financial Statements

18. Employee Benefits

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

thousand EUR	**Net defined benefit liability**
	2019
Balance as at 1 January	
Retirement benefit	484
Jubilee bonus provision	55
Severance payments	344
Total non-current employee benefits as at 1 January	**883**
Changes during the year:	
Recognised in profit or loss:	
Used provision	(80)
Increase (decrease) in provision during the period	15
Amounts recognised in other comprehensive income	-
Balance as at 31 December	**818**
Retirement benefit	427
Jubilee bonus provision	52
Severance payments	339
Total non-current employee benefits as at December 31	**818**

Main assumptions used for the calculation of benefit obligation were: discount rate 0.71%; infliation of 3.00%; employees turnover of 25%.

Sensitivity to the discount rate, inflation rate and employee turnover rate change:

	2019	**2018**
Discount rate +0,5%	(4)	(3)
Discount rate -0,5%	4	3
Inflation +0,5%	4	3
Inflation -0,5%	(4)	(3)
Employees turnover rate +5%	(46)	(36)
Employees turnover rate -5%	68	53

Notes to the Financial Statements

19. Deferred Tax Assets and Liabilities

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

thousand EUR	Assets		Liabilities		Net value	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	-	-	17	19	17	19
Write down of inventories	(33)	(67)	-	-	(33)	(67)
Non-utilized investment incentive	(1,322)	(900)	-	-	(1,322)	(900)
Tax loss	-	(44)	-	-	-	(44)
Accrued costs	(173)	(155)	-	-	(173)	(155)
Tax (asset)/liability	**(1,528)**	**(1,166)**	**17**	**19**	**(1,511)**	**(1,147)**

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

thousand EUR	2019 01 01	Stated in profit or loss	Stated in equity	31/12/2019
Property, plant and equipment	19	(2)	-	17
Write down of inventories	(67)	34	-	(33)
Accrued tax losses	(44)	44	-	-
Non-utilized investment incentive and losses	(900)	(422)	-	(1,322)
Accrued costs	(155)	(18)	-	(173)
Tax (asset)/liability	**(1,147)**	**(364)**	**-**	**(1,511)**

thousand EUR	2018 01 01	Stated in profit or loss	Stated in equity	31/12/2018
Property, plant and equipment	20	(1)	-	19
Write down of inventories	(285)	218	-	(67)
Accrued tax losses	-	(44)	-	(44)
Non-utilized investment incentive and losses	-	(900)	-	(900)
Accrued costs	(176)	21	-	(155)
Tax (asset)/liability	**(441)**	**(706)**	**-**	**(1,147)**

According to the Lithuanian law requirements investment incentive are applicable for the limited period (until 2023), thus due to the fact that based on the Company's management's assessment it was not expected to generate sufficient amount of profit during the 2019–2023 period, deferred tax assets relating to part of investments incentive (EUR 2,080 thousand, tax effect – EUR 312 thousand) has not been recognised as of 31 December 2018. In 2019 sufficient amount of profit was generated and investment incentive part, which in prior periods was not included to deferred tax asset recognition, was fully utilized. As of 31 December 2019 based on the Company's management assessment, it is expected to generate sufficient amount of profit during 2020-2023, therefore, there is no unrecognised deferred tax asset.

Notes to the Financial Statements

20. Trade and Other Payables

thousand EUR	2019	2018
Financial Instruments		
Payable to suppliers	12,111	13,687
Other payables	314	326
	12,425	14,013
Non-financial instruments		
Advances received	1,000	1,063
Vacation reserve	2,023	1,838
Payable taxes and social security	899	874
Wages and salaries payable	965	823
	4,887	4,598
	17,312	**18,611**
Less: non-current part	-	-
	17,312	**18,611**

21. Derivative Financial Instruments

In 2015, the Company entered into an interest rate swap agreement with DNB bank, by which it partly hedges from interest rate fluctuations. Notional amount for interest rate swap amounts to EUR 15,000 thousand. The maturity date of the contract is 29 October 2020. The fair value of the interest rate swap (negative from the point of view of the Company) as at 31 December 2019 amounts to EUR 99 thousand (2018 – EUR 181 thousand). The fair value was determined based on the discounted cash flow method. Payments of fixed interest were estimated by multiplying the fixed interest rate by notional amount. Payments of variable interest were estimated by multiplying the interest rate of 3 months EURIBOR for a certain period by notional amount. Net cash payments were discounted using the discounting factors derived from the published market data.

Change in the fair value of derivative financial instrument during 2019 is a gain amounting to EUR 82 thousand (2018 – a gain of EUR 28 thousand) and is recognised in the profit or loss under the caption "Finance income" (2018 – under the caption "Finance income").

22. Financial Instruments

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

Credit risk

The Company has established a credit policy and credit risk is being monitored on a continuous basis. As at reporting date, the Company had four clients the receivables from which accounted for 51% of the total trade receivables balance. Usual payment terms of trade receivables are from 1 to 60 days. For one-off sales the Company requires a prepayment. There were two clients in the Company from which outstanding trade receivables were higher than 10% calculated from total trade receivables before trade receivables allowance as at 31 December 2019 and 2018. The composition of trade receivables of such clients is stated in the table below.

	2019	2018
Customer No. 1	30%	25%
Customer No. 2	13%	15%

From 1 January 2018, the lifetime expected credit losses for trade and other receivables are estimated in accordance with IFRS 9.

Notes to the Financial Statements
22. Financial Instruments (continued)

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

thousand EUR	Carrying amount	
	2019	**2018**
Long-term trade receivables	38	683
Short term receivables (Note 12).	9,051	10,090
Cash and cash equivalents	3,599	4,795
	12,688	**15,568**

The maximum credit risk related to amounts receivable (both short-term and long-term) at the reporting date could be distributed per geographic zones in the following way:

thousand EUR	Carrying amount	
	2019	**2018**
Lithuania	1,393	2 592
European Union countries	6,197	6,452
Russia	353	160
Other countries	1,146	1,569
	9,089	**10,773**

Impairment losses

The following impairment losses of financial assets were recognised in profit or loss:

Impairment losses of financial assets	**2019**	**2018**
Impairment of trade receivables	117	120
Impairment of other investments	-	-
In total	**117**	**120**

The Company applies a simplified method to calculate the expected maturity credit losses over the period of validity and use a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix trade receivables and other receivables are categorised into separate groups according to common credit risk characteristics. The amounts for each group are analysed by the number of days past due. As trade and other receivables usually do not include deposit or other collaterals the ratio of expected losses coincides with the probability of default.

Notes to the Financial Statements

22. Financial Instruments (continued)

Credit risk (continued)

The Company's exposure to credit risk is mainly determined by individual characteristics of each customer. However, the management considers also the factors that may affect the credit risk base of the customers, including the default risk related to the customer's country of operation and etc.

Information about expected credit losses of trade receivables as at 31 December 2019 is presented in the table below:

thousand EUR	**Average loss amount**	**31/12/2019**	**Impairment recognised**	**Total**
Not past due	0.18%	5,409	(10)	5,802
Overdue 0–30 days	0.17%	2,367	(4)	2,363
Overdue 30-60 days	0.61%	325	(2)	323
Overdue 61-90 days	2.19%	45	(1)	44
More than 90 days	43.84%	502	(220)	282
		8,648	**(237)**	**8,411**

thousand EUR	**Average loss amount**	**31/12/2018**	**Impairment recognised**	**Total**
Not past due	0.03%	7,044	(2)	7,042
Overdue 0–30 days	0.4%	2,048	(8)	2,040
Overdue 30-60 days	0.6%	391	(2)	389
Overdue 61-90 days	14.2%	101	(14)	87
More than 90 days	20.8%	454	(94)	360
		10,037	**(120)**	**9,917**

Although the economic circumstances may have an impact on the recoverability of trade and other receivable amounts, as to the management, the Company is not exposed to material risk to incur losses which would exceed the impairment that has already been recognised.

Majority of granted loans are issued to the member of management of the Company. A suretyship agreement is signed between the Company, a member of management and a third party, based on which the third party (Surety) has a liability to redeem all possible losses in case of default Therefore, according to the management, the credit risk related to the granted loans is minimal as loss given default is not significant.

Cash and cash equivalents include cash at bank. The banks are belonging to international financial groups with high credit ratings assigned by international credit-rating agencies, therefore, the related credit risk is minimal. See credit rating agency S&P ratings below:

Bank	**Short-term funding**	**Long-term funding**
SEB	A-1	A+
Luminor	A-1+	AA-
Swedbank	A-1+	AA-

Notes to the Financial Statements
22. Financial Instruments (continued)

Foreign exchange risk

Major currency risks of the Company occur due to the fact that the Company is involved in imports and exports. The Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Company does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR.

As at 31 December 2019 and 2018, there are no significant monetary assets and liabilities denominated in other currencies than EUR.

Liquidity risk

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

31 December 2019

thousand EUR	**Carrying amount**	**Net cash flow**	**6 months or less**	**6–12 months**	**2–5 years**
Financial liabilities					
Loans	22,540	24,093	2,231	2,208	19,654
Lease liabilities	3,350	3,497	682	511	2,304
Derivative financial instruments	99	101	60	41	-
Trade and other payables (Note 20)	12,425	12,425	12,425	-	-
	38,414	**40,116**	**15,398**	**2,760**	**21,958**

31 December 2018

thousand EUR	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6–12 months**	**2–5 years**
Financial liabilities					
Loans and borrowings	26,537	27,357	10,308	3,185	13,864
Derivative financial instruments	180	196	53	54	89
Trade and other payables (Note 20)	14,013	14,013	14,013	-	-
	40,730	**41,566**	**24,374**	**3,239**	**13,953**

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

	2019	**2018**
Loans and other financial liabilities	1.8 – 2.9 %	2.22–2.45%

The Company's policy is to have sufficient liquidity to meet current operating settlements including repayment of financial liabilities (see "Significant Accounting Policies", "Basis of preparation"). The Company also has a credit facility agreement (Note 16) to provide additional liquidity when needed.

Notes to the Financial Statements
22. Financial Instruments (continued)

Interest rate risk

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

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

thousand EUR	Carrying amount	
	2019	**2018**
Financial instruments bearing fixed interest rate		
Part of loan related to interest rate swap	15,000	15,000
	15,000	**15,000**

thousand EUR	Carrying amount	
	2019	**2018**
Financial instruments bearing variable interest rate		
Financial lease		
SEB bankas AB, Luminor bank AS (long-term loan)	-	19,500
SEB bankas AB, Swedbank AS (long-term loan)	22,540	-
SEB bankas AB, Luminor bank AS (credit line)	-	7,000
Part of loan related to interest rate swap	(15,000)	(15,000)
	7,540	**11,500**

According to the agreements, the interest rate is calculated as EURIBOR for a certain period plus margin determined by creditor.

Cash flow sensitivity analysis for variable interest rate instruments

A change of 100 basis points in interest rates on the reporting date would increase (decrease) profit or loss by amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. An analysis for 2019 is made on the same basis. Sensitivy effect on equity equals to effect on proft (loss) less tax effect.

Effect in thousand EUR	Profit (loss) for the year	
	100 bp increase	**100 bp decrease**
31 December 2019		
Financial instruments on which variable interest rate was applied	(75)	75
31 December 2018		
Financial instruments on which variable interest rate was applied	(115)	115

In 2015, the Company entered into an interest rate swap agreement with bank, by which it partly hedges from interest rate fluctuations (Note 21).

Notes to the Financial Statements
22. Financial Instruments (continued)

Fair value of financial instruments

This IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2019 and 2018, the Company's financial instruments, measured at fair value, comprised interest rate swap transactions with banks. The fair value was calculated using material variables observable in the market or calculated based on market data. The recognized value does not reflect any difference between the supply and demand prices and does not reflect particular client or its creditworthiness. According to the fair value hierarchy, the instrument is classified under Level 2 fair value.

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

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

23. Purchase Commitments

As at 31 December 2018 and as at 31 December 2019, the Company did not have any material purchase commitments.

24. Related Parties

Transactions with related parties can be presented as follows:

thousand EUR	2019			2018		
	Support, sales and interest income	**Purchases**	**Loans receivable**	**Support, sales and interest income**	**Purchases**	**Loans receivable**
SSK VŠĮ (1)	454	-	-	455	-	-
Bobketa UAB (2)	-	3	-	-	2	-
Management (3)	16	-	600	16	-	600
	470	**3**	**600**	**471**	**2**	**600**

Notes to the Financial Statements

24. Related Parties (continued)

(1) Pieno Žvaigždės AB is the sole participant of the basketball club SSK VŠĮ to which the Company's support is provided. During the year 2019, the Company granted EUR 454 thousand of support (in 2018: EUR 455 thousand).

(2) Bobketa UAB is a related company through a board member of AB Pieno Žvaigždės. Bobketa UAB provides car rental services.

(3) On 31 December 2017, the Company granted a loan of EUR 600 thousand to a member of the management. A suretyship agreement is signed between the Company, a member of management and a third party, based on which the third party (Surety) has a liability to redeem all possible losses in case of default (refer to Note 12). Interest income are presented in the table above. Interest rate 2.7% + 1 month EURIBOR.

Remuneration to management is included under the sales, distribution and administrative expenses category "Personnel costs" (refer to Note 3):

thousand EUR	**2019**	**2018**
Remuneration to Board members and management (including payroll taxes)	952	669
Remuneration to Board members for work in the Board (including payroll taxes)	319	67

Remuneration to management Board members comprises calculated salaries and social security payable by the Company.

In the event of the labour contract termination with the members of the Management (regardless of the termination reason), the Company shall be liable to pay an employee a compensation of up to 12 average monthly salaries. The Company recognized provision for this compensation (Note 18).

The Company's Board consists of seven members. The management consists of: the general director and finance director.

The Audit Committee consists of three members. Remuneration for work in the Audit Committee in 2018 was EUR 3 thousand (including payroll taxes). Remuneration for work in the Audit Committee in 2019 was EUR 8 thousand (including payroll taxes).

25. Contingencies

The Company has no contingent liabilities as at 31 December 2019. The tax administrator has not performed a full-scope tax investigation of the Company for the period from 2017 until 2019. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of three years preceding the accounting tax period, as well as calculate additional taxes and penalties. The Management of the Company is not aware of any circumstances which would cause calculation of additional tax liabilities.

Notes to the Financial Statements

26. Subsequent Events

At the time of preparation of the financial statements, the Republic of Lithuania (as in many countries of the world) was quarantined due to the threat of the spread of coronavirus (COVID-19). The quarantine announced did not directly affect the activities of the Company. The Company continues to process raw milk and produce and sell various dairy products. However, if this uncertain situation develops further, the Company may face threats that could affect both decrease in sales and decrease in profitability. The main risks we see in the future are the possible decline in export sales, the challenges of international logistics (as many EU countries introduce internal border controls) and the possible decline in production if part of the Companies employees become temporarily unable to work due to the virus. At the time of reporting, all of these risks did not adversely affect the operations of the Company, but we are not yet in a position to assess any potential adverse effects in the future.

No other subsequent events have occurred after the end of the financial year, which could have material influence on or require disclosure in these financial statements as at and for the year ended 31 December 2019.

Vilnius, 2020
AB „Pieno žvaigždės“ Confirmation of the Management

Financial statements and the Annual Report for the year 2019

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

General Director / Aleksandr Smagin

Finance Director / Audrius Statulevičius

Annual management report for the year 2019

(The present Report has been prepared for the financial year 2019)

GENERAL INFORMATION ABOUT THE ISSUER

Key Data on the Issuer

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

Type of the Issuer's main activities

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

Agreements with intermediaries of public trading in securities

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

Securities admitted to the trading lists of the stock exchanges

Ordinary shares of Pieno Žvaigždės, AB were admitted to the official trading list of Nasdaq Baltic Stock Exchange.
Type of shares – ordinary registered shares;
Number of shares – 45,134,419;
Total nominal value – 13,088,981.51 euros;
VP ISIN code – LT0000111676.

As at 31 December 2019, Pieno Žvaigždės, AB did not acquire any own shares.

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

Pieno Žvaigždės, AB was established on 23 December 1998 after merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later, AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into Pieno Žvaigždės, AB. The current structure of the Company enables to specialize production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country.
Pieno Žvaigždės, AB is one of the largest milk processing companies in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to the countries of the European Union, CIS, and Asia. Different types of ferment cheese, whey flour and fresh milk products produced by Pieno Žvaigždės, AB are the main products produced for export which are well known for their irreproachable quality. The products are awarded with quality certificates.

The main activity of the Issuer is processing of milk. The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results.
The main raw material used by the Issuer is milk, the supply of which, due to short validity period, is conditionally limited. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the Issuer.
The Issuer's business (especially collection and transportation of milk) is a labor consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer.
Information on financial risks is presented in the annual financial statements (note 22 of the explanatory information).
Pieno Žvaigždės, AB has integrated the quality and environment management system as to the requirements of ISO 9001:2008 and ISO 14001:2004. As of March 2012 the Company is implementing the food safety management system as to ISO 22000:2005, which will be integrated into the existing management system. In December 2013, the affiliate Pasvalio Sūrinė received the certificate confirming the implementation of food safety management system complying with requirement of FSSC 22000. Other three affiliates of Pieno Žvaigždės, AB have finalized the implementation of the food management system and received certificate according to the requirements of FSSC 22000 at the beginning of the year 2015. Assurance of the quality of dairy products, especially of their safety, i.e. harmlessness to consumers, is one of the major tasks of the Company. The functioning food safety system allows to monitor risk factors and important control points that are related to milk production processes, transportation, and consumption and improves the quality control. The Company has prepared, implemented and operate the programs which provide for conditions, measures and behavior rules to prevent biological, chemical, allergic and physical contamination and ensure high quality and safety of the dairy products.
During the years 1998–2002 the State Food and Veterinarian Office assigned the affiliates of Pieno Žvaigždės, AB with certificates for export to EU, which allow exporting dairy products bearing identification marks to the EU countries. Furthermore, all the branches of the Company are approved for export to Russia and Belarus.
Primary certification of the quality management system in the Company's affiliates was performed in 2002. The granted certificates proved that the establishment, documentation and maintenance of the quality management system complied with the ISO 9001 standard. The certification audit in the affiliates and issuance of the certificates was performed by an international certification firm TUV CERT. During 2005–2006, the environment management system complying with the requirements of ISO 14001 standards was integrated into the quality management system, and in February 2007 Pieno Žvaigždės, AB received the certificate confirming the integrated quality and environment management system complying with the requirements of ISO 9001 and ISO 14001 standards operates in the Company. Every year, the certifying firm performs supervision audits of the Company, and every 3 years the recertification takes place. Pieno Žvaigždės, AB aims to continuous improvement and better efficiency of its operations and processes, thus, for the purpose of more efficient use of external audit results for company improvement, in 2013, Pieno Žvaigždės, AB changed the certification firm. As of 2013, external audit of management systems is performed by certifying firm DNV.
In order to further improve the quality control, in September 2016, the branch Pasvalio Sūrinė and in September 2017, the branch Mažeikių Pieninė were certified as to the IFS Food Standard requirements. This International Food Standard (IFS) was introduced by the retail trade association IFS Food of Germany, France and Italy to meet the requirements of private retailers in Germany, France, Italy, the Benelux and other countries. A company that complies with the IFS requirements ensures that it can manage the risks throughout all the stages of food production process, can produce a safe and high-quality product. The greatest attention is paid to the products that must meet the expectations of the ultimate customer and, most importantly, the consumer.

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

The Company's affiliates Kauno Pienas and Panevėžio Pienas are certified for production of ecological products (ecological yogurts, ecological sour cream, ecological curd and cottage cheese). After each annual review, a public company Ekoagros issues a new certificate on the Company's compliance with the requirements. Production of ecological dairy products requires adhering to strict requirements set not only for production processes but also for their compound parts. The certified ecological products are marked with the following additional information: certification mark of ecological products, code of the certifying firm, and reference to the growth place of agricultural goods used for production.
Certain products of the Company are assigned with specific quality certificates HALAL (whey powder and cream) and KOSHER (whey powder).
The Company's management has undertaken to produce safe and high-quality dairy products that satisfy the clients' needs and expectations, with low impact on environment to the maximum extent, all being defined in the Company's policy on the safety and quality of food and environment protection.

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

Key figures, million EUR	2019 12 31	2018 12 31
Turnover	170,6	168,7
Gross profit	33,4	29,8
Profit before tax, interest and depreciation (EBITDA)	10,8	9,2
Profit (loss) before tax	3,7	1,5
Investment in property, plant and equipment	7,4	4,1
Average number of employees	1 672	1 654
Raw milk purchased (natural milk), thousands tons	248,9	267,0
Milk purchased as to basic ratios, thousands tons	304,9	324,6

Explanation of key operational indicators:

Turnover – all sales of goods and services carried out during the reporting period. More specified analysis of sales is presented in Note 1 to the financial statements.

Gross profit is calculated by deducting cost of sales from the total sales of the Company's goods and services. Specification of the cost of sales is presented in Note 3 to the financialstatements.
Profit before tax, interest and amortisation (EBITDA) is calculated as the total of operating profit before the financial activity result, depreciation and amortisation costs.
Profit before tax – the total profit earned by the company before calculation of the income tax. The income tax specification is presented in Note 6 to the financial statements.
An amount of investments in property, plant and equipment is presented in the manner it is calculated and reflected in the balance sheet of the Company. Detailed information on the investments (or non-current assets acquisitions) is presented in Notes 8 and 9.
The average conditional number of employees is the sum of the average number of full-time and part-time employees recalculated to full-time employees.
Quantity of purchased natural milk – actual quantity of purchased raw milk.
Quantity of purchased milk according to basic indicators - restatement of actually purchased raw milk quantities as to baseline indicators.
Basic rate of milk fat (R) – 3.4%, protein (B) – 3.0%.
Formula for calculating the basic quantity of milk: kp = 1 + (Rf-Rb) x k1 + (Bf-Bb) x k2
where:
kp – restatement of raw milk quantities into baseline ratio;
Rf – fat content in purchased milk, %;
Rb – baseline fat of milk, % (3.4);
Bf - protein content in purchased milk, %;
Bb – baseline protein of milk, % (3.0);
k1 - coefficient showing the change in the amount due to change in fat by 1 percent (0.178);
k2 - coefficient showing the change in the amount due to change in protein by 1 percent
(0.267).

Main quality management and environmental principles:

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

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

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

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

During the year 2019, Pieno Žvaigždės, AB did not acquire any own shares.

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

During the year 2019, the Company did not acquire nor cancel any own shares.

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

During the year 2019, AB Pieno Žvaigždės did not acquire any own shares.

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

-

7. Information about branches and representative offices

Pieno Žvaigždės, AB comprises four production branches:

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

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

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

9. Operational plans and forecasts of the Company

Pieno Žvaigždės, AB expected turnover for the year 2020 176,5 mln. EUR.

10. Information about research and development activity

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

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

The goals of financial risk management are presented in the general part of the explanatory note in the annual financial statements. The scope of price risk, credit risk, liquidity risk and cash flows risk is presented in the note 22 of the explanatory note in the annual financial statements.
Information on derivative financial instruments is presented in the note 21 of the explanatory note in the annual financial statements.

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

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

Name, surname	Position held in Pieno Žvaigždės AB	Position held in other companies
Julius Kvaraciejus	Chairman of the board; Director for Business Development.	None
Aleksandr Smagin	General Director; member of the board.	None
Regina Kvaraciejienė	Member of the board; consultant.	None
Voldemaras Klovas	Member of the board; Deputy General Director.	None
Gžegož Rogoža	Member of the board; Operational Director.	None
Artiom Smagin	Member of the board; Marketing Project Manager.	None
Vitalis Paškevičius	Member of the board; Director of Logistics	Director of UAB Bobketa (company code 302808827, Kelpių 25-1, Tarandė, Vilnius r.)

Sustainability report

The company has prepared a separate Sustainability report.

Management report of the Company for 2019

1. Reference to the applicable corporate governance code.

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

2. Explanation of deviations from the corporate governance code.

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

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

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

4. Information about directly and indirectly governed material shareholdings

According to the most recent data (as of 31 December 2019), the total number of the shareholders in the Company was 3 704. The shareholders holding more than 5 per cent of the Company's authorized capital and votes are as follows:

Shareholder	Number of shares, units	Share of the capital %	Share of votes, %	Votes with related persons, % *
ŽŪKB „Smilgelė“ J. Tumo Vaižganto 8/27-3. Vilnius, company code 2490652	6 677 200	14,79%	14,79%	-
UAB „Agrolitas Imeks Lesma“ Laisvės ave.125, Vilnius, company code 2191855	6 228 459	13,80%	13,80%	-
Suvet Commodities DMCC, Office L, Silver Tower, JLT, Dubai, UAE	5 122 022	11,35%	11,35%	-
Kvaraciejus Julius	7 085 907	15,70%	15,70%	32,36%
Regina Kvaraciejienė	2 126 959	4,71%	4,71%	32,36%
Klovas Voldemaras	3 142 567	6,96%	6,96%	32,36%
Klovienė Danutė	878 328	1,95%	1,95%	32,36%
Smagin Aleksandr	1 323 536	2,93%	2,93%	32,36%
Rogoža Gžegož	46 150	0,10%	0,10%	32,36%

5. Information about transactions with related parties

Information about transactions with related parties is presented in the explanatory notes to the financial statements (Note 24).

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

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

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

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

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

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

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

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

The Management Board is elected by the general shareholders meeting. In the election of the Management Board, each shareholder has a number of votes equal to the product of the number of votes, granted by the shares owned by him, and the number of the board members to be elected. The shareholder allocated the votes at own discretion – for one or several candidates. Those candidates who receive most of the votes are elected as board members. If the number of candidates with equal votes exceed the vacant seats in the board, such candidates are subject to a repeated voting, where each shareholder can give his vote only for one of the candidate having gathered equal amount of votes. If a board member is revoked, resigned or ceases performing his duties for other reasons, and the shareholders whose shares represent at least 1/10 of the total voting rights, object to the election of individual board members, the board shall loose its powers and will have to be elected in full. In case individual board members are elected, they are elected only until the end of the current term of office of the board.

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

9. Information about the authorities of the board members

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

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

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

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

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

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

The Management Board

Name, surname	Official duties	Number shares, units	Share of the capital %	Term of office from	Term of office until
Julius Kvaraciejus	Chairman	7 085 907	15,70	2018 04 26	2022 04 26
Artiom Smagin	Member	-	-	2018 04 26	2022 04 26
Voldemaras Klovas	Member	3 142 567	6,96	2018 04 26	2022 04 26
Aleksandr Smagin	Member	1 323 536	2,93	2018 04 26	2022 04 26
Regina Kvaraciejienė	Member	2 126 959	4,71	2018 04 26	2022 04 26
Gžegož Rogoža	Member	46 150	0,10	2018 04 26	2022 04 26
Vitalis Paškevičius	Member	0	0,00	2018 04 26	2022 04 26

Administration

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

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

Information about the remuneration to governing bodies as well as amount transactions carried out with members of the governing bodies is disclosed in Note 24 of the explanatory notes to the annual financial statements.

Audit Committee in the Company

Name, surname	Official duties	Number shares, units	Share of the capital %	From	Until
Aušra Joniūnienė	Chairman	-	-	2019 04 27	2020 04 26
Gražina Buckiūnienė	Member	-	-	2019 04 27	2020 04 26
Danutė Kairevičienė	Member	-	-	2019 04 27	2020 04 26

Positions of the members of the Audit Committee in AB Pieno Žvaigždės and other companies

Name, surname	Position in AB Pieno žvaigždėse	Positions in other companies
Aušra Joniūnienė (independent member)	-	UAB Gražina Buckiūnienė ir partneriai deputy director
Gražina Buckiūnienė (independent member)	-	UAB Gražina Buckiūnienė ir partneriai director
Danutė Kairevičienė	Senior Accountant	-

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

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

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

Information about the calculated amounts to management bodies and transactions with the members of the management bodies is disclosed in Note 24 to the financial statements.

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

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

15. Employees

	2019 12 31	2018 12 31
Average number of employees	1 672	1 654
With university education	416	380
With college education	341	347
With secondary education	789	794
With not completed secondary education	126	133

	2019 12 31	2018 12 31
Average number of employees	1 672	1 654
Management	84	82
Specialists	294	292
Workers	1 294	1 280

	2019 12 31	2018 12 31
Average gross salary, EUR		
Management	3 097	2 283
Specialists	1 488	1 046
Workers	1 010	722

Addendum No. 1

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
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.	Yes	The Company presents forecasts announcing significant events through the centralized information system, however due to competition in the market, the Company cannot publicly disclose certain strategies in advance.
1.2. 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.	Yes	Company's capital consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.
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.	Yes	
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.	Not applicable	
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 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.	Yes	
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	Yes	

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.		
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.	Yes	
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	Currently, the Company does not yet provide such voting opportunities
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	
1.10. Members of the company's collegial management body, heads of the administration[1] 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	

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

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.

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.	Not applicable	There is no Supervisory board in the Company. Control over the Board is performed by General Shareholders Meeting, to which The Board reports.
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.	Not applicable	
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.	Not applicable	
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[2] 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.	Not applicable	
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.	Not applicable	
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.	Not applicable	

2.2. Formation of the supervisory board

The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance..

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.
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.	Not applicable	There is no Supervisory board in the Company.

Principle 3: Management Board

3.1. Functions and liability of the management board

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 interest groups.

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	
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 inter alia 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	
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	
3.1.4. Moreover, the management board should ensure that the measures included into the **OECD Good Practice Guidance**[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	
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 competence.	Yes	

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

3.2 Formation of the management board

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.	Yes	
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.	Yes	
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	
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	
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.	Yes	
3.2.6. Each member should devote sufficient time and attention to the duties of a board member. If a board member attended less than half of the board meetings during the financial year of the company, the company's supervisory board should be informed or, if the company is not formed, the general meeting of shareholders.	Yes	
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[4] , it should be announced which members of the management board are deemed as independent. The	No	The shareholders did not elect any independent members in this tenure of the Board.

[4] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

management board may decide that, despite the fact that a particular 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.		
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.	Yes	
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.	Yes	
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.	No	The Management Board does not publish information on its internal organization and operational procedures.

Principle 4: Rules of procedure of the supervisory board and the management board of the company

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.

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 he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Not applicable	There is no Supervisory board in the Company.
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 uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	

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.	Yes	
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.	Not applicable	There is no Supervisory board in the Company.

Priciple 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

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.

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.

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[5] .	No	only the audit committee is formed in the company
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.	Yes	

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

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.	Yes	The Audit Committee performs its functions, while the functions of the Nomination and Remuneration Committees are partly performed by the Board of the Company
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.	Yes	
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.	Yes	
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 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.	Yes	

5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 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; 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; 3) devote the attention necessary to ensure succession planning.	Not applicable	There is no Nomination Committee in the Company

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.	Not applicable	There is no Nomination Committee in the Company
5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 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, 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.	Not applicable	There is no Remuneration Committee in the Company
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6].	Yes	
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.	Yes	
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.	Yes	

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

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.	Yes	
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.	Yes	
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.	No	Only annual reports are reviewed

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 creating the company's well-being, jobs and financial stability.. In the context of this principle, the term "interest holders" includes investors, employees, creditors, suppliers, customers, the local community and others with interests in a particular company.

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.	Yes	

Principle 7: Remuneration policy of the company

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.

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.	Not applicable	It is planned to do after General Shareholders Meeting on 2020.

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.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.
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.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.
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.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.
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.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.
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.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.
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 of shareholders.	Not applicable	The remuneration policy is planned to approve during General Shareholders Meeting on 2020.

Principle 8: Role of stakeholders in corporate governance

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.

8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	
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	
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	
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	

Principle 9: Disclosure of information

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.

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:	Yes	
9.1.1. operating and financial results of the company;	Yes	
9.1.2. objectives and non-financial information of the company;	Yes	
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;	Yes	
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;	Yes	

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;	No	Some information not fully disclosed
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	
9.1.7. the company's transactions with related parties;	Yes	
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, suppliers, local community, etc.);	Yes	
9.1.9. structure and strategy of corporate governance;	Yes	
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	
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.	Not applicable	The company is not a parent company.
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.	No	Some information not fully disclosed
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	

Principle 10: Selection of the company's audit firm

The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.

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	
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	
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	The audit firm will be paid 1.4 thousand. Euros for the translation services