Pieno Žvaigždės, AB

Financial statements for the year ended 31 December 2018 31 December 2018

Contents

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, General Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB bankas
Swedbank, AB
Luminor bank AS Lithuanian branch
UAB Perlo paslaugos
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.

3 April 2019, Vilnius

Management:

Aleksandr Smagin	Audrius Statulevičius
General Director	Finance Director

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Independent Auditor's Report

To the Shareholders of AB Pieno Žvaigždės

Report on the Audit of the Financial Statements

Opinion

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

- the statement of financial position as at 31 December 2018,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Company code: 111494971
VAT code: LT114949716

KPMG

Useful lives of property, plant and equipment

We refer to the financial statements:

Significant accounting policies – "Property, plant and equipment", "Critical accounting estimates and judgments", Note 8 "Property, plant and equipment".

The carrying amount of property, plant and equipment as at 31 December 2018: EUR 42,098 thousand; depreciation and amortization expense in 2018: EUR 6,737 thousand.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the stated amount of property, plant and equipment, carried at cost less accumulated depreciation and impairment losses, if any, was EUR 42,098 thousand. Property, plant and equipment, comprised primarily of Machinery and Equipment and Land and Buildings, represents a major part of the total assets reported in the statement of financial position. One of the key aspects of accounting for property, plant and equipment is the determination of the useful lives of these assets. Estimated useful lives are reviewed by the Company annually taking into consideration various market and technical factors which may affect the useful life expectancy of the assets and therefore could have a material effect on any impairment charges or the depreciation charge for the year. The Management Board's assessment of useful lives of property, plant and equipment involves significant judgement, with the key assumptions applied therein further described in Note "Critical accounting estimates". Changes to these assumptions could result in a material change in the depreciation charge for the year. The area required our increased attention in the audit and as such was considered by us to be a key audit matter.	Our audit procedures in the area included, among others: • Considering the appropriateness of the Company's accounting policy relating to determination of useful life of property, plant and equipment and assessing compliance of the policy with the applicable accounting standards; • Assessing the controls implemented by the Company with respect to determination and subsequent revision of useful life of items of property, plant and equipment; • Performing retrospective evaluation of the accuracy of the Management Board's estimates with respect to useful life of significant items of property, plant and equipment; • Comparing useful life of significant items of property, plant and equipment applied by the Company to that applied for similar assets by other companies in the manufacturing industry and seeking explanations from the Management Board for significant differences; • Selecting a sample of acquisitions of items of property plant and equipment and testing whether depreciation rates applied for these items was in accordance with the Management Board's estimate of those assets' useful lives; • Inquiring the Management Board as to their plans to dispose and write-off or replace significant items of property, plant and equipment and assessing consistency of these plans with the management's estimate of useful life of such assets; • Considering the adequacy of the Company's disclosures in respect of property, plant and equipment.

Impairment of property, plant and equipment

We refer to the financial statements:

Significant accounting policies – "Property, plant and equipment", Significant accounting policies – "Impairment" and Note 8 "Property, plant and equipment".

The carrying amount of property, plant and equipment as at 31 December 2018: EUR 42,098 thousand; impairment loss recognized in 2018: nil; accumulated impairment loss as at 31 December 2018: nil.

The key audit matter	How the matter was addressed in our audit
During the years 2015 through 2018, the Company faced a number of challenges in the markets in which its primary business activities are conducted. The challenges, primarily related to the trade restrictions imposed by Russia, still in effect in 2018, resulting in export sales significantly below their prior levels, and decreasing domestic sales. The Company's profitability also depressed as a result. The above represented an indication that certain of Company's assets may be impaired. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or of its cash-generating unit) exceeds the recoverable amount. Determining the recoverable amounts is a process which requires a number of significant judgments and estimates, especially in respect of the amounts of future cash flows and associated discount rates and growth rates based on management's projections of future performance and prospects. The projected operating cash flows from the Company's activities are influenced primarily by assumptions concerning sales volumes and prices of sold products as well as level of main production costs, primarily in respect of raw materials. These projections are exposed to significant variability due to inherently uncertain market conditions. Given the above, we consider the area being a key audit matter.	Our procedures in the area included, among others: • Assessing the design and implementation of internal controls over identification of impairment indicators; • Evaluating the appropriateness of the Company's judgments regarding identification of individual assets or cash generating units which may be impaired; • Evaluating the appropriateness of allocation of assets to cash generating units based on our understanding of the Company's operations and business units; • Critically assessing the Company's assumptions and estimates used to determine the recoverable amount of property, plant and equipment, assisted by our own valuations specialists. This included: - assessing the reasonableness of key macroeconomic assumptions applied (including those relating to discount rates and inflation rate) against market data derived from analyst and industry reports; - comparing non-market model inputs, such as forecasts of revenue and costs to actual performance currently being achieved; - testing the Company's discounted cash flows model, in terms of its compliance with the relevant accounting standards; • Evaluating the Company's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rates and operating profit adjusted by depreciation and amortization.

Valuation of inventories

We refer to the financial statements:

Significant accounting policies – "Inventories" and Note 11 "Inventories".

The carrying amount of inventories as at 31 December 2018: EUR 13,423 thousand; change due to write-down of inventories to net realizable value recognized in 2018: EUR (1,451) thousand; write-down of obsolete inventory items recognized in 2018: EUR 435 thousand.

The key audit matter	How the matter was addressed in our audit
The Company is primarily engaged in production and distribution of dairy products to customers in Lithuania and other EU countries. Given the magnitude of the inventory balance, at each reporting date, as required by relevant accounting standards, the Company determines whether the carrying amount of its inventory does not exceed its net realizable value. In respect of obsolete or slow moving items this involves comparing the levels of inventory held to future utilization and sales projections. In addition, all of the Company's product inventories are tested for potential decline of their expected selling prices below cost. We focused on this area as arriving at the carrying amount of inventory requires significant management judgment, which relies on the assumptions such as, primarily, the sales prices achievable in the future and the levels of market demand driving expected usage. Changes to these assumptions could result in a material change in the carrying value of inventory and the associated movements recognized in profit or loss.	Our procedures in the area included, among others: • Testing design and implementation of internal controls over inventory valuation, including those over the identification of obsolete and slow moving inventory items and the estimation of their expected net realizable values; • Analysing gross profit margins by product to identify inventory sold at low or negative margins pre-year end to give an indication of any items in the year-end balance that might be impaired; • Challenging the assumptions used by the Company in its utilization projections for slow moving and obsolete inventory, by reference to our knowledge of the Company's business and industry, which included, among others, evaluation of management's plans for alternative use of packaging materials earmarked for the specific market, in products sold in other markets; • Challenging any significant aged inventory items in order to assess completeness of the write down; • Evaluating management's historical ability to reliably estimate the required inventory obsolescence write down by comparing write-offs during the year to the prior period write down; • For a sample of products, assessing whether the write-down to net realizable value applicable to individual categories of inventory is reasonable by reference to their post year end selling prices and estimated costs to sell; • Assessing the adequacy of the Company's disclosures about the degree of estimation uncertainty involved in arriving at the net realizable value of inventory and the related write down.

Other Information

The other information comprises the information included in the annual report, including the Report on the Compliance with the Governance Code for the Companies, and the Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

- The information given in the annual report, including the Report on the Compliance with the Governance Code for the Companies, for the for the financial year for which the financial statements are prepared, is consistent with the financial statements; and

- The annual report, including the Report on the Compliance with the Governance Code for the Companies, has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed in 2003 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed every two years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 16 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and the Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to the statutory audit services we provided to the Company, there were no services, which would not have been disclosed in the financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
15 April 2019

Statement of Comprehensive Income for the year ended 31 December

thousand EUR	Note	2018	2017
Revenue	1	168,662	167,753
Cost of sales	3	(138,862)	(140,478)
Gross profit	1	**29,800**	**27,275**
Other income	2	620	436
Other operating expenses	2	(97)	(140)
Selling and distribution expenses	3	(16,667)	(18,017)
Administrative expenses	3	(11,043)	(12,221)
(Impairment)/ reversal of impairment of receivables and contract assets		(120)	-
Profit (loss) from operations		**2,493**	**(2,667)**
Finance income	4	91	196
Finance costs	5	(1,092)	(918)
Net finance cost		**(1,001)**	**(722)**
Profit (loss) before tax		**1,492**	**3,389**
Income tax expenses	6	706	1,661
Profit (loss) for the year		**2,198**	**(1,728)**
Total other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the year		**2,198**	**1,728**
Basic earnings per share (EUR)	7	0.05	(0.04)
Diluted earnings per share (EUR)	7	0.05	(0.04)

The Notes, set out on pages 14-55, are an integral part of these financial statements.

Statement of financial position

thousand EUR	Note	31/12/2018	31/12/2017
Assets			
Property, plant and equipment	8	42,098	44,839
Intangible assets	9	136	101
Other investments, including derivatives	10	22	22
Non-current receivables	12	683	636
Deferred tax	18	1,147	441
Total non-current assets		**44,086**	**46,039**
Inventories	11	13,423	16,078
Current tax assets	12	-	440
Trade and other receivables	12	11,166	12,463
Cash and cash equivalents	13	4,795	256
Total current assets		**29,384**	**29,237**
Total assets		**73,470**	**75,276**
Shareholders' equity			
Share capital		13,089	13,089
Share premium		7,891	7,891
Reserves		2,200	2,200
Own shares		-	-
Retained earnings (loss)		2,950	752
Total equity	14	**26,130**	**23,932**
Liabilities			
Subsidies, grants	15	1,129	593
Loans and borrowings		13,500	37
Employee benefits	16	883	784
Trade and other payables	20	-	227
Total non-current liabilities		**15,512**	**1,641**
Derivative financial instruments	21	180	208
Loans and borrowings	16	13,037	32,484
Trade and other payables	20	18,611	17,011
Income tax payable		-	-
Total current liabilities		**31,828**	**49,703**
Total liabilities		**47,340**	**51,344**
Total equity and liabilities		**73,470**	**75,276**

The Notes, set out on pages 14-55, are an integral part of these financial statements.

Statement of changes in equity

thousand EUR	Note	Share capital	Share premium	Legal reserve	Own shares	Revaluation reserve	Other reserves	Retained earnings (losses)	Total equity
1 January 2017		13,089	7,891	1,570	-	-	560	6,495	29,605
Comprehensive income for the period									
Net loss for 2017		-	-	-	-	-	-	(1,728)	(1,728)
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**(1,728)**	**(1,728)**
Contributions by and distributions to owners, recognised directly in equity									
Transfer to/from reserves		-	-	-	-	-	70	(70)	-
Dividends		-	-	-	-	-	-	(4,062)	(4,062)
Other income	24	-	-	-	-	-	-	117	117
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**70**	**(4,015)**	**(3,945)**
31 December 2017	14	**13,089**	**7,891**	**1,570**	**-**	**-**	**630**	**752**	**23,932**
Effect of initial application of IFRS 9		-	-	-	-	-	-	-	-
Effect of initial application of IFRS 15		-	-	-	-	-	-	-	-
1 December 2018		**13,089**	**7,891**	**1,570**	**-**	**-**	**630**	**752**	**23,932**
Comprehensive income for the period									
Net profit for 2018		-	-	-	-	-	-	2,198	2,198
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**2,198**	**2,198**
Contributions by and distributions to owners, recognised directly in equity									
Transfer to/from reserves		-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-
Other income		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2018	14	**13,089**	**7,891**	**1,570**	**-**	**-**	**630**	**2,950**	**26,130**

The Notes, set out on pages 14-55, are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December

thousand EUR	Note	2018	2017
Cash flows from operating activities			
Profit (loss) for the year		2,198	(1,728)
Adjustments for:			
Depreciation and amortisation	8, 9	6,803	7,390
Subsidies amortisation	15	(121)	(159)
Gain (loss) on disposal and write-off of property, plant and equipment		(118)	(33)
Loss on disposal of available-for-sale investments		-	-
Costs of doubtful and written-off debts	12	152	4
Change in vacation reserve	20	187	33
Revaluation and write down of inventories		(1,016)	1,219
Change in fair value of derivative financial instruments	21	(28)	(122)
Interest income/expenses, net	4, 5	886	755
Income tax expenses	6	(706)	(1,661)
		8,237	**5,698**
Change in inventories		3,671	(4,668)
Change in receivables		1,098	1,200
Change in payables		2,887	2,916
Cash flows from operating activities		**15,893**	**5,146**
Interest paid		(936)	(789)
Income tax paid/ received		-	650
Net cash flows from operating activities		**14,957**	**5,007**
Investing activities			
Acquisition of property, plant and equipment	8	(5,170)	(5,563)
Acquisition of intangible assets	9	(102)	(59)
Proceeds from disposal of property, plant and equipment		134	136
Proceeds from disposal of available-for-sale investments		-	-
Issued/ repaid loans		-	(339)
Interest income		50	34
Net cash flow used in investing activities		**(5,088)**	**(5,791)**
Financing activities			
Proceeds from borrowings		3,922	10,070
Repayment of borrowings		(9,892)	(6,000)
Leasing payments		(14)	(12)
Government grants received		657	63
Dividends paid		(3)	(3,922)
Net cash flows from financing activities		**(5,330)**	**199**
Change in cash and cash equivalents		4,539	(585)
Cash and cash equivalents as at 1 January		256	841
Cash and cash equivalents as at 31 December		**4,795**	**256**

The Notes, set out on pages 14-55, are an integral part of these financial statements.

Notes to the Financial Statements

Background information

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

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

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

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

The average number of employees in 2018 was 1,654 (in 2017: 1,735 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 3 April 2019. 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 the contractual loan repayment obligations to creditors as disclosed in Note 16.

As at 31 December 2018, the Company reported a net liability position of EUR 2,444 thousand. The Company uses a syndicated credit line provided by AB SEB and AB Luminor banks (the used amount of the syndicated credit line is EUR 7,000 thousand), which matures on 30 April 2019. As at the preparation date of these financial statements, the Company is in the process of negotiations with both banks. Given a long-term cooperation with these banks, the management of the Company expects this syndicated credit line to be extended for an additional two-year period. After the extension of the credit line validity, the liability should be accounted for as a non-current liability. The extension of the repayment deadline of the syndicated loan will improve the liquidity ratio of the Company. The management of the Company believes that operating cash flows forecasted for 2019 will be sufficient for the proper performance of the mentioned obligations.

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Liquidity management plans are based on improvement of the Company's financial results and agreements with banks on extension of the maturity term of the credit line.

In 2019, the Company expects to increase sales and profitability. Higher sales amount is related mainly with the sales growth in export markets. During 2018, the Company has fully installed the deeper processing equipment for mozzarella cheese, which is designed to produce a higher added value product.

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 significant effect on the financial statements are discussed on page 33.

Foreign currency transactions

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

Property, plant and equipment

Owned assets

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

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

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

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Owned assets (continued)

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

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

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

Leased assets

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

Subsequent 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 will flow to the Company 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

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.

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

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

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 1 to 3 years.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments (accounting policies effective until 1 January 2018)

Non-derivative financial instruments. Non-derivative financial instruments comprise trade debtors and other amounts receivable, cash and cash equivalents, loans, borrowings, trade creditors and other amounts payable.

Non-derivative financial instruments are initially recognised at fair value, including (except for instruments at fair value through profit or loss), all directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognised on the day of transaction. The Company no longer recognises the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognised when it has been covered, revoked or expired.

Loans and receivables are non-derivative financial assets that are not quoted in an active market. They are included in the current assets, except for the amounts with maturities exceeding 2 months. Subsequently, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment losses, if any. Receivables with short duration are not discounted.

Loans, financial liabilities and other financial obligations, including trade payables, are subsequently measured at amortised cost using the effective interest rate method. Current liabilities are not discounted.

The effective interest method 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 inflows and payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

In 2018 and 2017, the Company did not have any financial assets and financial liabilities stated at fair value through profit or loss.

Financial assets. According to IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. The attribution of financial assets depends on the type and purpose of financial assets and it is determined upon initial recognition.

Classification of financial assets. Financial assets are classified into the following groups - (a) loans and amounts receivable, (b) available-for-sale financial assets.

Financial assets are presented as at the transaction date when the purchase or sale is carried out under the agreement, the conditions of which require the delivery of financial assets on the term fixed by respective market. Financial assets are assessed at fair value at initial recognition, including direct transaction costs, if the investments are not accounted for at fair value through profit or loss. The Company’s financial assets include cash, trade and other receivables and available-for-sale financial assets, and are divided into the following two categories: financial assets available for sale and loans and receivables.

Impairment losses of amounts receivable. The Company assesses the impairment of amounts receivable at least on a quarterly basis. The Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial instruments (accounting policies effective until 1 January 2018) (continued)

This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the Company's receivables.

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

Financial instruments (accounting policies effective as of 1 January 2018)

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 funding 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 funding component are initially recognised at transaction price.

The Company derecognises a financial liability (or part of financial liability) from its statement of financial position when, and only when it is extinguished, i. e. when the obligation specified in the contract is fulfilled or cancelled, or expired.

Classification of financial assets. As of 1 January 2018, financial assets are divided into three groups according to their measurement:

- financial assets that are measured at amortised cost in subsequent periods;
- financial assets that are subsequently measured at fair value with the fair value changes carried under other comprehensive income;
- financial assets that are subsequently measured at fair value with the fair value changes carried in 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 income, and no financial assets measured at fair value in subsequent periods, the fair value changes carried in profit or loss.

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 loan 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 instruments (accounting policies effective as of 1 January 2018) (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 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 and the difference between the amount received and the amount payable over the loan period is included 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 expensed or amortised.

Derecognition of financial assets. Financial assets (or, where appropriate, part of financial assets or part of the group of similar financial assets) are 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, or

  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.

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.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial instruments (accounting policies effective as of 1 January 2018) (continued)

Derecognition of financial liabilities. A financial liability is derecognised by the Company when the obligation under the liability is discharged or cancelled, or expires. 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 and loss.

Measurement of fair value of financial assets

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 offer 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 are disclosed, Company classifies according to a hierarchy of fair value at the three levels of the input depending on the assessment of their availability: 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 using 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.

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.

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial instruments (accounting policies effective as of 1 January 2018) (continued)

Measurement of fair value of financial assets (continued)

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 is determines based on FIFO principle. 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 in hand and cash at banks. Cash equivalents are short-term highly liquid investments readily convertible into 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.

Impairment

Impairment of financial assets

IFRS 9 introduces a new model for calculating the impairment of 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 rather than the loss incurred in 2018 as measured in accordance with IAS 39.

The Company applies the following models for determining impairment losses:

- general model (basic),
- simplified model for trade receivables.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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, 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 information about the future 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 lifeof the instrument.

For the purpose of estimating the expected credit loss, the Company uses the provision matrix estimated on the basis of historical levels of repayment and recoveries from trade receivables

The Company includes information about the future 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 overdue days of the receivable.

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 asset’s recoverable amount is estimated.

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 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 post-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.

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.

Purchase of own shares

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

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.

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

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

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

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)
Revenue

From 1 January 2018, revenue of the Company is recognised in accordance with the provisions of IFRS 15, i.e. 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. Income 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 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 nature;
- 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.

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

Under the new IFRS 15, the transaction price may be: fixed, variable or both. 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). 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 (none in the past) on revenue recognition in the future.

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. If the contract does not specify the price of the service or product separately (for example, one price for two products), the Company determines it. 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.

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

The Company uses the following methods to calculate the selling price of the goods: the adjusted market valuation method, the expected cost and profit margin method and the residual value method. 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.

Since the new revenue recognition standard needs to be applied to all existing contracts onwards from 1 January 2018, it was necessary to check the contracts that were not completed by 1 January 2018, and, if necessary, to adjust the revenue recognition policy for those outstanding contracts in accordance with IFRS 15 and to provide the comparative information for 2017.

According to management, the timing and valuation of the activity nature and the type of revenue earned by of the Company in accordance with IFRS 15, remain the same. The Company does not have and does not expect to have contracts under which the period between the provision of goods or services and the payment for them by the client would exceed one year; therefore, the Company does not account for the financing element separately.

More detail on classification of activities and recognition of revenue is presented under *Significant Changes in Accounting*, where the impact of IFRS 15 is described.

Subsidies, grants

A government grant is 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. Government 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. Government grants that compensate the Company for the cost of an asset are recognised in other income on a systematic basis over the useful life of the asset.

Expenses

Operating lease payments

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

Other operating income and expenses

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

Finance income and finance expenses

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses (net value). The interest expense component of finance lease payments is 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.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses (continued)

Finance income and finance expenses (continued)

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.

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 the tax rates enacted or substantially enacted at the balance sheet date.

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

Basic and diluted earnings per share

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

Segments

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

Financial risk management

In its activities the Company is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. General risk management policy establishment and supervision is the responsibility of the Board. Risk management policy was set up in order to identify and analyse risks facing the Company, and determine risk acceptance limits. Risk management policy and processes are reviewed regularly considering changes in the markets and activities of the Company. The Company, applying learning and management standards and procedures, aims to establish constructive control environment where all employees clearly 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

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial risk management (continued)

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.

Foreign exchange risk

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

Exposure to interest rate risk

The Company's borrowings are subject to variable interest rates, related to EURIBOR. The cash flow sensitivity analysis is presented in Note 22.

The Company does not have any significant loans granted or receivable amounts with fixed interest rates presented at fair value; however, the Company faces the fair value interest rate risk arising from interest swap transactions (refer to Note 21).

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, refer to Note 22.

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 2018 and 31 December 2017.

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

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

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

The Company has adopted the new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018.

Significant Changes in Accounting

While preparing the financial statements, the Company for the first time applied the requirements of IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers. Other new standards effective as of 1 January 2018 have no significant impact on the financial statements of the Company.

Due to the chosen transition method chosen by the Company in applying these standards, the comparative information in these financial statements has not been changed to reflect the requirements of the new standards.

The application of these standards had no impact on the Company's statement of financial position (except for performed reclassifications as described below), the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows.

Effect of transition to IFRS 15

From 1 January 2018, revenue of the Company is recognised in accordance with the provisions of IFRS 15, i.e. the Company recognises revenue at the time and to the extent that the transfer of goods or promised services to customers would reflect an amount that the Company expects to receive in exchange for those goods or services.

IFRS 15 has replaced IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over a period time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical means) with the effect of initially applying this standard (i. e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i. e. it is presented under IAS 18, IAS 11 and related interpretations.

The Company earns revenue by providing different services. Revenue is divided into groups according to:

1. ***Revenue type:***
   - Revenue from sale of cheese;
   - Revenue from dry dairy products;
   - Revenue from fresh dairy products;
   - Other income

Application of IFRS 15 did not have influence on the retained earnings and profit (loss) of the Company.

In 2018, after adoption of IFRS 15, the Company reclassified part of the marketing costs by reducing the revenue and, accordingly, the impact on the statement of comprehensive income is presented below. The statement of financial position was not affected by the new IFRS 15.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant changes in accounting policies (continued)

Effect of transition to IFRS 15 (continued)

Impact of IFRS 15 on the Company's statement of financial position as at 31 December 2018:

	Data presented in the financial statements	Impact	Data not considering the impact of IFRS 15
Total assets	73,470	-	73,470
Equity	26,130	-	26,130
Liabilities	47,340	-	47,340

Impact of IFRS 15 on the Company's statement of profit or loss and other comprehensive income for 31 December 2018.

	Data presented in the financial statements	Impact	Data not considering the impact of IFRS 15
Total income	169,347	1,572	170,919
Total expenses	(167,855)	(1,572)	(169,427)
Profit (loss) before tax	1,492	-	1,492
Income tax	706	-	706
Profit (loss) for the current year	2,198	-	2,198

The Company recognises revenue when goods are transferred to the customer, income from services rendered is recognised on a quarterly basis or when the services are transferred to the client (signing an acceptance-transfer act on the work completed).

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Type of product for sale	Nature, timing and payment conditions of performance obligations	Revenue recognition under IFRS 15 (applicable as of 1 January 2018)	Revenue recognition under IAS 18 (applicable as of 1 January 2018)
Cheese products Dry dairy products Fresh dairy products Other income	The invoices for the goods are issued when the goods are delivered to the customer or after the goods have been unloaded from the warehouse.	Income is recognised when the goods are delivered to the customer or after the goods have been loaded from the warehouse. For contracts that discounts are applied, revenue is recognised net of discounts provided. The Company's income is decreased by marketing expenses related to income earning. The related costs are recognised in the statement of comprehensive income when incurred. An expected contract-related loss was recognised immediately in the statement of comprehensive income.	Income is recognised when the goods are delivered to the customer or after the goods have been loaded from the warehouse. For contracts that discounts are applied, revenue is recognised net of discounts provided. Marketing expenses related to income earning are recognised under cost items of the statement of comprehensive income, when incurred. The related costs are recognised in the statement of comprehensive income when incurred. An expected contract-related loss was recognised immediately in the statement of comprehensive income.

Notes to the financial statements

SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant changes in accounting policies (continued)

Effect of transition to IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements., which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. Previously, the Company used to include the impairment of receivables in other expenses. There was no impairment of financial assets recognised for the year ended 31 December 2017; therefore, the Company has not transferred the depreciation charge of the financial assets from other expenses to a separate item of impairment.

The Company has adopted the relevant amendments to IFRS 7 Financial Instruments: Disclosures for the year ended 31 December 2018.

IFRS 9 contains three principal classification categories for financial assets:

- financial assets that are measured at amortised cost in subsequent periods;
- financial assets that are subsequently measured at fair value with the fair value changes carried under other comprehensive income;
- financial assets that are subsequently measured at fair value with the fair value changes carried in 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). IFRS 9 eliminates the previous IAS 39 categories of held to maturity, assets through profit or loss, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The main change is that the entity will have to report the effect of changes in the credit risk arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss in the statement of comprehensive income.

Classification and measurement of the Company's financial instruments in accordance with the requirements of IFRS 9 as at 1 January 2018 is disclosed in the table below.

	Classification under IAS 39	**Classification under IFRS 9**	**Under IAS 39**	**Under IFRS 9**
Financial assets				
Trade and other receivables	Loans and receivables	At amortised cost	12,463	12,463
Cash and cash equivalents	Loans and receivables	At amortised cost	256	256
Total financial assets			**12,719**	**12,719**
Financial liabilities				
Derivative financial instruments	Fair value – hedging instruments	Fair value – hedging instruments	208	208
Finance lease liabilities	Other financial liabilities	Other financial liabilities	51	51
Loans and borrowings	Other financial liabilities	Other financial liabilities	32,470	32,470
Trade and other payables	Other financial liabilities	Other financial liabilities	17,011	17,011
Total financial liabilities			**49,740**	**49,740**

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant changes in accounting policies (continued)

Effect of transition to IFRS 9 (continued)

Trade and other receivables, cash and cash equivalents that were classified as loans and amounts receivable under IAS 39, are measured at amortised costs as required by IFRS 9. In connection with the transition to IFRS 9, no change in the impairment of the receivables as at 1 January 2018 has been recognised.

Impairment of financial assets

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking an ‘expected credit loss’ (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. The simplified model is applied by the Company for trade receivables.

Impact of impairment of the Company’s financial assets carried at amortised cost under IFRS 9 is presented below (Note 22, Credit risk):

	Impairment
Impairment as at 31 December 2017 under IAS 39	-
Change in impairment	-
Impairment as at 1 January 2018 under IFRS 9	-

Changes in accounting policies due to adoption of IFRS 9 were applied retrospectively, except for:

- The Company used an exemption not to restate the comparative information for prior periods with respect to classification and measurement (including impairment requirements). Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial assets is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

New standards and interpretations not yet adopted

The following are new standards that have been issued but have not yet entered into force.

Several new standards are effective for annual periods beginning on 1 January 2019 with early application permitted. However, the Company has decided not to apply early the new standards or their amendments for financial reporting purposes. In terms of the standards that are not effective yet, IFRS 16, when initially applied, is expected to have a material impact on the Company's separate financial statements after its initial application.

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the potential impact of the first time application of IFRS 16 on the financial statements of the Company as described below.

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 (continued)

New standards and interpretations not yet adopted (continued)

IFRS 16 introduces a single accounting model for leases in the statement of financial position. A lessee recognises the leased asset that reflects his right to use the underlying asset, and the lease liability that reflects his obligation to pay the lease payments. Exceptions to the recognition apply to short-term lease and lease of low-value positions. Lessor accounting is substantially unchanged, i. e. the lessors will continue to allocate the lease to finance and operating leases.

IFRS 16 replaces the existing lease guidelines, including 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 Company will recognise new assets and liabilities for its operating leases of land plots (see Note 17). The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

It is not expected that the Company's financial lease will be significantly affected.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of EUR 820 thousand as at 1 January 2019. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenants described in Note 16.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Amendments are effective as at or after 1 January 2019 with earlier application permitted. The amendments allow measuring financial assets with prepayment features at amortised cost or at fair value through other comprehensive income when a party to an agreement is allowed to require or is required to pay for or get a reasonable compensation for an agreement terminated before its term (thus, from the perspective of the asset's holder, negative compensation is possible). These amendments have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this standard will have a limited or no impact on the financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments define whether or not, when assessing long-term investments in associates and joint ventures, specifically the requirements related to impairment, which substantially form net investment past in associates and joint ventures, should follow IFRS 9, IAS 28 or both. The amendments clarify that an entity, before applying IAS 28, applies IFRS 9 for such, to which equity method is not applied. When applying IFRS 9, an entity does not consider changes in carrying amounts of long-term interest arising on application of IAS 28. These amendments have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this standard will have a limited or no impact on the financial statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to measure the cost of current services and net interest related to plan amendment, curtailment or settlement during the remaining reporting period. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the

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 (continued)

New standards and interpretations not yet adopted (continued)

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)(continued)

requirements regarding the asset ceiling. These amendments have not yet been endorsed by the EU. Based on the management’s preliminary assessment, adoption of this standard will have a limited or no impact on the financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation is to be applied to the accounting of corporate income tax when there is uncertainty over income tax treatments under IAS 12. It clarifies how to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together, inspections carried out by tax authorities; it presents a model for presenting uncertainties and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Based on the management’s preliminary assessment, adoption of this standard will have a limited or no 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.

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Based on the management’s preliminary assessment, adoption of this standard will have a limited or no impact on 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.

Fair value of financial instruments

As at 31 December 2018 and as at 31 December 2017, the Company’s financial instruments, measured at fair value, comprised interest rate swap transactions with banks. Principles for fair value determination are presented in Note 22.

Notes to the financial statements
SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgements (continued)

Impairment losses on receivables

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. 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.

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.

Useful lives of intangible assets and property, plant and equipment

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

Deferred tax asset

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

Long-term employee benefits

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

The moment of revenue recognition

Management of the Company estimates the moment of revenue recognition, i.e. whether revenue is recognised over a period of time or at a point of time.

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 operations include production of ice-cream, other produce and goods, and services. None of these segments met the quantitative thresholds for reportable segments in 2017 and 2018.

Information about reportable segments

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

2018, in thousand EUR	Cheese	Dry dairy products	Fresh dairy products	**Total reportable segments**	All other segments	**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 of property, plant and equipment	(1,105)	(247)	(3,918)	**(5,270)**	(335)	**(5,605)**
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	**-**	-	**-**
Revaluation and write down of inventories	-	951	25	**976**	40	**1,016**
Acquisitions of property, plant and equipment	2,472	-	1,534	**4,006**	6	**4,012**

Notes to the financial statements

1. Operating segments (continued)

2017, in thousand EUR	Cheese	Dry dairy products	Fresh dairy products	**Total reportable segments**	All other segments	**Total**
Sales	36,095	9,076	114,986	**160,157**	7,596	**167,753**
Gross profit	3,082	(771)	22,977	**25,288**	1,987	**27,275**
Depreciation of property, plant and equipment	(1,458)	(390)	(3,716)	**(5,564)**	(422)	**(5,986)**
Other material non-cash items:						
Impairment of property, plant and equipment	-	-	-	**-**	-	**-**
Revaluation and write down of inventories	37	(1,001)	(247)	**(1,211)**	(8)	**(1,219)**
Acquisitions of property, plant and equipment	2,948	-	1,941	**4,889**	1,164	**6,053**

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

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

2018, in thousand EUR	**Total reportable segments**	All other segments	Adjustments	**Amounts as to financial statements**
Depreciation of property, plant and equipment	(5,270)	(335)	-	(5,605)
Impairment of property, plant and equipment	-	-	-	-
Revaluation and write down of inventories	1,016	-	-	1,016
Acquisitions of property, plant and equipment	4,006	6	-	4,012

2017, in thousand EUR	**Total reportable segments**	All other segments	Adjustments	**Amounts as to financial statements**
Depreciation of property, plant and equipment	(5,564)	(422)	(245)	(6,231)
Impairment of property, plant and equipment	-	-	-	-
Revaluation and write down of inventories	(1,211)	(8)	-	(1,219)
Acquisitions of property, plant and equipment	4,889	1,164	-	6,053

Notes to the financial statements

1. Operating segments (continued)

Geographic information

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

Revenue, in thousand EUR	**2018**	**2017**
Lithuania	92,769	93,833
Italy	17,592	21,509
Latvia	9,481	9,716
Germany	5,034	6,699
Great Britain	3,406	3,306
USA	2,791	2,980
Indonesia	4,216	-
Other countries	33,373	29,710
Total income	**168,662**	**167,753**

Non-current assets, in thousand EUR	**31/12/2018**	**31/12/2017**
Lithuania	41,892	44,477
Poland	342	463
Total non-current assets	**42,234**	**44,940**

Financial instruments are not included in the non-current assets.

Major customers

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.

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

Revenue per type for the year ended 31 December:

Thousand EUR	**2018**	**2017**
Cheese produce	38,238	36,095
Dry dairy products	7,155	9,076
Fresh dairy products	113,548	114,986
Other income	9,721	7,596
	168,662	**167,753**

Revenue per time of recognition during the year ended 31 December:

Thousand EUR	**2018**	**2017**
Recognised at a point of time	170,234	167,753
Marketing costs reducing the sales	(1,572)	-
Recognised over a period of time	-	-
	168,662	**167,753**

Notes to the financial statements

2. Other operating items

Other operating income

thousand EUR	2018	2017
Income from rent and other services/goods	499	395
Net gain on disposal of property, plant and equipment	121	38
Other	-	3
	620	**436**

Other operating expenses

thousand EUR	2018	2017
Expenses related to rent and other services/goods	(97)	(140)
Net loss from disposal of property, plant and equipment	-	-
	(97)	**(140)**

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

Cost of sales

thousand EUR	2018	2017
Raw materials and consumables	(106,416)	(110,921)
Staff costs	(12,234)	(10,502)
Depreciation and amortisation (excl. amortisation of grants)	(5,605)	(6,231)
Other expenses	(17,792)	(16,589)
Changes in finished goods and work in progress	3,185	3,765
	(138,862)	**(140,478)**

Sales and distribution and administrative expenses

thousand EUR	2018	2017
Staff costs	(12,044)	(11,529)
Marketing and advertising	(1,301)	(2,656)
Depreciation and amortisation	(1,198)	(1,159)
Production delivery costs	(2,107)	(1,946)
Fuel	(1,774)	(1,655)
Various services	(1,264)	(1,482)
Materials and spare parts	(1,159)	(1,137)
Change in revaluation of inventories and write down of inventories	1,016	(1,219)
Costs of bad debts	(32)	(4)
Development of new products	(746)	(505)
Taxes, except for income tax	(476)	(477)
Utilities	(794)	(765)
Support	(509)	(531)
Insurance	(698)	(667)
Security	(556)	(562)
Repairs	(526)	(534)
Operating lease (cars and equipment)	(868)	(860)
Other rental expenses	(767)	(696)
Communication expenses	(149)	(178)
Remuneration to Board members	-	(345)
Transport	(54)	(36)
Other expenses	(1,704)	(1,295)
	(27,710)	**(30,238)**
Selling and distribution expenses	(16,667)	(18,017)
Administrative expenses	(11,043)	(12,221)
	(27,710)	**(30,238)**

Notes to the financial statements

4. Finance income

thousand EUR	2018	2017
Interest	50	34
Foreign exchange gain	13	-
Change in fair value of interest rate swap (gain)	28	122
Other finance income	-	40
Total finance income	**91**	**196**

5. Finance costs

thousand EUR	2018	2017
Interest expenses on loans	(936)	(789)
Foreign exchange losses	-	(32)
Other	(156)	(97)
Total finance costs	**(1,092)**	**(918)**

6. Income tax expenses

thousand EUR	2018	2017
Current income tax expense	-	-
Adjustment of corporate income tax of previous years	-	1,500
Change in deferred income tax	706	161
Total corporate income tax expense	**706**	**1,661**

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

Reconciliation of effective tax rate

thousand EUR	2018		2017	
Result before tax		**1,492**		**3,389**
Income tax using the prevailing tax rate	15%	(224)	(15%)	508
Non-deductible expenses	7.7%	(115)	5.3%	(181)
Non-taxable income	(0.3%)	4	(0.5%)	18
Tax incentive (support, accrued tax losses, investments)	(13.6%)	203	-	-
Adjustment of corporate income tax of previous years due to application of investment incentives	-	-	(44.3%)	1,500
Current year tax losses for which no deferred tax asset was recognised	-	-	5.4%	(184)
Previously not recognised deferred tax assets	(56.2%)	838	-	-
	(47.4%)	**706**	**(49%)**	**1,661**

Notes to the financial statements

7. Earnings per share

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

	2018	2017
Number of shares in issue calculated using weighted average method, thousand units	45,134	45,134
Net result for the year, in thousand EUR	2,198	(1,728)
Basic earnings per share, in EUR	0.05	(0.04)
Diluted earnings per share, in EUR	0.05	(0.04)

8. Property, plant and equipment

thousand EUR	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
Balance as at 1 January 2017	37,705	95,351	23,176	88	156,320
Additions	312	1,536	1,246	2,959	6,053
Disposals and write-offs	(116)	(848)	(1,416)	-	(2,380)
Reclassifications	1,427	(451)	(976)	-	-
Transferred from construction in progress	-	1,688	-	(1,688)	-
Balance as at 31 December 2017	**39,328**	**97, 276**	**22,030**	**1,359**	**159,993**
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**
Depreciation and impairment					
Balance as at 1 January 2017	18,803	73,483	17,804	-	110,090
Depreciation for the year	1,372	4,808	1,159	-	7,339
Depreciation of disposals	(81)	(828)	(1,366)	-	(2,275)
Reclassifications	1,223	(1,241)	18	-	-
Balance as at 31 December 2017	**21,317**	**76,222**	**17,615**	**-**	**115,154**
Balance as at 1 January 2018	21,317	76,222	17,615	-	115,154
Depreciation for the year	1,251	4,256	1,230	-	6,737
Depreciation of disposals	(38)	(1,498)	(2,102)	-	(3,638)
Reclassifications	-	-	-	-	-
Balance as at 31 December 2018	**22,530**	**78,980**	**16,743**	**-**	**118,253**
Carrying amounts					
1 January 2017	18,902	21,868	5,372	88	46,230
31 December 2017	**18,011**	**21,054**	**4,415**	**1,359**	**44,839**
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**

Pledges of property, plant and equipment

Property, plant and equipment with a carrying amount of 22,509 thousand EUR as at 31 December 2018 (in 2017: 15,726 thousand EUR) have been pledged to secure the bank loans (Note 16).

Notes to the financial statements

8. Property, plant and equipment (continued)

Depreciation

Depreciation is included in the following items:

thousand EUR	2018	2017
Cost of sales	5,605	6,231
Sales and distribution and administrative expenses	1,132	1,108
	6,737	**7,339**

Acquisition cost of fully depreciated property, plant and equipment still in use amounts to EUR 60,085 thousand as at 31 December 2018 (in 2017: EUR 63,807 thousand).

Impairment of property, plant and equipment

The Company performed an impairment test for assets related to dry dairy products and cheese operating segments as at 31 December 2018. The testing did not reveal any impairment of the mentioned assets. The carrying amount of CGU is EUR 13,776 thousand.

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

The key assumptions used in the estimation of value in use were as follows: revenue growth in 2019 - 3%, during the period 2020 to 2023 - 5% per year, the discount rate – 8%, terminal growth rate – 1%. The budgeted EBITDA was based on expectations of future outcomes taking into account historical results, adjusted for anticipated revenue growth.

The management assessed impact of individual change of certain key assumptions on the amount of recoverable value. An increase of discount rate from 8% to 9% and a decrease of annual revenue growth from 5% to 3% (during the period 2020-2023) would not result in a decrease of the asset's value in use to be lower than the carrying amount.

9. Intangible assets

thousand EUR	Software and etc.	Total
Cost		
Balance as at 1 January 2017	1,172	1,172
Additions	59	59
Write-offs	(3)	(3)
Balance as at 31 December 2017	**1,228**	**1,228**
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**
Amortization and impairment		
Balance as at 1 January 2017	1,079	1,079
amortisation for the year	51	51
amortisation of written-off assets	(3)	(3)
Balance as at 31 December 2017	**1,127**	**1,127**
Balance as at 1 January 2018	1,127	1,127
amortisation for the year	66	66
amortisation of written-off assets	-	-
Balance as at 31 December 2018	**1,193**	**1,193**
Carrying amounts		
1 January 2017	93	93
31 December 2017	**101**	**101**
1 January 2018	101	101
31 December 2018	**136**	**136**

Notes to the financial statements

9. Intangible assets (continued)

Amortization is included in the administrative expenses.

As at 31 December 2018, the acquisition cost of fully amortized intangible assets in use amounts to EUR 1,029 thousand (31 December 2017: EUR 958 thousand).

10. Other investments, including derivatives

thousand EUR	2018	2017
Other investments	22	22
	22	**22**

The major part of other investments as at 31 December 2018 and 31 December 2017 represents an investment in VŠĮ Žaliasis Taškas.

11. Inventories

thousand EUR	31/12/2018	31/12/2017
Raw materials	4,707	5,030
Work in progress	3,960	4,243
Finished goods	4,747	6,775
Goods for re-sale	9	30
	13,423	**16,078**

The cumulative revaluation of inventories as at 31 December 2018 amounts to 446 thousand EUR (as at 31 December 2017 - EUR 1,897 thousand). In addition, the Company wrote down the inventory items no longer used by an amount of EUR 435 thousand. The change in the inventory revaluation and the write down of the unused inventory items, amounting to EUR 1,016 thousand (2017 – EUR 1,219 thousand) are stated under administrative expenses. The revaluation and write down of the inventories is related to inventories no longer used and the decrease in their value to net realisable value.

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	2018	2017
Cost of sales (manufactured goods sold)	(138,862)	(140,478)
Sales, distribution and administrative expenses (consumption of inventories)	(2,933)	(2,792)
Other operating expenses (sold raw materials, spare parts)	(33)	(62)
	(141,828)	**(143,332)**

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 13,423 thousand as at 31 December 2018 (in 2017: EUR 16,078 thousand) have been pledged to secure the bank loans (Note 16).

As at 31 December 2018, the Company held part of the inventories in the warehouses of third parties. The carrying amount of the mentioned inventories amounts to EUR 382 thousand (31 December 2017 – EUR 291 thousand).

Notes to the financial statements

12. Trade and other receivables

thousand EUR	2018	2017
Financial instruments		
Current trade receivables	10,037	10,536
Other current receivables	129	157
Loans and borrowings	727	616
	10,893	**11,309**
Impairment of amounts receivable (Note 22)	(120)	-
	10,773	**11,309**
Non-financial assets		
Prepaid income tax	-	440
Receivable VAT	43	210
Prepayments	629	749
Deferred costs	404	831
	1,076	**2,230**
	11,849	**13,539**
Less: non-current part	(683)	(636)
	11,166	**12,903**

Specification of advance payments can be presented as follows:

thousand EUR	2018	2017
Advance payments for delivery of milk	460	465
Other advance payments	169	284
	629	**749**
Less: non-current part	-	(20)
	629	**729**

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 3% to 8%, is calculated on the outstanding prepayment balance.

Specification of loans may be presented as follows:

thousand EUR	2018	2017
Loans to management	600	600
Loans to employees	17	16
Loans to companies	110	-
	727	616
Less: non-current part	(683)	(616)
Short-term loans to management and employees	**44**	**-**

On 4 July 2017, the Company grated a loan of EUR 339 thousand to a member of the Company's management. As at 31 December 2018 and 31 December 2017, an outstanding balance of the loan granted amounted to EUR 600 thousand. The repayment deadline, as prescribed in the agreement, is 1 July 2020. Interest charged comprise 1 month EURIBOR plus fixed margin.

13. Cash and cash equivalents

thousand EUR	2018	2017
Cash at bank	4,645	129
Cash in hand	150	127
	4,795	**256**

As at 31 December 2018, part of cash at bank, comprising EUR 4,242 thousand is pledged to secure the bank loans (at 31 December 2017 - EUR 19 thousand).

Notes to the financial statements

14. Equity

As at 31 December 2018, the authorized capital comprised 45,134,419 ordinary registered shares at par value of 0.29 EUR each. All shares are fully paid. There were no changes in authorized capital during 2018 and 2017.

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

Treasury shares

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

Legal reserve

Under Lithuanian legislation, an annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can be used only to cover the accumulated losses. As at 31 December 2018 and 31 December 2017, the legal reserve was fully formed and amounted to EUR 1,570 thousand.

Other reserves

Other reserves as at 31 December 2018 amounted to EUR 630 thousand (EUR 630 thousand in 2017). Part of other reserves as at 31 December 2018, amounting to EUR 350 thousand (in 2017: EUR 350 thousand) has been allocated for support, charity and bonuses, and the remaining EUR 280 thousand (in 2017: EUR 210 thousand) for remuneration to Board members.

There was no dividend payment in 2018. Dividends per share paid in 2017 were 0.09 EUR.

15. Subsidies, grants

thousand EUR	2018	2017
Balance at 1 January	2,352	2,289
Additions during the period	657	63
Written-off	-	-
Subsidies as at 31 December	**3,009**	**2,352**
Amortisation at 1 January	1,759	1,600
Amortisation for the year	121	159
Written-off	-	-
Amortisation as at 31 December	**1,880**	**1,759**
Carrying amount at 1 January	593	689
Carrying amount at 31 December	**1,129**	**593**

On 10 February 2017, the Company signed an agreement with the National Agency of Settlements under the Ministry of Agriculture regarding the project „Production Base Modernisation“. During 2018, the Company received subsidies in total amounting to EUR 657 thousand.

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

Notes to the financial statements

16. Loans and borrowings

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

Creditor	Ref.	Repayment period*	Currency	31/12/2018	31/12/2017
AB SEB bankas, Luminor bank AS	a)	January 2022	EUR	9,750	11,789
AB SEB bankas, Luminor bank AS	b)	January 2022	EUR	9,750	11,789
UAB Nordea finance Lithuania	c)	July 2019	EUR	37	51
AB SEB bankas, Luminor bank AS	d)	April 2019	EUR	3,500	2,500
AB SEB bankas, Luminor bank AS	e)	April 2019	EUR	3,500	2,500
Luminor bank AS	f)	June 2018	EUR	-	1,917
AB SEB Bankas	g)	June 2018	EUR	-	1,975
Total liabilities				**26,537**	**32,521**
Less: current part*				(13,037)	(32,484)
Total non-current part				**13,500**	**37**

Reconciliation of movement in interest bearing loans and borrowings

thousand EUR	**2018**	**2017**
Balance at 1 January	32,521	28,463
Proceeds from borrowings	3,922	10,070
Repayment of borrowings	(9,892)	(6,000)
Acquisition of a property under lease agreements	-	-
Leasing payments	(14)	(12)
Balance as at 31 December	**26,537**	**32,521**

All loans and other financial liabilities as at 31 December 2018 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), all current and future cash flows in bank accounts (Note 13) and the right of rent of commercial land.

All interest calculated during 2018 and 2017 is recognised in profit or loss of a respective year.

Interest rates

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

%	**2018**	**2017**
Non-current loans	2.45	1.72 – 2.45
Current loans	2.22-2.45	1.50 – 2.00

Loan repayment schedules

The contractual repayment of loans is as follows:

thousand EUR	**2018**	**2017**
Within one year	13,037	32,484*
From one to five years	13,500	37*
Over five years	-	-
Present value of liabilities	**26,537**	**32,521**

Notes to the financial statements

16. Loans and borrowings (continued)

*As at 31 December 2017 the Company did not comply with the loan covenants, all amounts in the above table are presented as payable to banks within one year.

As at 31 December 2018 the Company was in compliance with the prescribed loan covenants.

17. Operating lease

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

thousand EUR	**2018**	**2017**
Lease of milk collection stations	(11)	(12)
Lease of premises	(159)	(157)
Operating lease of vehicles, loaders and other assets	(1,011)	(993)
Total operating lease expenses	**(1,181)**	**(1,162)**

Expenses in respect to the lease of milk collection stations are recognised under cost of sales. Lease of premises is stated under sales and administrative expenses. Operating lease of other assets is stated under sales and administrative expenses (EUR 868 thousand) and cost of finished goods (EUR 143 thousand) (in 2017: EUR 860 thousand and EUR 133 thousand, respectively).

Future minimum lease payments as at 31 December 2018 can be presented as follows:

thousand EUR	**2019**	**2020**	**2021**	**2022**	**2023**	**Later**	**Total**
Lease of milk collection stations	-	-	-	-	-	-	-
Lease of premises	(73)	-	-	-	-	-	(73)
Operating lease of vehicles, loaders and other assets	(625)	(258)	(216)	(93)	(35)	-	(1,227)
Total operating lease expenses	**(698)**	**(258)**	**(216)**	**(93)**	**(35)**	**-**	**(1,300)**

Future minimum lease payments as at 31 December 2017 can be presented as follows:

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

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

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.

Notes to the financial statements

18. Employee benefits (continued)

thousand EUR	Net defined benefit liability	
	2018	2017
Balance at 1 January		
Retirement benefits	663	663
Jubilee bonus provision	121	121
Total non-current employee benefits at 1 January	**784**	**784**
Changes during the year		
Booked in profit or loss	99	-
Used provision	-	(62)
Increase (decrease) in provision during the period	-	62
Amounts recognised in other comprehensive income	-	-
Balance as at 31 December	**883**	**784**
Retirement benefits	484	319
Jubilee bonus provision	55	121
Severance payments	344	344
Total non-current employee benefits at 31 December	**883**	**784**

Main assumptions used for the calculation of benefit obligation were: discount rate 8%; annual salary increase of 2.00%.

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	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	19	20	19	20
Write down of inventories	(67)	(285)	-	-	(67)	(285)
Not used investments incentive	(900)	-	-	-	(900)	-
Tax losses	(44)	-	-	-	(44)	-
Accrued costs	(155)	(176)	-	-	(155)	(176)
Tax (asset) / liability	**(1,166)**	**(461)**	**19**	**20**	**(1,147)**	**(441)**

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

thousand EUR	01/01/2018	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)
Accumulated tax losses	-	(44)		(44)
Not used investments incentives	-	(900)	-	(900)
Accrued costs	(176)	21	-	(155)
Tax (asset) / liability	**(441)**	**(706)**	**-**	**(1,147)**

thousand EUR	2017 01 01	Stated in profit or loss	Stated in equity	31/12/2017
Property, plant and equipment	22	(2)	-	20
Write down of inventories	(127)	(158)	-	(285)
Accrued costs	(175)	(1)	-	(176)
Tax (asset) / liability	**(280)**	**(161)**	**-**	**(441)**

Notes to the financial statements

19. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax asset

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

thousand EUR	2018		2017	
	Nominal value	Tax effect	Nominal value	Tax effect
Tax loss to be carried forward	-	-	1,230	184
Unutilised balance of the investment incentive	2,080	312	6,437	966
Total	**2,080**	**312**	**7,667**	**1,150**

According to the Lithuanian law requirements investment incentive are applicable for the limited period (5 years, till 2023), thus due to the fact that the Company does not expect to generate sufficient amount of profits during the 2019 – 2023 period, deferred tax assets relating to part of investments incentive has not been recognised.

Unrecognised deferred tax assets movement:

	Unrecognised deferred tax assets				
thousand EUR	**Nominal value 01/01/2018**	**Used in 2018**	**Increase during 2018**	**Deferred tax recognised**	**Nominal value 31/12/2018**
Tax loss to be carried forward	1,230	(939)	-	291	-
Unutilised balance of the investment incentive	6,437	(403)	2,046	6,000	2,080
Total	**7,667**	**(1,342)**	**2,046**	**6,291**	**2,080**

20. Trade and other payables

thousand EUR	**2018**	**2017**
Financial instruments		
Payable to suppliers	13,687	12,570
Other amounts payable	326	530
	14,013	13,100
Non-financial instruments		
Advances received	1,063	1,144
Vacation reserve	1,838	1,651
Payable taxes and social security	874	753
Wages and salaries payable	823	590
	4,598	4,138
	18,611	**17,238**
Less: non-current part	-	(227)
	18,611	**17,011**

Notes to the financial statements

21. Derivative financial instruments

In 2015, the Company entered into an interest rate swap agreement with DNB bank (currently Luminor bank AS), 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 2018 amounts to EUR 180 thousand (2017 - EUR 208 thousand). The fair value was determined based on the discounted cash flow method. Payments of fixed interest were estimated by multiplying the fixed interest rate by notional amount. Payments of variable interest were estimated by multiplying the forecasted interest rate of 3 months EURIBOR for a certain period by notional amount. Net cash payments were discounted using the discounting factors derived from the published market data.

Change in the fair value of derivative financial instrument during 2018 is a gain amounting to EUR 28 thousand (2017 - a loss of EUR 122 thousand) and is recognised in the profit or loss under finance income (2017 – under finance expenses).

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 ten clients the receivables from whom accounted for 58 % of the total trade receivables balance. Usual payment terms of trade receivables are 1 to 60 days. For one-off sales the Company requires a prepayment.

Based on the recoverability of the Company's overdue receivables, management believes that since the initial recognition, the credit risk has not increased significantly, even if the contractual payments are overdue for more than 30 days.

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

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

thousand EUR	**Carrying amount**	
	2018	**2017**
Non-current receivables	683	616
Short term receivables (Note 12).	10,090	10,693
Cash and cash equivalents	4,795	256
	15,568	**11,565**

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

thousand EUR	**Carrying amount**	
	2018	**2017**
Lithuania	2,592	2,749
European Union countries	6,452	6,186
Russia	160	211
Other countries	1,569	2,163
	10,773	**11,309**

Notes to the financial statements

22. Financial instruments (continued)

Credit risk (continued)

Impairment losses

From 1 January 2018, after enforcement of IFRS 9, the Company established a provision of expected credit losses (ECL) for financial assets at amortized cost, - trade receivables and other receivables.. In determining whether the risk of a financial asset has materially increased since the initial recognition and in assessing the amount of ECL, the Company shall consider reasonable and validated information that is relevant and available without incurring excessive costs. This includes quantitative and qualitative data and analysis based on the Company's past experience and credit assessment, including prospective information. Impairment provisions for financial assets measured at amortized cost are deducted from the carrying amount of such assets and are recognised as impairment in the statement of comprehensive income.

Methods and assumptions used for evaluation of future cash flows are reviewed on a regular basis in order to decrease the differences between the estimated and factual losses. Based on a specific decision of the Board, receivables from certain clients may be subject to individual evaluation for impairment.

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

Impairment losses of financial assets	**2017**	**2018**
Impairment of trade receivables and contract assets	120	-
Impairment of other investments	-	-
Total	**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.

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 2018 is presented in the table below:

thousand EUR	**Average loss amount**	**31/12/2018**	**Accounted impairment**
Not past due	0.03%	7,044	(2)
Overdue 0-30 days	0.4%	2,048	(8)
Past due 30-60 days	0.6%	391	(2)
Past due 61-90 days	14.2%	101	(14)
More than 90 days	20.8%	453	(94)
		10,037	**(120)**

Notes to the financial statements

22. Financial instruments (continued)

Credit risk (continued)

Impairment losses (continued)

thousand EUR	Average loss amount	01/01/2018	Accounted impairment
Not past due	0.03%	6,340	(2)
Overdue 0-30 days	0.4%	3,507	(14)
Past due 30-60 days	0.6%	539	(3)
Past due 61-90 days	14.2%	139	(20)
More than 90 days	20.8%	11	(2)
		10,536	**(41)**

Having applied the requirements of IFRS 9, the Company did not recognise any impairment as at 1 January 2018, as the management evaluates the effect being not significant.

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 management of the Company, therefore, according to the management, the credit risk related to the granted loans is minimal.

Cash and cash equivalents include cash at bank; therefore, the related credit risk is minimal.

Foreign exchange risk

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

As at 31 December 2018 and 31 December 2017, there are no significant financial assets and liabilities denominated in other currencies than EUR.

Liquidity risk

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

31 December 2018

thousand EUR	Carrying amount	Net 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**

Notes to the financial statements

22. Financial instruments (continued)

Liquidity risk (continued)

31 December 2017

thousand EUR	Carrying amount	Net cash flows	6 months or less	6 -12 months	2-5 years
Financial liabilities					
Loans and other payable amounts*	32,521	33,157	33,120	-	37
Derivative financial instruments	208	313	55	56	202
Trade and other payables (Note 20)	13,100	13,100	13,100	-	-
	45,829	**46,570**	**46,275**	**56**	**239**

*As the Company does not comply with the loan covenants as at 31 December 2017, all amounts in the above table are presented as payable to banks within 6 or less months. According to schedules in the loan agreements the contractual cash flows would be as presented below:

As at 31 December 2017

thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6 -12 months	2-5 years
Financial liabilities					
Loans and other payable amounts*	32,521	33,797	5,271	3,298	25,228
Derivative financial instruments	208	313	55	56	202
Trade and other payables (Note 20)	13,100	13,100	13,100	-	-
	45,829	**47,210**	**18,426**	**3,354**	**25,430**

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

	2018	**2017**
Loans and other financial liabilities	2.22 - 2.45%	1.72 - 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".

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 2018	2017
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 2018	2017
Financial instruments bearing variable interest rate		
Financial lease	-	51
AB SEB, Luminor bank AS (long-term loan)	19,500	23,578
AB SEB, Luminor bank AS (overdraft)	-	3,892
AB SEB bankas, Luminor bank AS (credit line)	7,000	5,000
Part of loan related to interest rate swap	(15,000)	(15,000)
	11,500	**17,521**

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 2017 is made on the same basis.

Effect in thousand EUR	Profit (loss) for the year 100 bp increase	100 bp decrease
As at 31 December 2018		
Financial instruments on which variable interest rate was applied	(115)	115
As at 31 December 2017		
Financial instruments on which variable interest rate was applied	(175)	175

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

Fair value of financial instruments

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

As at 31 December 2018 and as at 31 December 2017, 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.

Notes to the financial statements

22. Financial instruments (continued)

Fair value of financial instruments (continued)

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 2 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 2017, the Company did not have any material purchase commitments.

24. Related parties

Transactions with related parties can be presented as follows:

thousand EUR	2018			2017		
	upport, sales, interest	**Purchases**	**Receivable loans**	**Support, sales, interest**	**Purchases**	**Receivable loans**
Management (3)	16	-	600	-	-	600
Other related parties	455	2	-	467	276	-
	471	**2**	**600**	**467**	**276**	**600**

During 2017, the loan to management of the Company was increased up to EUR 600 thousand (Note 12).

Pieno Žvaigždės, AB is the sole participant of the basketball club VŠĮ SSK to which the Company's support is provided. During the year 2018, the Company granted EUR 455 thousand of support (in 2017: EUR 467 thousand).

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

Until 2018, UAB Žaibo Ratas Vilnius was a related company through a member of the Board of Pieno Žvaigždės, AB. UAB Žaibo Ratas Vilnius provided car maintenanace services to the Company. As at 31 December 2017, the Company had a payable (3 thousand EUR) to this related party.

During 2017, the Company recovered 117 thousand EUR of loans from related parties, which in prior periods were written-off through equity. Proceeds are recognised as other income directly in equity.

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

Notes to the financial statements

24. Related parties (continued)

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

thousand EUR	2018	2017
Remuneration to management	628	462
Remuneration to management, net of tax	474	268
Remuneration to Board members, excluding social security	-	280
Remuneration for work in the Board	22	-
Expenses compensastion for the management	54	-

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

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

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

25. Contingencies

The Company has no contingent liabilities as at 31 December 2018. The Company has contingent liabilities by the total value up to EUR 132 thousand as at 31 December 2017. This amount was not recognised in the financial statements as at 31 December 2017 as an outcome of the matters cannot be reliably estimated. There are no other significant contingencies, related to the Company.

The tax administrator has not performed a full-scope tax investigation of the Company for the period from 2014 until 2018. 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 five 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.

26. Subsequent events

No subsequent events have occurred after the end of the financial year, which could have material influence on or require disclosure in these financial statements as at and for the year ended 31 December 2018.

Pieno Žvaigždės, AB

Confirmation of the Management

3 April 2019
Vilnius

Financial statements and the Annual Report for the year 2018

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

General Director	Aleksandr Smagin
Finance Director	Audrius Statulevičius

PIENO ŽVAIGŽDĖS, AB

ANNUAL MANAGEMENT REPORT FOR THE YEAR 2018

GENERAL INFORMATION ABOUT THE ISSUER

Accounting Period for which the present Report has been Prepared.

The present Report has been prepared for the financial year 2018.

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 2018, 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 labour 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 behaviour rules to prevent biological, chemical, allergic and physical contamination and ensure high quality and safety of the dairy products.

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

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

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

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

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

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

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

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

Key figures, million EUR

	31 12 2018	**31 12 2017**
Turnover	168.7	167.8
Gross profit	29.8	27.3
Profit before tax, interest and depreciation (EBITDA)	9.2	4.8
Profit (loss) before tax	1.5	-3.4
Investment in property, plant and equipment	4.1	6.1
Average number of employees	1,654	1,735
Raw milk purchased (natural milk), thousands tons	267.0	277.9
Milk purchased as to basic ratios, thousands tons	324.6	341.5

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 financial statements.

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, analysed 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 2018, AB Pieno Žvaigždės 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 2018, 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 2018, AB Pieno Žvaigždės did not acquire any own shares.

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

-

7. Information about branches and representative offices

Pieno Žvaigždės, AB comprises four production branches:

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

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

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

9. Operational plans and forecasts of the Company

The main goals of Pieno Žvaigždės, AB for the year 2019:

- ✓ Expected turnover for the year 2019 – close to 174 million EUR;

10. Information about research and development activity

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

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

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

Management report of the Company for 2018

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 2018), the total number of the shareholders in the Company was 3 723.

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%

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

5. Information about transactions with related parties

Information about transactions with related parties is presented in the explanatory notes to the financial statements (Note 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	26-04-2018	26-04-2022
Artiom Smagin	Member	-	-	26-04-2018	26-04-2022
Voldemaras Klovas	Member	3,142,567	6.96	26-04-2018	26-04-2022
Aleksandr Smagin	Member	1,323,536	2.93	26-04-2018	26-04-2022
Regina Kvaraciejienė	Member	2,126,959	4.71	26-04-2018	26-04-2022
Gžegož Rogoža	Member	46,150	0.10	26-04-2018	26-04-2022
Vitalis Paškevičius	Member	0	0.00	26-04-2018	26-04-2022

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

Administration

Name, surname	Official duties	Number shares, units	Share of the capital %
Aleksandr Smagin	CEO	1,323,536	2.93
Audrius Statulevičius	CFO	-	-

The authorities of the chairman of the board are prescribed in the Companies Law of the Republic of Lithuania. The Articles of Association of the Company do not prescribe any restrictions or additions to the authorities.
Information about the remuneration to governing bodies as well as amount transactions carried out with members of the governing bodies is disclosed in Note 24 of the explanatory notes to the annual financial statements.

Committees established in the Company

The company has the Audit Committee

Name, surname	Official duties	Number shares, units	Share of the capital %	From	Until
Aušra Joniūnienė	Chairman	-	-	12-07-2018	26-04-2019
Gražina Buckiūnienė	Member			12-07-2018	26-04-2019
Danutė Kairevičienė	Member	-	-	12-07-2018	26-04-2019

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.

SUSTAINABILITY REPORT

1. Business model

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

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

The main points that describe the Company:

- Operation in the country having deep traditions in milk production. An amount of purchased milk in Lithuania per person is larger than that of recognized milk giants such as Germany, France, Poland and United Kingdom;
- There are four specialized milk processing factories in Lithuania;
- A wide assortment that meets the needs of even the most demanding clients;
- Production includes such popular daily products as milk, yoghurt or grated curd;
- The shopping cart is supplemented by Cagliata, Mozzarella, powdered milk and other products traded in the market;
- Turnover for 2018 amounted to 168 million EUR;
- Investments over the last 10 years exceed 100 million EUR;
- Purchased raw milk makes 730 t/d;
- Own distribution network, including trucks and warehouses;
- Own milk collection network covering the whole country;
- Export of produce to more than 40 countries;
- Awards for high quality and excellent evaluation by customers;
- Passionate approach not only towards work but sports as well. Own basketball team playing in the highest league in Lithuania.

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

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

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

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

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

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

3. Social policy results

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

Employees and average salaries in the Company:

	31-12-2018	**31-12-2017**
Average number of employees	**1,654**	**1,735**
With university education	380	396
With college education	347	364
With secondary education	794	830
With not completed secondary education	133	145

	31-12-2018	**31-12-2017**
Average number of employees	**1,654**	**1,735**
Management	82	84
Specialists	292	307
Workers	1,280	1,344

	31-12-2018	**31-12-2017**
Average gross salary, EUR		
Management	2,283	1,897
Specialists	1,046	945
Workers	722	665

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

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

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

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

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

Information on financial risks and their management is presented in Note 22 to the annual financial statements.

5. Non-financial key performance indicators

Key performance indicators	**31-12-2018**	**31-12-2017**
Investments in property, plant and equipment, in million EUR	4.1	6.1
Average number of employees	1,654	1,735
Purchased milk, in thousand tons	267.0	277.9
Purchased milk as to base indicators, in thousand tons	324.6	341.5
Sale of cheese, in million EUR	38.2	36.1
Sales of dried dairy products, in million EUR	7.2	9.1
Sales of fresh dairy products, in million EUR	113.6	115.0
Sales of other products, in million EUR	9.7	7.6

Detailed explanations of the values of the key indicators are provided in item 2 of the Annual report.

Addendum 1

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company presents forecasts announcing significant events through the centralized information system, however due to competition in the market, the Company cannot publicly disclose certain strategies in advance.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Council in the Company. Control over the Board is performed by General Shareholders Meeting, to which the Board reports.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Board is the collegial management body.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company has executive body – the Board. Shareholders of the Company have not formed a Supervisory board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board,	Yes	As collegial supervisory body is not formed at the Company the Principle III and IV statements, are applied to the Board as long

Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body[1].		as it does not contradict to the essence and purpose of such body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies[2].	Yes	The Board consists of 7 members who represent interests of shareholders. This number of members is sufficient and ensures that no individual or small group of individuals dominates decision-making of the Board
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Board members are elected for maximum 4 year term as per legislation. There are no limitations for re-election.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's general manager is not the chairman of the Board. No obstacles for independent and objective supervision exist.

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

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

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting shall ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies[3].**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') shall ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Company discloses information of candidates to the Company's collegial body. The shareholders structure does not contain any dominating shareholders. All active shareholder groups have their representatives in the Board.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest shall be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, shall be also disclosed. The collegial body shall also be informed on any subsequent changes in the provided information. The collegial body shall, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.
3.3. Shall a person be nominated for members of a collegial body, such nomination shall be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body shall, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	Members of the collegial body have extensive experience in the enterprise management, have versatile knowledge and skills for proper execution of duties.

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

3.5. All new members of the collegial body shall be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body shall conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the collegial body have extensive experience in the enterprise management. Shall new candidates be elected, they would be acquainted with the situation in the Company and specifics of management.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body shall comprise a sufficient [4]number of independent [5]members.	No	The shareholders did not elect any independent members in this tenure of the Board
3.7. A member of the collegial body shall be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body shall be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);	No	The shareholders did not elect any independent members in this tenure of the Board

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

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

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

3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[6]. The general shareholders' meeting shall approve the amount of such remuneration.	No	The shareholders did not elect any independent members in this tenure of the Board
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework shall ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body shall ensure effective monitoring [7]of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') shall ensure integrity and transparency of the company's financial statements and the control system. The collegial body shall issue recommendations to the company's management bodies and monitor and control the company's management performance[8].	Yes	*Management submits reports to the collegial body at least once per quarter and gets recommendations. The Board approves the annual report prepared by the management.*
4.2. Members of the collegial body shall act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body shall (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections shall a member consider that decision of the collegial body is against the interests of the company. Shall a collegial body have passed decisions independent member has serious doubts about, the member shall make adequate conclusions. Shall an independent member resign from his office, he shall explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	*The Board members perform on their good will on behalf of the company follow the company's interests trying to maintain independency in decision making.*
4.3. Each member shall devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body shall limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body shall be present in less than a half [9]of the meetings of the collegial body throughout the financial year of the company, shareholders of the company shall be notified.	Yes	*Members of the collegial body properly fulfil their duties: take active part in sittings and allot sufficient time for execution of duties. All sittings of the collegial body had quorum.*

4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body shall treat all shareholders impartially and fairly. It shall ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company shall have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	

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

[7] See Footnote 3.

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

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

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management shall be subject to approval of the collegial body. The decision concerning approval of such transactions shall be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	No	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes	
4.7. Activities of the collegial body shall be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body shall establish nomination, remuneration, and audit committees[11]. Companies shall ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company shall explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Shall the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) shall apply, where relevant, to the collegial body as a whole.	No	Only Audit committee established
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body	Yes	

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

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

itself, which remains fully responsible for the decisions taken in its field of competence.		
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Audit committee consists of three members. Two of them are independent members.
4.10. Authority of each of the committees shall be determined by the collegial body. Committees shall perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee shall be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies shall also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee shall confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Annual statement of the audit committee is presented to the Board and shareholders meeting.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee shall commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees shall have a possibility to maintain direct communication with the shareholders. Events when such are to be performed shall be specified in the regulations for committee activities.	Yes	

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee shall be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee shall evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee shall consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company shall be consulted by, and entitled to submit proposals to the nomination committee.	N/A	N/A because Nomination Committee is not formed.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	N/A	N/A because Remuneration Committee is not formed.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee shall be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Shall there be no internal audit authority in the company, the need for one shall be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee shall investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, shall at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee shall determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.	Yes	Audit committee was established and approved by the shareholders' meeting. The Audit committee submits annual financial statements to the Board and the shareholders' meeting.

4.14.2. All members of the committee shall be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management shall inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration shall be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee shall decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee shall be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors shall be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee shall act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee shall be informed of the internal auditor's work program, and shall be furnished with internal audit's reports or periodic summaries. The audit committee shall also be informed of the work program of the external auditor and shall be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee shall be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee shall examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and shall ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee shall report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body shall conduct the assessment of its activities. The assessment shall include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body shall, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	

Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company shall ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) shall be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson shall ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body shall ensure appropriate conducting of the meetings of the collegial body. The chairperson shall ensure order and working atmosphere during the meeting.	Yes	This regulation in the Company is realised by the Board.
5.2. It is recommended that meetings of the company's collegial bodies shall be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings shall be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board shall be convened at least once in a quarter, and the company's board shall meet at least once a month[12].	Yes	The Board sittings are convened at least once per quarter.
5.3. Members of a collegial body shall be notified of the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice of the meeting, all the documents relevant to the issues on the agenda of the meeting shall be submitted to the members of the collegial body. The agenda of the meeting shall not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management shall closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board shall be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Board is doing the work that collegial body should do.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework shall ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework shall protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital shall consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Ordinary shares comprising the share capital provide equal rights to all shareholders of the Company.
6.2. It is recommended that investors shall have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	

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

6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance shall be subject to approval of the general shareholders' meeting[13]. All shareholders shall be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	The major shareholders have representatives in the Board which is the decision-maker.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	All shareholders are informed about the date, place and time of the general meeting. The shareholders can get information on the meeting's agenda beforehand.
6.5. It is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	
6.6. Shareholders shall be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders shall not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	

Principle VII: The avoidance of conflicts of interest and their disclosure

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

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

8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	N/A	Remuneration statement is not published.
8.4. Remuneration statement shall also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It shall include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	N/A	Remuneration statement is not published.
8.5. Remuneration statement shall also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document shall list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information shall be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	N/A	Remuneration statement is not published.

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

8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria	N/A	There is no such remuneration scheme.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	N/A	There is no such remuneration scheme.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	N/A	There is no such remuneration scheme.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	N/A	Remuneration statement is not published.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy shall be included into the agenda of the shareholders' annual general meeting. Remuneration statement shall be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	N/A	Remuneration statement is not published.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements shall be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme shall be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions shall also be subject to shareholders' approval prior to their adoption; the approval decision shall be made in shareholders' annual general meeting. In such case shareholders shall be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	N/A	There is no such remuneration scheme.
8.20. The following issues shall be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting shall also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	N/A	There is no such remuneration scheme.
8.21. Shall national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, shall also be subject to the shareholders' approval.	N/A	There is no such remuneration scheme.
8.22. Provisions of Articles 8.19 and 8.20 shall not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	N/A	There is no such remuneration scheme.

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents shall be posted on the company's website). The notice shall contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice shall also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It shall be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There shall also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	N/A	There is no such remuneration scheme.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework shall recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework shall assure that the rights of stakeholders that are protected by law are respected.	Yes	
9.2. The corporate governance framework shall create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they shall have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework shall ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company shall disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list shall be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	Information about the company pointed out in these recommendations is disclosed in the following sources: annual report, financial statements and notes to the financial statements, announcements on acquisition/disposal of shareholdings, announcements on significant events through the information system of the Stock Exchange.

10.2. It is recommended that consolidated results of the whole group to which the company belongs shall be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	No	The Company is not a parent company.
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company shall be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income shall be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Disclosed information on management's remuneration.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. shall be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	
10.5. Information shall be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information shall be disclosed to all simultaneously. It is recommended that notices about material events shall be announced before or after a trading session on the NASDAQ OMX Vilnius, so that all the company's shareholders and investors shall have equal access to the information and make informed investing decisions.	Yes	Information through the centralised information system is presented in the Lithuanian and English languages at the same time. Furthermore, the company aims to to announce the information before or after the trading session and provide it to all markets in which the company's shares are traded. Information which may influence the share price is not disclosed in any way until such information is publicly announced through the Stock Exchange information system.
10.6. Channels for disseminating information shall provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies shall be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information shall be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company shall be placed on the company's website. It is recommended that the company shall announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor shall ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	

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