



## **ŽEMAITIJOS PIENAS AB**

Independent Auditor's Report,  
Consolidated Annual Report,  
Financial Statements,  
and Consolidated Financial statements  
for the year ended 31 December 2020

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of AB ŽEMAITIJOS PIENAS

**Report on the Audit of the Company's and Consolidated Financial Statements****Qualified Opinion**

We have audited the accompanying separate financial statements of AB ŽEMAITIJOS PIENAS, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB ŽEMAITIJOS PIENAS and its subsidiary (hereinafter the Group), which comprise the Consolidated and company's statements of financial position as at 31 December 2020, and the Consolidated and company's statements of comprehensive income, the Consolidated and company's statements of changes in equity and the Consolidated and company's statements of cash flows for the year then ended, and the notes to the the Consolidated and company's statements, including significant accounting policies and explanatory information.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the accompanying Consolidated and company's financial statements present fairly, in all material respects the separate and consolidated financial position of the Company and the Group as at December 31, 2020, and their separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

**Basis for Qualified opinion**

During the Ordinary General Meeting of AB ŽEMAITIJOS PIENAS shareholders held on 9th of April 2020, a decision was made to allocate a part of the distributable profit to the suppliers of raw materials for annual bonuses of 1350 thousand EUR. As indicated in Note 20 to the explanatory notes, when preparing the financial statements for 2020 AB ŽEMAITIJOS PIENAS formed accruals for the payment of annual bonuses to the suppliers of raw material in the amount of 1350 thousand EUR and increased the cost of sales accordingly. On 10th of July the Board of the Company approved the regulations on the payment of annual partnership bonuses for persons (sellers) selling milk to AB ŽEMAITIJOS PIENAS. There was neither approved decision on granting these bonuses nor a list of bonus recipients with the amounts to be paid as of the date of preparation and approval of the financial statements. We were unable to apply any audit procedures that would allow us to obtain reasonable assurance about the terms and conditions under which the approved bonuses are granted as well as for what period the bonuses are paid. This described accrual may affect the financial position of the Company and the Group as at 31 December 2020 and their financial performance for the year then ended. We have not been able to determine whether adjustments to these financial statements are required as a result of this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public – interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, 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 Qualified opinion.

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## Key Audit Matters

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

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

### *Inventory net realizable value and allowance for obsolescence*

Inventories of the Company and the Group amount to EUR 33 334 thousand and EUR 34 395 thousand, respectively, before impairment allowance and to EUR 32 982 thousand and EUR 34 043 thousand, respectively, after impairment allowance as of 31 December 2020 (Note 9). This is significant to our audit since it is a material figure for the Company and the Group comprising 27,39 % of the Company's and 26,30% the Group's total assets, and requires management judgment in assessing whether the carrying value of some inventories is not higher than their net realizable value at the balance sheet date. There is also management judgment required in determining the inventory obsolescence allowance, as it is based on management's assessment of historical and forecast of particular inventory sales, physical obsolescence rates and other relevant factors.

Among other audit procedures, we have gained an understanding of how management evaluates inventory net realizable value and calculates allowance for obsolescence. We have reviewed the calculations of inventory net realizable value, which was performed by the management of the Company and the Group based on review of subsequent sales after the year-end. We have also tested the ageing of the inventories and the computation of the obsolescence level. Further, we have also analyzed various obsolescence related information and management's forecast of future sales, applied in the calculations of impairment allowance. Finally, we have evaluated the adequacy of the Company's and the Group's disclosures included in Note 9.

### *Assessment of the recoverability of a related party receivable*

As of 31 December 2020, the Company / Group had a receivable from related party Čia Market UAB of EUR 2 022 thousand (31 December 2019 – EUR 2 668 thousand) before impairment, and the impairment allowance recorded for it of EUR 265 thousand (31 December 2019 – EUR 265 thousand) as of 31 December 2020 (Note 10). Even though the Company / Group has been and continues trading with this company for a number of years, there is an ongoing uncertainty over the collectability of the receivable balance from this specific customer, because the financial position of Čia Market UAB has not been strong for several years, it has been periodically late with payments due to the Company / Group. We believe that this is a key audit matter due to the high individual amount materiality level and also because the determination as to whether this receivable is recoverable and the assessment of the appropriate level of allowance for it involves significant management judgment.

Among other audit procedures, we have reviewed historical payment patterns by Čia Market UAB, the amount of payments that have been received subsequent to year end, the information available to the Company / Group about the historical and latest financial position and results of operations of this company, as well as management's assessment of the anticipated time over which the outstanding amount is expected to be repaid, and the related present value estimates that are the basis for the allowance assessment. We have also assessed the adequacy of the Company's / Group's disclosures included in Note 4 in relation to the management's key judgments and estimates related to assessing the recoverability of and related allowance for this receivable as of the year-end (Note 10).

## Other information

The other information comprises the information included in the Group's annual report, including Company's Corporate Governance Code Compliance Report and 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 we do not express any form of assurance conclusion thereon, except as specified below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Group's consolidated annual report, including Corporate Governance Code Compliance Report, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and Business Accounting Standards/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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### **Report on other legal and regulatory requirements**

In accordance with the decision made by shareholders meeting on 7 June 2019 we have been chosen to carry out the audit of Company's financial statements and Group's consolidated financial statements. Our appointment to carry out the audit of Company's financial statements and Group's

consolidated financial statements in accordance with the decision made by shareholders meeting has been renewed every two years and the period of total uninterrupted engagement is 2 year.

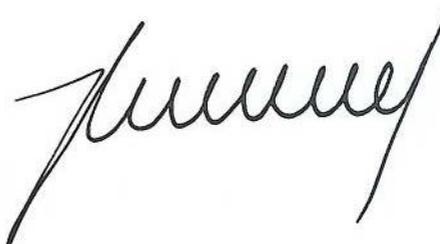
We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Arvydas Ziziliauskas.

Auditor  
Arvydas Ziziliauskas  
March 10, 2021  
Jonavos g. 60C, Kaunas



Auditor's certificate No. 000467  
Grant Thornton Baltic UAB  
Audit firm certificate No. 001502



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## I. GENERAL INFORMATION

### Reporting period for which the report is developed

Consolidated semi-annual report are prepared and provided for January-June 2020, moreover, the report contains the significant events occurred after the end of the reporting period.

This document refers to AB “Žemaitijos pienas” (hereinafter referred to as the Company or Issuer), ABF “Šilutės Rambynas” (hereinafter referred to as the Group Company or Associated Company), and in cases when facts on both Companies are described and/or specified, the Companies shall refer to as the Companies of the Group.

### Brief history of the Company

The beginning of AB “Žemaitijos Pienas” dates back to 1924, when Telšiai dairy plant of high capacity was incorporated. In the end of 1984 Telšiai dairy plant activity moved to new premises and operated until opening and privatization of Telšiai cheese plant which was one of the largest in the Baltic States. AB “Žemaitijos pienas” was registered in the Register of Legal Entities on 23 June 1993 in Telšiai District Board and on 16 October 1998 it was re-registered in the Ministry of Agriculture of the Republic of Lithuania.

Upon the decision of the General Meeting of Shareholders of 1 May 2004, it was reorganized by way of division, separating a part of assets, rights and liabilities, and establishing AB “Žemaitijos pieno investicija”.

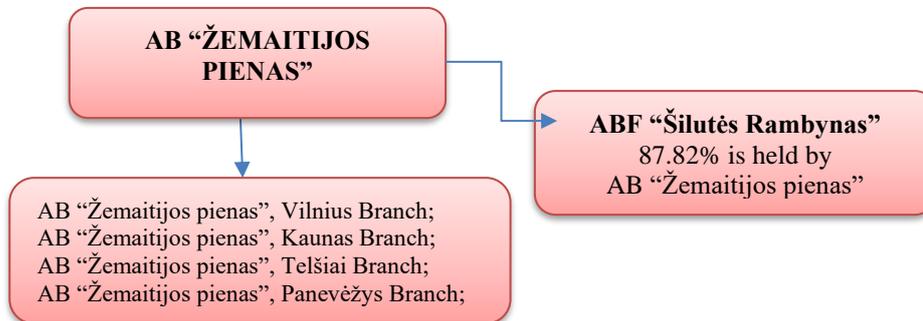
Upon the decision of the General Meeting of Shareholders of 18 December 2019, the Company was reorganized by merging the Public Limited Liability Company “Baltijos mineralinių vandenių kompanija”, which after the merging on 10 January 2020 was deregistered from the Register of Legal Entities.

### Basic data on the Company

AB “ŽEMAITIJOS PIENAS”	
Title	AB “ŽEMAITIJOS PIENAS”
Legal form	Public Limited Liability Company
Company number	180240752
VAT number	LT802407515
Authorised capital	EUR 14 028 750
Office address	Sedos Str. 35, Telšiai, Lithuania
Telephone	+ 370 444 22201
Fax	+ 370 444 74897
E-mail	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
WEB	<a href="http://www.zpienas.lt">www.zpienas.lt</a>
Stock trading code	ZMP1L
ISIN number	LT0000121865
LEI number	5299005U9E85Y55OHK45

Data on AB “Žemaitijos pienas” are collected and stored in the Register of Legal Entities of the State Enterprise Centre of Registers.

### Structure of the Group



### AB “Žemaitijos pienas” branches and data:

- Vilnius Branch, identification number 123809154, address: Algirdo Str. 40/13, Vilnius
- Kaunas Branch, identification number 134853981, address: Europos Ave. 36, Kaunas
- Telšiai Branch, identification number 110893017, address: Sedos Str. 35, Telšiai
- Panevėžys Branch, identification number 148133399, address: J. Janonio Str. 9, Panevėžys

Branches of the Company fulfil the functions related to sale of goods (dairy products) within the set territory of the branch and take other actions or fulfil orders of the Company.

The Company has no incorporated representative offices.

### Associated company– ABF “Šilutės Rambynas”

ABF “ŠILUTĖS RAMBYNAS”	
Legal form	Public Limited Liability Company (Firm)
Company number	277141670
VAT payer’s code	LT714167015
Authorised capital	EUR 2 493 028.50
Office address	Klaipeda Str. 3, Šilutė, Lithuania
Telephone	+ 370 441 77442
Fax	+ 370 441 77443
E-mail	<a href="mailto:info@rambynas.lt">info@rambynas.lt</a>

The basic activity of ABF “Šilutės Rambynas” is the production and sale of fermented cheese and cheese products, as well as the production and sale of pasteurized cream, pasteurized whey and concentrated whey (NACE: C 10.5. Manufacture of dairy products; C 10.51. Operation of dairies and cheese making). Furthermore, the company provides transportation and storage Services, Services related to servicing of milk buying-up points and other Services.

Furthermore, the Company provides transportation and storage services, services related to servicing of milk buying-up points and other services. ABF “Šilutės Rambynas” has no incorporated branches and representative offices.

### **Basic objectives and nature of economic activities**

The Companies of the Group pursue economic and commercial activities (production, trade, provision of services, etc.) in order to get benefit for themselves and their shareholders. The objectives of the activity are the organisation and pursuing of the activities provided for in the Articles of Association to earn income and profit, satisfy the property interests of shareholders and the interests of employees.

Basic activity of AB “Žemaitijos pienas” is the development, production (NACE: C 10.5.

Manufacture of dairy products; C 10.51. Operation of dairies and cheese making), and sales at Lithuanian and foreign markets of dairy products (fermented cheese and cheese products, pre-packaged cheese and cheese products, processed cheese and cheese products, cream, cream cheese, butter, dairy spreads, mixed spreads, milk fat, pasteurised cream, buttermilk, whey, dried milk products, fresh dairy products (milk, cream, curd, cheese products, yoghurt, desserts, curd cheese, glazed curd cheese, and fermented dairy products)). According to the ICB (Industry Classification Benchmark) widely used global company activity classification standard, AB “Žemaitijos pienas” refers to the companies - everyday consumer goods - food, beverages and tobacco.

## **II. INFORMATION OF SALE OF SECURITIES BY THE ISSUER AT THE REGULATED MARKET**

### **Securities (shares) of AB “Žemaitijos pienas”**

On 16 July 2004 the Company concluded a contract with AB “Šiaulių bankas”, address: Tilžės Str. 149, Šiauliai, under which management of securities accounts of the Company was delegated to AB “Šiaulių bankas” competence as of 23 July 2004.

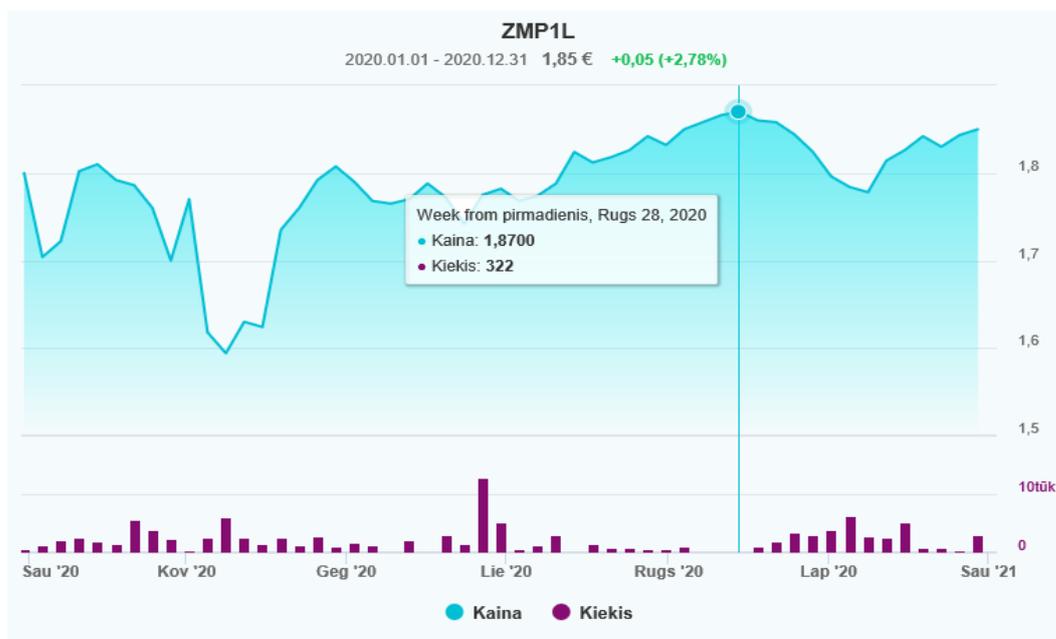
The register (accounting) of securities of ABF “Šilutės Rambynas” is kept by AB “Šiaulių bankas” under the contract dated of 16 July 2004.

<b>SECURITIES OF AB “ŽEMAITIJOS PIENAS”</b>	
ISIN number	LT0000121865
Abbreviation	ZMP1L
List/segment	Baltic Secondary List
Nominal value	0.29 EUR
Name of securities	Ordinary registered shares
Issued number (pcs.)	48 375 000
Listed issued number (pcs.)	48 375 000
Listing start date	13/10/1997
Shares listed in supplementary list	13/10/1997
Total number of voting rights granted by shares	48 375 000
Number of shares held by the Company	3 491 501

Only the shares issued by the Company are quoted on the supplementary list of “NASDAQ OMX Vilnius” (hereinafter referred to as Vilnius Stock Exchange) (Ticker symbol: ZMP1L). Securities of AB “Žemaitijos pienas” were first time listed at Vilnius Stock Exchange on 13 October 1997. ISIN code of the securities: LT0000121865.

LT0000121865. Below one can find the schedule of sales of the Company’s securities at the public exchange, from which it can be seen that from 1 January 2020 until 31 December 2020 the price of the shares changed slightly (increased), the change at the end of the reporting period is (+ 0.05 Euro or 2.78 per cent)<sup>1</sup>. Turnover of sales of the Company’s shares in the first half of 2020 amounted to EUR 123,065.92, 119 288 shares were transferred in concluded transactions, the average (weighted) price per share is EUR 1 728. Capitalization of AB “Žemaitijos pienas” shares on 31 December 2020 was 89.49 million Euros, compared to 2019 the value of the Company’s capital increased by 5.32 million Euros.

During the reporting period, the sales volumes of shares and their price dynamics are demonstrated in the diagram (see below).



Historical data on shares is presented in the table below (see below):

Price	2017	2018	2019	2020	2021
Deferral €	1.07	1.74	1.52	1.74	1.86
Max €	1.99	2.16	1.89	1.88	2.1
Min €	1.07	1.42	1.51	1.4	1.86
Last price €	1.74	1.5	1.74	1.85	2.06
Turnover pcs.	521 664	412 420	194 835	119 288	23 488
Turnover €	0.82	0.71	0.35	0.21	0.05
Capitalization €	84.17	72.56	84.17	89.49	99.65

<sup>1</sup> <https://www.nasdaqbaltic.com/statistics/lt/instrument/LT0000121865/trading>

**Dynamics of the price of shares at NASDAQ Vilnius, 2020**

Opening price, EUR 02/01/2020	Maximum price of a share, EUR 28/09/2020	Minimum price of a share, EUR 16/03/2020	Closing price, EUR 28/12/2020
1.74	1.87	1.40	1.85

Securities of the Issuer have not been sold at other stock exchanges and other organised regulated markets.

**Securities (shares) of ABF “Šilutės Rambynas”**

<b>SHARES OF ABF “ŠILUTĖS RAMBYNAS”</b>	
ISIN number	LT 0000109217 LT 0000118945 LT 0000125668
Nominal value	EUR 2.90
Name of securities	Ordinary registered shares
Issued number (pcs.)	859 665
Listed issued number (pcs.)	Non-listed
Total number of voting rights granted by shares	859 665
Number of shares held by the Company	0

ABF “Šilutės Rambynas” shares are not traded on the Vilnius Stock Exchange and other organized regulated markets.

AB “Žemaitijos pienas” owns 87.82% of ABF “Šilutės Rambynas” ordinary registered shares (has both property and non-property rights without any restrictions), ABF “Šilutės Rambynas” does not own AB “Žemaitijos pienas” shares. Both Companies do not hold shares of each other neither based on orders nor on other contractual bases.

**Dividends**

The Ordinary General Meeting of Shareholders of AB “Žemaitijos Pienas” of 9 April 2020 decided to allocate part of the profit to employee bonuses in the amount of EUR 1 000 000 and annual bonuses of raw material suppliers in the amount of EUR 1 350 000 and did not pay dividends to the shareholders. The shareholders of ABF “Šilutės Rambynas” also did not pay dividends, and the shareholders of both Companies decided not to pay bonuses.

**Authorised capital**

As of 31 December 2020 the authorised capital of AB “Žemaitijos pienas” consisted of:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Share of the authorised capital (%)
Ordinary registered shares	48 375 000	0.29	14 028 750	100

All shares of the Company are fully paid up and were not the subject to restrictions on stock reassignment (in so far as the Issuer knows) over the course of the reporting period. The Issuer is unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and (or) voting rights. According to the data available to the Company there are no shareholders who would have special control rights.

As of 31 December 2020, the authorised capital of ABF “Šilutės Rambynas” consisted of:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Share of the authorised capital (%)
Ordinary registered shares	859 665	2.90	2 493 028.50	100

All ABF “Šilutės Rambynas” shares are fully paid up and are subject to no restrictions on stock reassignment (in so far as the Issuer knows). The Issuer is also unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and (or) voting rights. According to the Company’s knowledge there are no shareholders who would have special control rights.

#### Acquisition and disposal of own shares

During the period from 1 January 2010 until 31 December 2020 the Company acquired the following number of own shares through the official quotation market of NASDAQ OMX Vilnius Stock Exchange.

No.	Abbreviation	Purchased	Min purchase	Beginning	End	Offered	Price	Quantity	Turnover	Transf. (%)	Currency
1	ZMP1LTO2	1 176 70	1	20/12/2010	18/01/2011	10	1.7	10	17	100	LTL
2	ZMP1LTO3	1 000 00	1	22/08/2011	20/09/2011	-	1.8	-	-	-	LTL
3	ZMP1LTO4	1 360 000	1	02/11/2012	14/12/2012	3 777 532	2.2	1 360 000	2 992 000	36	LTL
4	ZMP1LTO5	1 000 00	1	25/03/2013	28/03/2013	710 611	2.2	710 611	1 563 344.2	100	LTL
5	ZMP1LOS	2 766 79	1	04/07/2016	02/08/2016	-	0.67	-	-	-	EUR
6	ZMP1LOS1	742 857	1	12/06/2018	25/06/2018	62 223	1.75	62 223	108 890.25	100	EUR
7	ZMP1LOS2	742 857	1	09/07/2018	23/07/2018	34 827	1.75	34 827	60 947.25	100	EUR
8	ZMP1LOS3	742 857	1	20/08/2018	03/09/2018	59 557	1.75	59 557	104 224.75	100	EUR
9	ZMP1LOS4	540 540	1	06/05/2019	27/05/2019	89 596	1.85	89 596	165 752.6	100	EUR
10	ZMP1LOS5	300 000	1	04/06/2019	11/06/2019	23 963	1.8	23 963	43 133.4	100	EUR
11	ZMP1LOS6	1 100 00	1	18/06/2019	25/06/2019	1 075 976	1.85	1 075 976	1 990 555.6	100	EUR
12	ZMP1LOS7	675 000	1	05/08/2020	12/08/2020	65 788	1.48	65 788	97 366.24	100	EUR
13	ZMP1LOS8	675 000	1	31/08/2020	08/09/2020	65 788	1.48	-	-	-	-
14	ZMP1LOS10	606 000	1	23/10/2020	30/10/2020	8 850	1.65	8 850	14 602.5	100	EUR

As of 9 April 2020, the General Meeting of Shareholders adopted a decision to allocate a reserve for the acquisition of own shares, as well as established the conditions for the purchase of shares. During the reporting period, the Board of the Company in August, September and October 2020 made the decisions to repurchase own shares, and 74,738 shares were repurchased when implementing the decisions. At the end of accounting

period, the Company held 3 491 501 of own shares, which makes up 7.22 per cent of all listed shares of AB “Žemaitijos pienas” at the NASDAQ OMX Vilnius Stock Exchange.

The shareholders of AB “Žemaitijos pienas” have set the main objectives of the share purchase - (i) to ensure the possibility for the shareholders to sell the shares in order to increase, maintain and / or stabilize the liquidity of the Company’s shares; (ii) increase, maintain and / or stabilize the market price of the Company’s shares; (iii) have the ability to allocate its own shares to stimulate employees of the Company, so that they would contribute to the Company’s performance, and to sell their shares to employees of the Company other than employees who are members of the Board or Supervisory Board of the Company or employees who are Shareholders of the Company; (iv) have the opportunity to use own shares in possible exchange processes when the Company acquires shares of other companies or sells them; (v) hold a reserve of own shares which, if necessary, could be used for other specified purposes (or one or more of them) upon decision of the Board of the Company.

During the reporting period, the Company did not dispose its own shares, did not enter into any other transactions, for example, the shares have not been pledged or otherwise restricted, their rights are not the subject to any other limitations or restrictions, there are no disputes or claims regarding these shares.

ABF “Šilutės Rambynas” did not purchase own shares; it also does not hold own shares on other basis.

### **III. REVIEW OF ECONOMIC ACTIVITY OF THE GROUP OF COMPANIES, RISKS AND PERSPECTIVES**

#### **Product safety and international recognition**

Both Companies of the Group operate in the food industry segment. Therefore one of the main goals of the Companies of the Group is high-quality and safe products. This goal is achieved not only by their own efforts, but also with the help of third parties - specialists - experts (auditors), who as independent specialists are best able to evaluate the produced dairy products, production processes and give a message to the Companies and the market.

In the first half of 2020, the products were assessed in accordance with various requirements of international food safety and quality management standards and compliance with them.

1. In March 2020 AB “Žemaitijos pienas” was audited by UNIVERSAL STUDIOS LIMITED for the use of a private label;
2. In April 2020 the auditors of UAB “Bureau Veritas” performed a remote audit of all processes of AB “Žemaitijos pienas” in accordance with the ISO 22000 “Food Safety Management System. Requirements for any organization in the food production chain” + ISO / TS 22002-1 “Food Safety Essentials. Food production and additional requirements under FSSC 22000”.
3. In June 2020 AB “Žemaitijos pienas” unit for productions of fresh dairy products was audited by the retail chain Lidl.

Audit conclusion for the first half-year: the Company meets the requirements of the certified standards. Moreover, the audits were performed without prior agreement of the audit date and plan. AB “Žemaitijos pienas” has complied with the requirements of the above-mentioned international food safety standards, which are recognized by the International Food Safety Initiative (GFSI).

In the second half of 2020, the assessment in accordance with the requirements of international standards of food safety and quality management was continued:

1 In April 2020 the auditors of UAB “Bureau Veritas” performed a remote audit of all processes of AB “Žemaitijos pienas” in accordance with the ISO 22000 “Food Safety Management System. Requirements for any organization in the food production chain” + ISO / TS 22002-1 “Food Safety Essentials. Food production and additional requirements under FSSC 22000”.

2 On 18-21 August 2020, the auditors of UAB “Bureau Veritas” performed a process maintenance audit of AB “Žemaitijos pienas” in accordance with the requirements of BRC version 8. The audit was carried out without prior agreement of the audit date and plan.

3 On 21-25 September 2020, the auditor of UAB “Bureau Veritas” performed the process maintenance audit of the Mineral Water Production Division of AB “Žemaitijos pienas” in accordance with the requirements of BRC version 8.

AB “Žemaitijos pienas” paid special attention to the needs of separate and specific export markets and to the production and certification of products intended for these markets:

1 On 20 August 2020, “Total Quality Halal Correct Certification” (Netherlands) auditors successfully audited the production processes of dry dairy products, cheese and butter remotely and issued a Halal Certificate.

2 In September 2020, auditors at the Orthodox Union Kosher Certification Centre (Israel) assessed the production processes of cheese-butter, dried dairy products and fresh dairy products and issued a Kosher Certificate.

The Company systematically continued the certification of organic dairy production:

- On 17 November 2020, Public Institution “Ekoagros” carried out the certification of the production process of organic products, after which a Certificate was issued.

ABF “Šilutės Rambynas” also pays great attention to ensuring product quality and safety. In 2020, the Company operated under the following integrated food safety and quality management systems:

- Food safety management system in accordance with the requirements of the ISO 22000 standard - since 2009;
- BRC Global Standard for Food Safety (BRC - British Retail Consortium - since 2010 and since 2014 - A + level of unannounced audit);
- Certified according to the requirements of the HALAL standard since 2015;
- EkoAgros - for the production of organic products - since 2007;
- Production of Pik-Nik peelable cheese strings according to VLOG Ohne Gentechnik Standard (GMO-free products) - since 2017;
- IFS Food (International Food Standard) - since 2018;
- FSSC 22000 food safety management system - since 2018.

### **Investments and on-going investment projects**

The main goal of the investment remains to increase competitiveness of the Company, improve the measures to solve environmental problems, product quality and working conditions and safety of employees.

In 2020 AB “Žemaitijos pienas” continued to invest in the renewal and modernisation of equipment of individual production units in order to optimise production processes, ensure the efficiency and quality of management of risk factors related to food safety.

Investment tendencies were focused on automation of production processes, quality improvement and logistics. The investments were also aimed at improving occupational safety, technical level of equipment, considering difficult workplaces, reduction of pollution discharged into wastewater and efficient use of energy costs. The aim was also to ensure that the equipment and technological processes would meet customer expectations and that the final high-quality product would be safe for a Buyer.

AB “Žemaitijos pienas” also follows global sustainability trends. The amount of wrapping and packaging materials used is being optimised. The amount of plastic used for product packaging is reduced. In cooperation

with the producers of packaging materials, the opportunities of more environmentally friendly and the use of packaging from renewable natural sources for the packaging of dairy products are assessed.

The subsidiary company ABF “Šilutės Rambynas” also invested a large part of its funds to improve its operations. During 2020, fixed assets were acquired for 375 thousand EUR, when during 2019 assets were purchased for 5,776 thousand EUR (decrease down to 93.5%). Largest purchases: for EUR 92 000 the worn-out “mozzarella” cheese production line was re-assembled and put into operation, for EUR 50,000 the unused territory was fenced and its lighting was installed, for EUR 24 000 conveyors in Pik-Nik packing workshop were renewed, EUR 22 000 is intended for the purchase of a new air compressor, for EUR 20 000 video surveillance system was updated, for EUR 8 000 used second semi-trailer was purchased, EUR 91 000 - were allocated to purchase equipment and inventory for various cheese production, computer equipment, etc.

### **Products and trademarks**

The vision is continued to be followed - to represent the culture of Žemaitija region not only in Lithuania, but also in the world by creating delicious and unique products. The mission is to continuously create added value for the Companies of the Group, its shareholders and a Buyer. Marketing is an integral part of a successful business. Therefore in 2020 the employees of the Companies of the Group paid great attention to it.

The priority of AB “Žemaitijos pienas” is to produce only high-quality, healthy and safe products that would become a standard of exceptional taste for even the most experienced consumers, thus developing the consumer’s habit of choosing goods only with the “Žemaitijos pienas” trademark. The constant goal is never to disappoint the customer’s expectations, to look for new markets, establishing not only with excellent products, services and other development, but also to attract such specialists who would professionally represent the interests of the Company in cooperation with customers and market partners. Continuously create added value for a Buyer and Companies of the Group by retaining existing Customers and attracting new ones, ensuring the highest level of product quality from the field to the shelf.

In 2020 the Company won awards and was evaluated not only in Lithuania, but also abroad. The products of AB “Žemaitijos pienas” are among the winners of the competition “The Most Popular Product 2019” organised by the Lithuanian Association of Trade Enterprises (LPIA), in which the most popular products are selected after evaluating the choice of the main retailers of the country: glazed curd cheese “Magija Vanilla”, 45 g; hard cheese – “Džiugas mix picai” grated, 250 g; cheese strings “Pik-Nik”, 140 g; semi-fat curd “Žemaitijos”, 9 per cent, 1 kg; butter – “Žemaitijos”, 82 per cent, 200 g, and cream – “Žemaitijos”, 2.5 per cent, 400 g.

In the DLG QUALITY TEST free and independent product evaluation organised by the German expert organisation DLG (Deutsche Landwirtschafts-Gesellschaft) in June 2020, hard cheese “Džiugas Gourmet” matured for 36 months, 180 g, and organic hard cheese “Džiugas vaikams” packed in pieces, 40 g, were evaluated with the highest quality points and even awarded two gold medals. DLG research centres are impartial and use self-assessment applying advanced technologies in the knowledge and test system. Consumers are provided with reliable information. Only the best are awarded - the DLG test centre tests tens of thousands of products made in Germany and other countries. The DLG Award label has a high level of trust between manufacturers and consumers, not only in Germany but worldwide.

In October 2020 Džiugas Gourmet hard cheese, aged 36 months, 180 g, and hard cheese Džiugas Mild, aged 12 months, 100 g broken into pieces won gold medals at the Forum Mlezarskie Handel (Poland). Silver medals were awarded to glazed cottage cheese Magija with condensed milk and peelable cheese strings Pik Nik Kids Original. Bronze medal was awarded to hard cheese Džiugas Organic for children, 40 g. Such evaluations further encourage AB “Žemaitijos Pienas” to improve and delight its customers with perfect product quality and innovations.

Many years of experience and unique recipes today allow provision of the Consumers with a wide range of products of excellent taste and high quality. The initiative builds a strong community of benefactors and constantly achieves goals that are vital to premature babies. New product of 2020 is organic drinking yogurt Dobilas, 330 g. AB “Žemaitijos pienas” also presented to Customers a unique line of fresh dairy products “Saulutė”: for those who want to get extra vitamin D all year round. “Saulutė” milk, sour cream and curd with



vitamin D is an opportunity to supplement your menu daily with healthy, fresh products. 100 g of any of these products contains 15% of the recommended daily allowance of vitamin D (about 0.75 micrograms). New "Saulutė" products are the benefits of the summer sun all year round.

In 2020, AB "Žemaitijos pienas" presented to its Customers Pik-Nik Twiller peelable cheese strings with an updated design and an improved recipe. The composition of these peelable cheese strings is enriched with natural carrots, which are a source of vitamin A. One Pik-Nik Twiller cheese string contains as much as 16% of vitamin A and 20% of vitamin D per day.

Babies born prematurely in Lithuania are cared within the framework of the first Lithuanian support project "Ankstukai". The initiative builds a strong community of benefactors and constantly pursues goals that are vital to the babies born prematurely. For the third year in a row, AB "Žemaitijos pienas" brand "DOBILAS" contributes to the list of benefactors by donating to a social project.

In summer 2020 AB "Žemaitijos pienas" implemented a project in children's summer camps in the Baltic States. 53 educational programs were organized in camps in the Baltic States, where about 10 thousand children rested. During the educational programs, children were introduced to the products produced by AB "Žemaitijos pienas", their values and benefits. Campers had the opportunity to virtually visit the production of hard cheese "Džiugas", fresh peelable cheese strings "Pik-Nik" and curd cheese "Magija" glazed with natural chocolate. During the educational programmes, the children were introduced to the products produced by AB "Žemaitijos pienas", their values and benefits.

AB "Žemaitijos pienas", together with the Lithuanian Police Department, has been continuing its social campaign for the third year in a row - at the beginning of the new school year, children are provided with pretty "Magija" reflectors. A safe pedestrian is that one visible on the road. AB "Žemaitijos pienas" carries out this campaign not by chance. Surveys have revealed that every second schoolchild attending the fourth form in Lithuanian does not feel safe on the street, but four out of five 10 year old schoolchildren have already travelled to and from school on their own. In September, we sent the children safely to schools with "Magija" Reflectors not only in Lithuania - this time the campaign expanded to Latvia and Estonia, in cooperation with educational institutions in these countries.

The situation of Covid-19 and the increased risk for people to buy goods in physical stores and the limited possibilities of organizing events have forced the Company to respond quickly and find ways to adapt to the situation. The following e-commerce channels have been created:

1 In the second quarter of 2020, the Company started with a new sales channel in the e-space - dairy products, mineral water "Tichė" and soft drinks "Gaja" e-shop - shop.zpienas.lt. In the e-shop one may buy AB "Žemaitijos pienas" products directly from the manufacturer. The online store sells products of the following brands – "Džiugas", "Dobilas", "Germantas", "Pik-Nik", "Rambynas", "Saulutė", "Magija", "Žemaitijos", "Jums", "Tichė" and "Gaja". The e-shop has monthly product discount promotions, which we report on social networks and Internet portals.

2 "Džiugas" cheese virtual tasting e-shop - dziugasdegustacijos.lt. "Džiugas" Cheese Virtual Tasting. To date, the Company has moved the live "Džiugas" cheese tastings organized at the "Džiugas" Cheese Home to the e-space. We were the first in Lithuania to offer consumers a remote event - cheese tastings, conducted directly online by certified "Džiugas" cheese tasters, and the participants of the event taste the "Džiugas" cheese sets delivered to their homes at home or in a chosen place and communicate directly with tasters online.

At the end of November 2020, for the third year in a row, "Džiugas" hard cheese autumn Thanksgiving evening was also moved to the virtual space. The Company had to "meet" differently with its most loyal Customers, but advanced technologies allowed taking the participants of the evening to a wonderful journey of "Džiugas" cheese tastes. "Džiugas" Cheese Virtual Tasting was conducted by certified "Džiugas" Cheese Tasters. "Džiugas" hard cheese autumn Thanksgiving evenings took place on 25 and 26 November in Lithuania, Latvia and Estonia, and the Company had the opportunity to accompany as many as 428 guests to the wonderful journey of "Džiugas" cheese tastes. Advertising of virtual tastings is published on social networks and Internet portals.

The third e-space sales channel was launched in November 2020 - the renewed dziugashouse.lt Džiugas House gourmet e-shop, where one may buy a range of "Džiugas" cheese in physical stores. The following products are sold in the electronic Gourmet store shop.dziugashouse.lt: "Džiugas" hard cheese, various "Džiugas" cheese souvenirs, sweets, cakes enriched with "Džiugas" hard cheese.

In addition to its main business, AB “Žemaitijos pienas” pays attention to other activities (socially responsible activities):

In February 2020 a blood donation campaign was carried out in the Company. During it, employees were able to donate blood to save lives. In March 2020 AB “Žemaitijos pienas” rendered assistance to medical specialists from Telšiai and Klaipėda. AB “Žemaitijos pienas” shared “Dobilas” organic yoghurts during the first wave of quarantine. The Company also supported Telšiai Primary Health Care Centre with the necessary protection equipment, which was severely lacking in health care institutions. Telšiai Hospital especially needed the artificial two respiration device ordered by the Company, which helped doctors save people’s lives.

We would like to thank the employees of AB “Žemaitijos pienas” for their hard, risky and responsible work during the pandemic.

### Financial information

For the analysis the Company selects the main Standard financial parameters used by many companies when analysing financial data. Main financial indices reflecting activities of the Group and Company in 2020-2019 are as follow:

Financial indices	Group			Company		
	2020	2019	Change, %	2020	2019	Change %
Turnover, thousands EUR	182 427	185 550	-1.68	181 394	184 163	-1.50
Gross profitability, %	22.78	22.12	3.0	22.29	21.73	2.6
Net profitability, %	5.38	5.81	-7.5	5.29	7.2	-26.6
EBITDA, thousands EUR	17 111	17 078	0.2	16 667	19 408	-14.1
EBITDA profitability, %	9.38	9.2	1.9	9.19	10.54	-12.8
ROE profitability, %	10.18	12.43	-18.1	10.89	16.85	-35.4
ROA profitability, %	7.58	8.61	-12.0	7.97	11.21	-28.9
Current Ratio	3.26	3.12	4.4	3.08	2.73	12.8
Quick Ratio	1.67	1.52	9.9	1.49	1.32	12.9
Debt-to-Equity Ratio	0.34	0.44	-22.7	0.37	0.50	-27.2
Debt Ratio	0.26	0.31	-16.1	0.27	0.33	-18.2
Total investment to non-current assets, thousands EUR	2 344	9 371	-74.99	1 977	6 400	-69.1

*The above indices are calculated using the following formulas:*

**Gross profitability = gross profit / sales revenue.** *Gross profitability (or gross margin) is the ability of a company to earn a profit from its main business, to control the level of sales revenue and cost of sales. The higher the gross margin earned for each euro of sales revenue, the more efficient the company.*

**Net profitability = net profit/ sales revenue.** *Net profitability ratio is the financial result of a business, one of the most important (if not the most one) size for a business owner. Net profitability, as a ratio of sales revenue and net profit, properly describes ultimate profitability of the company. The monetary value demonstrates the net profit for one euro of sales. A higher value indicates higher profitability of the company.*

**EBITDA = Net profit + income tax + interest expense + depreciation and amortisation expenses.** *Earnings before interest, taxes, depreciation and amortization (EBITDA) are easily calculated by adding income tax and interest expense to net profit, and the amount of depreciation and amortization. This amount*

is important to separate the cost of financing an entity's operations and the impact of amortization and depreciation. EBITDA profit is often used near or even in place of cash flow.

**EBITDA profitability = EBITDA / sales revenue**

**ROE profitability = net profit / equity.** The return on equity (ROE), also known as the index of return on equity, is a measure of the efficiency of use of the funds invested by owners. It helps to decide how to use the funds effectively. It mainly depends on the company's capital structure. ROE shows how much the company management has earned through the use of company capital owned by shareholders.

**ROA profitability = net profit / assets.** Return on Assets (ROA) is a measure of how well the assets are used. Return on assets describes the ability to use all assets in a more profitable manner. It shows the share of total assets recovered in the form of profit. ROA shows how much the company management has been able to earn from the total assets used.

**Gross liquidity ratio = short-term assets / short-term obligations.** General liquidity ratio, also known as current liquidity ratio, shows the company's ability to meet current liabilities with its current assets. It determines how much current assets exceed liabilities. It defines the company's ability to meet current liabilities using current assets. The value shows how much current assets cover a single euro of current liabilities.

**Quick coverage (solvency) ratio = (current assets - inventories) / current liabilities.** Critical liquidity ratio, also known as quick coverage ratio, shows the company's ability to use promptly (quickly) selling current assets to meet current liabilities, which is why reserves as subtracted from the current assets as low-liquidity assets. It determines how much the most liquid assets exceed current liabilities. Critical liquidity determines the company's ability to meet current liabilities using its most agile (quickly monetizable) assets.

**Debt-to-equity ratio = sums payable and liabilities / equity.** Debt-to-equity ratio, also known as leverage ratio, shows how much debt there is for each euro of equity. This parameter is also used as an indicator of the Capital structure and financial leverage group. In this case, in contrast to the gross solvency ratio, the higher the value of the ratio, the worse the company's solvency position.

**Debt (indebtedness) ratio = sums payable and liabilities / assets.** Indebtedness ratio, also known as debt ratio, shows how much debt there is for each euro of assets. The lower the value of this parameter, the more the assets cover the debts, which is why banks and other creditors value low debt ratio. This parameter is also used as an indicator of the capital structure and financial leverage group.

When calculating financial indices for the years 2020 and 2019 all changes in the statement of financial position were assessed in accordance with the requirements of IFRS 16 and, using depreciation and amortization in the calculations, the amortization of the received support and the depreciation of the assets owned by the right of use were assessed.

The Company's gross profitability in 2020 compared to 2019 increased from 21.73% to 22.29%. Gross profit increased insignificantly in 2020 due to a decrease in the average purchase price of raw materials. The Group's gross profitability in 2020 grew up by 3 per cent. The increase in the Company's gross profit reflects the Company's ability to earn profit from operating activities and the ability of managers to profitably sell the Company's and the Group's products and the appropriate orientation of price competition policy, increase in production efficiency.

The calculation of net profit includes all expenses of the Company and the Group, even those that may not be related to direct activities or may be single, as well as estimated expenses such as accruals, depreciation, etc. The Company's net profit during 2019 was increased due to the sale of real estate to ABF "Šilutės Rambynas". For many years, ABF "Šilutės Rambynas" used real estate by leasing it from the Company. The assets were sold with the aim that all real estate in Šilutė would be in one balance sheet, i.e. that the owner would be one. In 2020, the Group's net profit increased slightly. The net sales profitability indicator reflects the actual profitability of sales, considering all income and expenses.

In 2020 the Company's EBITDA decreased by 14.1% compared to 2019; the profit received in 2019 from the sale of real estate to ABF "Šilutės Rambynas" affected. In 2020 EBITDA of the Group increased by 0.2%.

The gross liquidity ratios of the Company and the Group in 2020 are higher than in 2019, whereas during 2020 the Company repaid a part of the loans to AB "SEB bankas". During the reorganization, by merging AB "Baltijos mineralinių vandenų kompanija" with the Company, on 31 December 2019, by the Certificate of Handover of Assets, Rights and Obligations, the Company took over the debt to AB "SEB bankas" under the credit agreement in the amount of EUR 997 907. The loan to the bank was fully repaid on 14/02/2020. In

addition, a loan of EUR 5.5 was repaid to AB “SEB bankas” earlier. In 2019 the gross liquidity ratio of the Company was 2.73, compared to 3.08 in 2020. In 2019 the gross liquidity ratio of the Group was 3.12, compared to 3.26 in 2020. The gross liquidity ratio shows how many times current assets of the Company exceed its current liabilities. The most acceptable change of the indicator is in the range of 1.2-2.0. The range limits vary in different industry sectors.

Quick coverage (solvency) ratios of the Company and Group in 2020 increased compared to 2019 for the same reasons as the general liquidity ratios. In 2019 the quick coverage (solvency) ratio of the Company was 1.32, and in 2020 - 1.49. In 2019 the quick coverage (solvency) ratio of the Group was 1.52, and in 2020 - 1.67. The quick coverage (solvency) ratio shows whether the Company could quickly pay off its short-term liabilities from its mobile (potentially quick to cash) assets. A normal value reads from 0.5 to 1.5, a value lower than 0.5 is considered unsatisfactory.

The debt-to-equity ratio (ratio) of the Company and Group decreased in 2020 compared to 2019. The debt-to-equity ratio, which can be referred to elsewhere as the financial dependency ratio, reveals the Company's capital structure. This is done by comparing the Company's debts with the Company's equity. This solvency ratio is close to the gross solvency ratio (constant solvency ratio), the only difference being that it is the opposite, i.e. the numerator and denominator alternate. As a rule, if the value of the indicator does not differ much from the unit, then the company's condition in terms of solvency is considered normal, the value at 0.5 is good. It should be noted that the interpretation of the meaning of this indicator is highly dependent on the industry in which the company operates. Let's say in industries that require large capital investments, even a value of 2 can be considered good.

In 2019 the debt ratio / ratio of the Company was 0.33, compared to 0.27 in 2020. In 2019 the debt ratio / ratio of the Group was 0.31, compared to 0.26 in 2020. This indicator shows what proportion of borrowed funds is used to form the Company's assets. A lower value of this indicator is considered better because the Company is considered less risky.

As the Company had financial liabilities in 2020, the Company calculated the interest coverage ratio. Interest service ratio is a financial indicator that compares a company's EBIT profit with interest expenses. This ratio indicates the Company's ability to redeem its debts. The lower this indicator is, the worse is the Company's situation. The higher this ratio, the easier it is for a company to cope with its leverage. If the interest coverage ratio were close to or below 1, it would signal a critical situation for the Company. The interest ratio is calculated as follows:  $Interest\ ratio = EBIT / Interest\ expense$ .

Interest (coverage) ratio of the Company for 2020 is 67, and the interest (coverage) ratio of the Group for 2020 is 68.

Operating expenses of the Company in 2020 (EUR 29.028 million) accounted for 16.0% of the turnover, and in 2019 (EUR 27.68 million) accounted for 15.03% of the turnover. The Company's turnover decreased by 1.50% and operating expenses increased by 4.85%. The largest percentage of operating expenses is made up of salary expenses and marketing expenses, which did not decrease in 2020. In addition to the increase in wages and salaries, operating expenses and depreciation expenses increased in operating expenses. Operating expenses of the Group in 2020 (EUR 29.92 million) accounted for 16.40% of the turnover, and in 2019 (EUR 29.1 million) accounted for 15.71% of the turnover. The Group's sales decreased by 1.68%, but operating expenses increased by 2.66% due to higher salaries, operating taxes, etc.

### Overview of activities, condition

Comparison of amounts and prices of raw milk purchased by AB “Žemaitijos pienas” in 2019 and 2020

Purchase of raw milk (converted to basic content *)	2020	2019	Change comparing 2020 m. to 2019, %
Amount of purchased milk, thousands tons	392	404	-2.97%
Milk purchase price, EUR/t	242	244	-0.82%

\* The milk purchased is converted into a basic fat and protein content, using a specific coefficient.

AB “Žemaitijos Pienas” has been paying farmers a competitive price for high quality milk production for many years. Average amount of milk purchased in 2020 amounted to 392 thousand tons, which is 2.97 per cent less than in 2019 (in 2019 - 404 thousand tons). The average price of converted milk purchased in 2020 is 242 EUR/t and it is 0.82% lower than in 2019 (price of converted milk purchased in 2019 was 244 EUR/t). The decrease in the purchase of raw milk is related to the change in milk producers. So that milk purchases from milk producers would remain and decrease insignificantly, AB “Žemaitijos pienas” promoted the development of dairy farms by offering various forms of cooperation: signing long-term milk purchase agreements, renting refrigerators, concluding individual milk quality improvement programs and other. In 2020 the fall in the prices of purchased raw milk was influenced by the declaration of the COVID-19 virus as a pandemic. During this difficult period, consumption and, at the same time, the demand for products was rapidly stopped, so it became a difficult challenge to use all the raw milk purchased. Unexpected forced changes affected everyone, including AB “Žemaitijos pienas”. However, in order to maintain a long-term partnership, despite the fall in sales, AB “Žemaitijos pienas” only slightly reduced the purchase price of raw milk. Average amount of purchased natural milk in the first half of 2020 is 298.2 EUR/t, i.e. – 1.68 per cent less comparing to the first half of 2019 (in the first half of 2019 the price of purchased natural milk was 303.3 EUR/t). For many years, AB “Žemaitijos pienas” has been basing its activities with dairy producers on fair partnership and encouraging dairy farm owners who achieve the best milk quality indicators.

The subsidiary company ABF “Šilutės Rambynas” does not buy raw milk directly from dairy farms, as it buys raw milk for the production of its products from AB “Žemaitijos pienas”.

In 2020, the sales of AB “Žemaitijos pienas” amounted to EUR 181 million (181,394 thousand EUR). This is 1.50% less compared to 2019 (sales in 2019 amounted to 184,163 thousand EUR).

Although the sales of AB “Žemaitijos pienas” in 2020 compared to 2019 decreased by 1.5 %, structural changes in sales by geographical segments changed slightly. AB “Žemaitijos pienas” received and continues to receive the largest share of income from Lithuania, which amounts to more than half of all income (about 52.24% in 2020, about 52.07% in 2019). The export countries with the highest turnover in 2020 - Poland, Latvia, USA, Germany.

**AB “Žemaitijos pienas” sales according to geographic segments (secondary segments) in 2019-2020:**

Row No.	Geographic breakdown of sales, thousand Euros	2020	Per cent from total income in 2020	2019	Per cent from total income in 2019	Per cent from total income in 2019
1	Lithuania	94,756	52.24%	95,888	52.07%	-1.18%
2	Other Baltic States and CIS Countries	32,507	17.92%	31,568	17.14%	2.97%
3	Other European Countries	39,090	21.55%	43,944	23.86%	-11.05%
4	Other	15,041	8.29%	12,763	6.93%	17.85%
	<b>In total</b>	<b>181,394</b>	<b>100%</b>	<b>184,163</b>	<b>100%</b>	<b>-1.50%</b>

**Sales of companies of the Group according to geographic segments (secondary segments) in 2019-2020:**

Row No.	Geographic breakdown of sales, thousand Euros	2020	Per cent from total income in 2020	2019	Per cent from total income in 2019	Per cent from total income in 2019
1	Lithuania	93,322	51.16%	94,068	50.69%	-0.79%
2	Other Baltic States and CIS Countries	34,399	18.86%	34,193	18.43%	0.60%
3	Other European Countries	39,189	21.48%	43,952	23.69%	-10.84%
4	Other	15,517	8.5%	13,337	7.19%	16.35%
5	<b>In total</b>	<b>182,427</b>	<b>100%</b>	<b>185,550</b>	<b>100%</b>	<b>-1.68%</b>

In 2020 AB “Žemaitijos pienas” exported its products to 46 countries. We have successfully strengthened our position and brand awareness in the Polish, German, Latvian, Estonian, Croatian, English and Hungarian markets, and expanded these markets both in depth and breadth. The work of several years has led to the launch of the brands “Džiugas”, “Pik Nik” and “Rambynas” into new, distant eastern markets, such as Japan and China. Trade has also started in such countries as France, Spain and Finland. In order to establish itself as strongly as possible in the export market, direct agreements were signed with the major retail chains of other countries, thus trying to ensure the satisfaction of end-user needs, product adaptation in the market, the possibility to negotiate directly with the shelf owner. We are closer to the Consumer, closer to our Buyer and sales channels.

With the growing awareness of our brands and the number of sales channels, we face the need to improve service processes, implement individual country requirements for the product and its storage, initiate and implement advertising projects, i.e. we have continuously strengthened our management, marketing, technology, personnel management, financial law and other competencies. This is especially urgent when working with distant markets with unique cultures and traditions, such as Japan or China.

The goal of the Company is to develop its universal brands with minimal adaptation to export markets. With such goals in mind, we constantly analyse markets and available resources in a global context. Thus, we face significant challenges: to stand out in the context of competitors, to create exceptional benefits for market consumers, to increase the frequency of shopping in each country individually, considering market maturity, traditions, level of competition.

The distribution of products sold by AB “Žemaitijos pienas” in 2019-2020 by groups of product was as follows:

Row No.	Sales by groups of products, thousand EUR	2020	Per cent from total income in 2020	2019	Per cent from total income in 2019	Per cent from total income in 2019
1	Fermented and processed cheese	83,447	46.01%	82,736	44.93%	0.86%
2	Fresh milk products	61,026	33.64%	59,535	32.33%	2.5%
3	Butter and mixed fat spreads	14,658	8.08%	15,087	8.19%	-2.84%
4	Dry milk products	13,628	7.51%	14,108	7.66%	-3.40%
5	Other	8,635	4.76%	12,697	6.89%	-32.00%
	<b>In total</b>	<b>181,394</b>	<b>100%</b>	<b>184,163</b>	<b>100%</b>	<b>-1.50%</b>

The distribution of products sold by AB “Žemaitijos pienas” Group in 2019-2020 by groups of product was as follows:

Row No.	Sales by groups of products, thousand EUR	2020	Per cent from total income in 2020	2019	Per cent from total income in 2019	Per cent from total income in 2019
1	Fermented and processed cheese	86,367	47.34%	85,921	46.31%	0.52%
2	Fresh milk products	61,319	33.61%	59,776	32.22%	2.58%
3	Butter and mixed fat spreads	14,658	8.04%	15,087	8.13%	-2.84%
4	Dry milk products	13,628	7.47%	14,108	7.60%	-3.40%
5	Other	6,455	3.54%	10,658	5.74%	-39.44%
6	<b>In total</b>	<b>182,427</b>	<b>100%</b>	<b>185,550</b>	<b>100%</b>	<b>-1.68%</b>

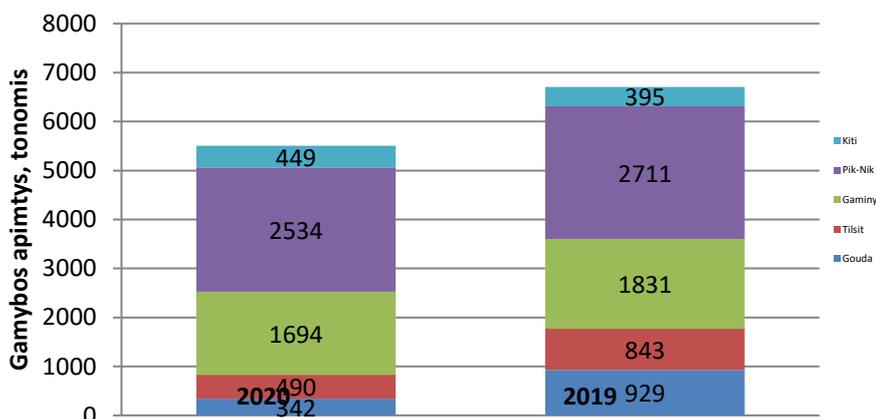
Other products include sales of raw milk, raw cream, curds, water products and ice cream. Comparing 2020 with 2019, sales of other products decreased by 32%. This was due to a decrease in the price of raw cream. Comparing 2020 with 2019, sales turnover of butter and spreads decreased by 2.84% due to the decrease in the average sales price of butter and spreads (in 2020 compared to 2019 the average sales price decreased by 12.34%). Sales turnover of dry dairy products decreased by 3.4% also due to the decrease in the average sales price (in 2020 compared to 2019, the average sales price decreased by 6.05%). Sales of fresh dairy products increased by 2.5% in 2020 compared to 2019 due to increased demand for daily consumer products during the pandemic.

**Overview of ABF “Šilutės Rambynas” activities**

The main activity of the company is production of dairy products. Moreover, the company provides rental, transportation, storage, maintenance of milk purchasing points and other services.

The company does not buy raw materials directly from producers - the milk required for production is purchased from AB “Žemaitijos pienas”. The purchase price of the raw material is determined according to the formula: milk price plus collection costs of AB “Žemaitijos pienas” without transportation costs. In 2020 6,341 tons of natural milk were purchased, while in 2019 - 7,445 tonnes. The decrease is 1,104 tonnes or almost 15%. The price of purchased milk recalculated according to the basic parameters was 239 EUR/t, and in 2019 - 254 EUR/t, so the price of raw milk decreased by 15 EUR/t or 6% during the period. The decrease in the amount of purchased raw material was determined by the reduced demand for the company’s products due to the spread of COVID-19 virus.

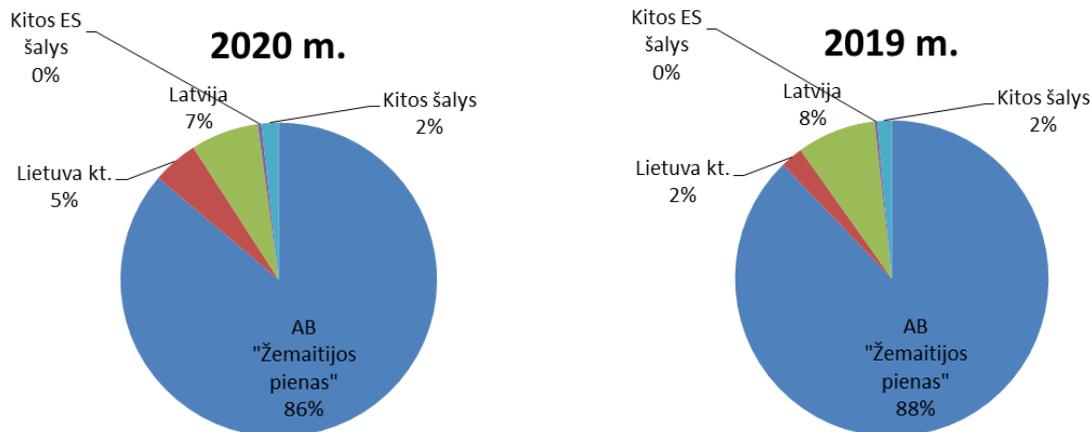
The Company specializes in the production of cheese. Production volumes in 2019 - 2020 are shown in the diagram below:



During 2020, 5509 tons of cheese were produced, or 1200 t (17.9 per cent) less compared to 2019. Production growth was limited by the unfavourable market situation, i.e. declining demand and low prices. The new production line of semi-hard fermented cheeses at AB “Žemaitijos Pienas” plant also had a significant impact. As a result, production of fermented cheeses (Gouda and Tilsit) fell by as much as 53%, from 1,772 tonnes in 2019 down to 832 t in 2020. Production of the fermented cheese product fell by 7.5% from 1831 to 1694 tonnes. Production of peelable cheese strings decreased by 6.5% in the comparative period from 2711 t in 2019 down to 2534 t in 2020. Meanwhile, production of other cheeses increased by 13.7%. In both 2019 and 2020 all the raw material was processed into cheeses.

Most of the products produced in the Company are sold through the parent company AB “Žemaitijos Pienas”. During 2020, production was sold for 27,180 thousand EUR or 15.6% less than in 2019, when sales amounted to 32,191 thousand EUR. The decrease in sales was due to the decrease in demand for products as the result of COVID-19 and the further decrease in the price of raw cream. In the comparable period, the average price of raw cream with 40% fat content fell from 1,719 EUR/t to 1,540 EUR/t.

The structure of sales by markets is graphically represented:



Whereas the main sales are carried out through AB "Žemaitijos pienas", the company does not invest separately in marketing. In 2019 insignificant amounts were allocated to the development of sales in the markets of the Middle East.

For the same reason that large sales are carried out through the parent company, the company is not directly exposed to significant risks due to market uncertainty and customer reliability. In order to manage the risk of direct sales, customers are subject to a prepayment system for production or a deferral of payments, but transactions are prohibited within the insurance limit set by the trade credit insurance company "Coface".

### Types of risks, their factors and uncertainties, risk management

Information on the extent of risk and risk management, current and potential types of risks, uncertainties, risk mitigation measures and the internal control system implemented in the company is provided in the Company Management Report in issue 3.

Financial and other risks and their management have also been disclosed in [Chapter 29 "Financial Risk Management"](#) of the Explanatory Notes to the Annual Audited Financial Statements for the year 2020.

The Company and the Group companies have Activity and Product and Management Liability Insurance.

### Business environment uncertainty, challenges, management of COVID-19 pandemic impact risks

The impact of the COVID-19 pandemic has significantly affected organizations of all sizes in all industrial sectors. Management of companies has to make complex decisions on operational, financial and strategic issues almost on a daily basis. During 2020, prior to the date of submission of the financial statements, the Company's and the Group's management tried to manage the situation in the circumstances of the COVID-19 pandemic.

In order to manage the risks of the COVID-19 pandemic impact on employees, business partners, society and the environment, the Company's and the Group's management regularly reviews and updates the risk management strategy and measures as necessary. Measures to be implemented from March 2020:

- 1) Procedures and instructions recommended by the Government of the Republic of Lithuania, the Ministry of Health of the Republic of Lithuania, the State Food and Veterinary Service, the State Labour Inspectorate, and the Company's Emergency Management Plan have been prepared and updated as necessary. The implementation and effectiveness of the prevention, education, organizational and

management measures provided for in the internal regulatory acts are supervised by the appointed responsible managers and specialists of the Company.

- 2) In accordance with the recommendations of the Ministry of Health of the Republic of Lithuania and the State Labour Inspectorate, an occupational risk assessment has been prepared and is constantly reviewed.
- 3) Employees and visitors of the Company and the Group are regularly provided with personal protective equipment.
- 4) In order to avoid and reduce the number of direct contacts, the Company's production employees are provided with free meals to their auxiliary premises, organised access to the Company's territory without meeting with other shift employees, differentiated lunch break time for employees.
- 5) Electronic systems have been prepared, employees have been provided with the necessary means of communication, employees' remote work from home has been maximized as far as possible, and the number of visitors has been limited. Visitors are admitted only in urgent cases and, if necessary, after having undergone medical tests for COVID-19.
- 6) Employees of the Company and the Group are regularly instructed on the use of personal protective equipment, compliance with the established rules, specialized training of disinfectants is carried out, teams of disinfectors are formed.
- 7) Schedules of delivery of raw milk by milk producers to milk purchasing points are compiled. Preventive recommendations have been prepared and distributed to milk suppliers. Only one person delivering milk is admitted to milk purchasing points, if possible, milk is delivered to the point door. The premises of milk purchasing points and their accesses are equipped with disinfectants, and permanent disinfection is carried out. Raw milk sampling devices are treated with hot water. In addition to general protective and preventive measures, milk carriers and laboratory technicians must avoid direct contact with the producers, cleaning and disinfecting the vehicle cab and load compartment is done every day after work.
- 8) Employees who have been in contact with a person infected or potentially infected with COVID-19, who experience symptoms of the disease and in other internal circumstances are isolated for a specified period of time.

Measures that are implemented on an on-going basis and are relevant in the event of COVID-19 pandemic and other similar situations:

- The reserve of managers formed in the Company and the Group to ensure the replacement of employees - the employees of the Company and the Group, selected and prepared to hold the position of the manager if necessary. Specialists are also trained and assigned the appropriate functions, which they perform during vacations, illnesses of colleagues, and in other cases. A contract has been signed with a company providing staffing services to ensure the replacement of production personnel.
- Efforts are made to maintain the most secure communication tunnel possible between remote workplaces and company resources. This security and maintenance is ensured by the Company's IT team with the help of external specialists and IT auditors. During 2020 an external audit of GDPR was performed, firewall solutions were updated according to the latest technologies. To maximize the protection of employee data and Company resources from cyber-attacks and intrusions, which becomes particularly relevant and increases the associated risks when company employees work remotely:
  1. Employees working in remote workplaces can use the Internet only when they are not connected to the Company's resources. To use the Internet, you must first disconnect from the Company's resources;
  2. In autumn 2020 an antivirus program strengthened;
  3. In spring 2020 the length and complexity of passwords were reviewed, which is directly related to the reliability of passwords.
- 1. The Company and other companies of the Group are insured against general civil liability of the activities and products produced, the insurance cover is valid worldwide.
- 2. The situation is constantly monitored and scenarios are forecasted regarding the short-term, medium-term, long-term business prospects of the Company and companies of the Group, social, environmental and financial performance are analysed and projected, the necessary management and organizational decisions are made, including cost optimization.

Unprecedented uncertainty about the economy, future revenue, and many other revenues that are key elements of financial reporting complicates financial reporting and auditing tasks. In preparing the financial statements for 2020, it was necessary to take into account a number of items in the financial statements in the short and, where appropriate, medium term.

The responsibility for the preparation and supervision of the financial statements lies with the management of the companies. The management of the Company and the Group has to make complex assessments and make significant decisions in the current business environment. Particularly important:

- Consistency between the timeliness of the reports and the reliability and integrity of the information they provide that reflects management's best judgment and assessment.
- Appropriate business continuity assessment and disclosure of essential / material uncertainties, if any.
- Correct presentation of the company's results of operations and position, which requires detailed disclosure of the impact of future-oriented information and cash flows.
- Fostering the integrity and transparency of the business environment, which is the basis for trust and ethical decision-making.
- Ensuring effective internal control over financial reporting and emerging risk management.

### **Business plans and forecasts of the Companies of the Group**

When considering the business plans and strategy, the Company's management confirmed that 2021 will be the year of the Company's ACTIVITIES - JUST DO IT. The main goal is to sell the Company's and the Group's products directly to the shelves of strategic foreign countries with their own brands and brands and to ensure that the Company's and the Group's products in their segment are of the highest quality and best meet customer expectations. The products manufactured and sold by the Company make Lithuania and Žemaitija Region famous in more than 38 countries.

The Company still seeks to use the opportunities for quick development in the competitive environment. The long-term goals of companies referred to AB "Žemaitijos pienas" group are to become and be strong, competitive, technically modern, reliable, attractive companies for investors, so that the Company's return to shareholders would be one of the largest among equal companies. To find and maintain the most profitable markets for our products in the European Union, the Baltic and other countries of the world by giving priority to the closest markets, as well as to the markets of Germany, France, England, and Hungary. To make maximum possible use of the existing production capacities. To make maximum possible use of the existing production capacities, in addition, the consumer market studies are carried out continually, the consumer demand for new products is taken into account, tastings are carried out, and dairy products are perfected and new products. One more goal is to become as close as possible to a consumer by providing and selling the products directly to a customer.

The essential current objectives and plans of the Company are as follow:

- To purchase milk in accordance with market conditions but not at a higher price than that paid for raw milk by other market participants in Lithuania and purchase high-quality milk only;
- Encourage and assist farmers in improving milk quality;
- To increase sales at the prices favourable to the Company;
- To focus on the sales of higher value-added products on export markets.

The lack of skilled labour forces the Company to focus on human resources, so special attention is paid to team building, development of competence and qualification, formation of special skills, revision, and improvement of motivation systems.

Regularly changing and dynamic market of the sale of products and the purchase of raw milk, as well as other factors, force "Žemaitijos pienas" Group to refrain from publishing the turnover and profit forecasts for the upcoming activity period.

### **Information of research and development activities of the Company**

The Company and its subsidiary (jointly or separately) continuously make investments and seek ways to ensure continuous growth of income and improvement of activity effectiveness. In 2021 the Company plans to allocate about 10 million euros for investments. Among them - about 3.7 million EUR will be allocated to the Fresh Dairy Products Unit, and about 2 million EUR will be allocated to the Processed Products - Production Unit, the remaining investment - for butter-cheese, IT and logistics units. In 2021, logistics

investments are planned to reduce the costs of milk transportation and product distribution by purchasing new Euro6 standard vehicles for 1 million EUR. The goals remain the same - route optimization, reduction of fuel consumption. There will also be a strong focus on safe and economical driving training.

The goal of the companies is to ensure production and supply of products complying with the highest possible quality standards and creating maximum possible added value, which is why the technologists cooperate with scientists from Lithuanian University of Health Sciences, Vilnius University, Kaunas University of Technology as well as experts from Lithuania and abroad. In cooperation with scientific institutions and foreign laboratories, new products are developed, adapted to the needs of the modern consumer. The development of products aims to consider sustainable raw materials and technologies, and seeks added value for the functionality of products (protein products, products with fibre, vitamins, etc.). The Company's specialists are constantly doing internships in foreign countries, participating in exhibitions, improving their qualifications in training and seminars.

Laboratory tests of products are carried out regularly at the National Food and Veterinary Risk Assessment Institute, Eurofins, Hamilton, KTU MI, LSMU Veterinary Academy and other laboratories. Uninterruptible tests are mainly oriented to improvement of available product cart.

### **Activities of the Companies of the Group in the field of environmental protection**

AB "Žemaitijos Pienas", a company that produces and sells dairy products, which, in accordance with the criteria laid down in the Regulations for the issue, amendment and revocation of Integrated Pollution Prevention and Control Permits, refers to companies that use the equipment subject to a special permit for the performance of its activities in accordance with the above rules. Still in 2006 the Company received an Integrated Pollution Prevention and Control Permit, which is not limited in time, but is the subject to adjustment due to changes. The Company does not have a negative impact on the environment, which should be mitigated by immediate measures, however, the Company constantly monitors its performance indicators, plans and implements the latest technologies that would reduce production and operating costs and energy costs, and improve the Company's environmental condition in every way.

The Company is constantly improving the integrated quality and food safety management system that meets the requirements of international standards BRC, ISO 22000, FSSC (ISO 22000, ISO / TS 22002-1).

AB "Žemaitijos pienas" aims to maximize the use of natural resources by various means. As we know, natural resources determine the economic development of countries. Countries that conserve natural wealth have much greater opportunities to develop production, trade and the social sphere. The Company is well aware that its activities can cause significant damage to the environment, and only the complex use of economic, legal, technical, and biological tools can guarantee the rational use of natural resources now and in the future, so environmental impacts are controlled by harmonized monitoring programs. As the Company expands or upgrades its facilities and technology, an environmental impact assessment is carried out to ensure that the Company's development does not exceed the permissible environmental norms, as well as the production wastewater, the quality of biofuels and other factors that may affect the surrounding environment. The Company is constantly updating its fleet to reduce air pollution from mobile sources. To ensure the reduction of pollution from stationary pollution sources, the Company uses the best available production methods.

The waste is managed in accordance with the established environmental requirements, through the through the environmental electronic data collection system GPAIS (waste product package information system). Moreover, the Company provides (forms) quarterly waste accounting reports and shipped exported waste package accounting reports. Within the territory, hazardous and non-hazardous waste is stored and handled in a way that does not adversely affect the environment; Waste is shipped to waste recycling and timely disposal companies. AB "Žemaitijos Pienas" carries out sorting of packaging at the place of waste generation, presses it and prepares it for recycling. It also separates packaging waste for recycling but is suitable for energy recovery and systematically transmits this waste to collectors and processors.

Packaging plays an important role in the production process of AB "Žemaitijos pienas". The products are packed in glass, PET, plastic, paper, combined, wooden and other packaging. For the purposes of efficient packaging waste management in 2020 the Company cooperates with the Public Institution "Gamtos ateitis",

which takes care of packaging collection and recycling. Public Institution “Gamtos ateitis”, for a fee received from AB “Žemaitijos pienas” (for the submitted documents proving that the waste has been disposed of), is committed to educating the public on packaging (garbage) management issues, as well as to contribute to the development of packaging collection from consumer infrastructure to supply the population with containers).

The Company is constantly implementing investment projects, during which it implements new advanced technologies that allow more efficient use of energy renewable resources, reduction of emissions and other environmental measures. AB “Žemaitijos pienas” is constantly conducting research and develops by searching new, environmentally friendly business models. In 2018 a new version of the business management system AXAPTA, which helps us to more accurately record, prepare and report and transfer data to other systems was introduced.

During 2020 the Company implemented other investments planned for 2020-2021 aimed at production development, raising of automation level, increase of occupational safety, ensuring of technical level and environmental requirement. In order to reduce emission of gases contributing to the greenhouse effect AB “Žemaitijos pienas” has assumed the initiative and either completely eliminated equipment relying on Freon gas for its processes or obtained equipment that uses a more environmentally friendly type of this gas.

The Company is constantly improving its management structure for environmental issues. It was believed that all employees and their managers should contribute to the reduction of energy costs, pollution reduction, therefore from 2018 it will be necessary to reduce emissions. Environmental responsibility is not the sole responsibility of one person, one office ecologist-engineer. At the same time, the Company started measuring wastewater pollution in each unit separately, which also allowed controlling, analysing and carrying out preventive work to prevent the discharge of polluting wastewater into the wastewater, at the same time allowed to improve the overall communication between the units, to see where more investment or organizational measures are needed to solve the problems.

The company is actively implementing and promoting the use of renewable resources. AB “Žemaitijos Pienas” has a 10MW biofuel boiler house, which uses renewable energy resources - wood chips (SM2) instead of natural gas. During 2020, AB “Žemaitijos pienas” consumed 1 403 728 m<sup>3</sup> of gas; this is 23.04% more than in previous years. The increase in gas costs was influenced by the preventive repair works of the biofuel boiler house. In 2020 the Company consumed 4.180,082 t of biofuel. It means that comparing to 2019 biofuel consumption decreased by 8.42 per cent.

The Company, being socially responsible and caring for the environment and preserving it, buys electricity from renewable energy sources. In 2020 AB “Žemaitijos pienas” consumed 21,578,930 kWh of electricity, which means that compared to 2019 electricity consumption increased by 1.23% per cents, the increase was due to a higher amount of recycled material. Considering indirect energy consumption data, the major part of the energy used in the first half of 2020 was used for storage of finished products, i.e. 4.014.987kWh. Compressed air compressors were upgraded in 2020. This will save up to 8% of electricity for compressed air production. The new equipment also has integrated heat exchangers for hot water, which will save energy for hot water treatment and will not release unnecessary heat to the environment. In 2020, AB “Žemaitijos pienas” consumed 879,258 m<sup>3</sup> of water, which is 5.64% more than in 2019, the increase was also influenced by the higher amount of recycled raw material.

The Company respects and complies with the laws of the Republic of Lithuania related to environmental protection, pays all mandatory pollution taxes on due time. When selecting suppliers, AB “Žemaitijos pienas” considers how they apply environmental protection strategies, whether they comply with environmental requirements and requires guarantees that the transferred waste will be properly managed. In future, AB “Žemaitijos pienas” will continue to take every effort to become an increasingly environmentally friendly company. It is expected to be able to use more energy from renewable sources in its activities and to reduce emissions into the environment.

**ABF “Šilutės Rambynas”** for several years has been paying great attention to the environment, and the most important goal is to reduce industrial waste and save natural resources:  
- after concentrating the whey, the remaining whey water is purified by a membrane system to water suitable for washing equipment, so reducing the amount of water and wastewater used;

- for the treatment of industrial wastewater, the company is equipped with wastewater storage and mixing tanks, which allow to avoid instantaneous pollution and control the quality of wastewater discharged into Šilutė water treatment plants;
- high concentration wastewater is collected in a separate tank and, depending on the production volume, 1-2 times a week is transported to Tytuvėnai and delivered to biogas producers.

Industrial wastewater treatment system of the Company gives its results, which are reflected in the table below and are significantly lower than required by law.

Indicators	Maximum permissible concentration	Basic concentration	Average actual concentration in 2020
BDS7 mgO2/l	800	350	320
Reaction in pH units	6.5-8.5	6.5-8.5	8.0
Suspended solids mg/l	350	350	143
Total nitrogen mg/l	50	50	37.2
Total phosphorus mg/l	10	10	9.5

### Political and economic environment in the field of climate change

Climate change is a global challenge that requires a global response. The EU is committed to helping increase the global effort, and EU countries have agreed to ensure climate-neutral effects by 2050 according to the Paris Agreement. The European Green Course provides an action plan:

- Promoting resource efficiency in the transition to a clean circular economy,
- Restoring biodiversity and reducing pollution.

Climate neutrality will require a transformation of European society and economy. The European Council considers legislative and other initiatives under the European Green Course after they have been proposed by the European Commission. Political commitments are transformed into legal commitments.

There is a clear need for significant public investment and a major effort to channel private sector capital into climate and environmental action, avoiding the link to unsustainable models.

Achieving the goals of climate neutrality will require action in all sectors of the economy:

- Investment in environmentally friendly technologies,
- Support of industrial renewal through innovation and innovation,
- Introduction of cleaner, cheaper and healthier forms of private and public transport,
- Reduction of greenhouse gas emissions, increasing the share of renewable resources and energy efficiency,
- Ensuring of greater energy efficiency of buildings,
- Work with international partners to improve global environmental standards.

The EU also plans to provide financial support and technical assistance to those most affected by the transition to a green economy.

The Company and the Group always:

1. Monitor the climate change situation, current affairs, trends, related policy initiatives and legislation;
2. Assess the risks associated with climate change issues;
3. Integrate operational threats and opportunities into the risk management framework.

## Aspects on management of employees and human resources of the Companies of the Group

The main assets of the Company are its employees, the most important link in achieving goals of the Company. The Company's personnel policy is focused on the formation of teamwork, continuous process and professional development, optimal use of work resources, development of competent employees and the formation of the Company's culture that creates greater added value and improvement of internal communication.

There has been an increase in the number of highly qualified employees, but there is still lack of highly qualified employees. These problems are solved by creating and developing long-term relationships with employees, adapting them, educating, promoting professional development. Opportunities are created for employees to deepen and improve their knowledge and skills, to improve their qualifications by participating in various seminars and courses. Employees are taught foreign languages in courses organised by the Company, the above-mentioned trainings are also carried out in other forms of learning and development.

During the reporting period, the focus was on several areas of training: improving the qualifications of employees to ensure compliance with the quality of work requirements, as well as training on disinfection and protection against COVID-19. To ensure the rotation and multi-function of employees, employees are additionally trained, and a reserve of managerial rotation is prepared.

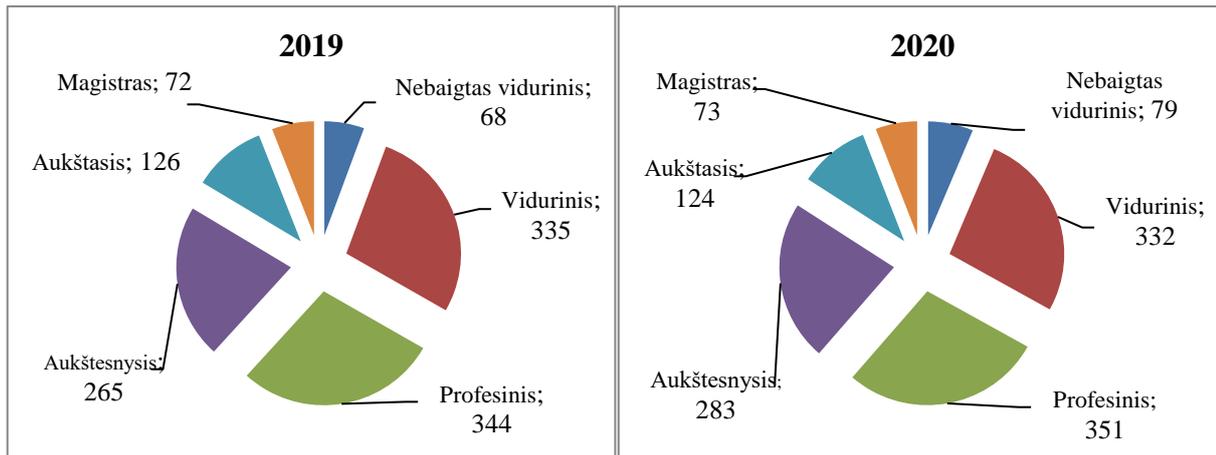
### AB "Žemaitijos pienas"

According to the data available by 31 December 2020, AB "Žemaitijos pienas" had 1242 employees. According to the data available by 31 December 2019, AB "Žemaitijos pienas" had 1210 employees. According to the data available by 31 December 2018, AB "Žemaitijos pienas" had 1185 employees. Comparing to the previous year the number of employees slightly increased.

Groups of AB "Žemaitijos pienas" employees by education (2018, 2019, 2020):

Number of employees	31/12/2018	31/12/2019	31/12/2020
With Master's Degree	43	72	73
With University Degree	178	126	124
With College Degree	226	265	283
With Vocational Education	293	344	351
With Secondary Education	367	335	332
With unfinished Secondary Education	78	68	79
In total:	1185	1210	1242

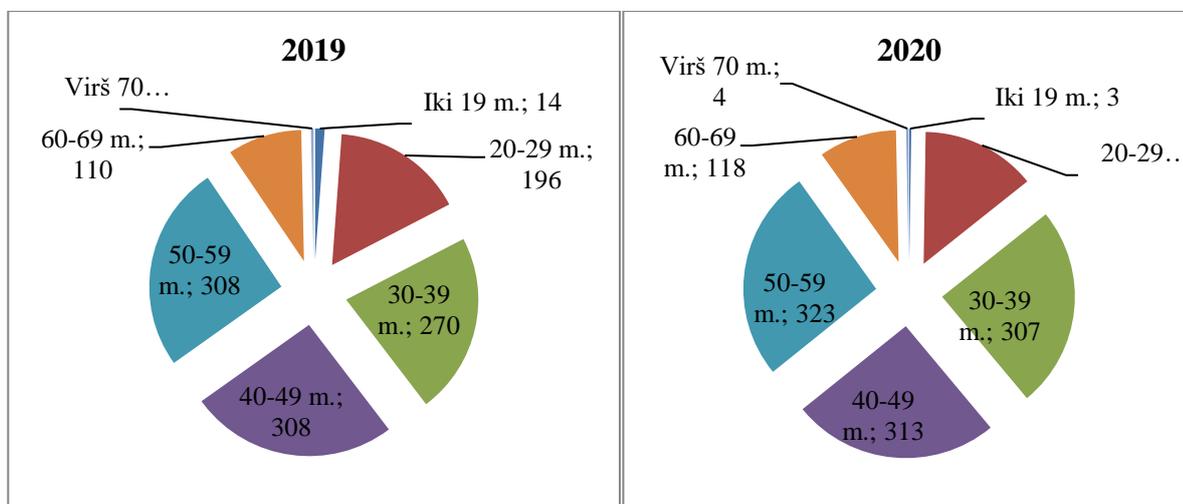
Groups of AB “Žemaitijos pienas” employees by education (2019 and 2020):



Number of AB “Žemaitijos pienas” employees by their corresponding groups and their average wages in EUR for corresponding employee work groups make up:

Number of employees By groups	31/12/2018		31/12/2019		31/12/2020	
	Number of employees	Average wage, EUR in euro	Number of employees	Average wage, EUR in euro	Number of employees	Average wage, EUR in euro
Director	9	7180	9	7429	9	7193
Specialists	258	1917	288	2246	311	2285
Workers	918	926	913	1194	922	1257
In total:	1185		1210		1242	

Number of employees by age groups in 2019 and 2020:



Rights and obligations of AB “Žemaitijos pienas” employees are provided for in their Job Descriptions. Employment Contracts outline no special rights or obligations of employees, and the Company does not have a Collective Agreement, but there is a Labour Board formed.

## ABF “Šilutės Rambynas”

At the end of the period, the company had 176 employees, their number decreased by 15 employees (8%) compared to 2019. Changes of groups of employees by education are provided in the Table below:

Education of employees	31/12/2020	31/12/2019
With Master's Degree	8	9
With University Degree	25	26
With College Degree	24	27
With Vocational Education	59	69
With Secondary Education	44	48
With unfinished Secondary Education	16	12
<b>In total:</b>	<b>176</b>	<b>191</b>

The average salary during 2020 was 1570 EUR/month or 1.0% higher than in 2019. Changes in wages by employee groups are given in the Table below:

Number of employees by groups	31/12/2020		31/12/2019	
	Number of employees	Average wage, EUR/month	Number of employees	Average wage, EUR/month
Director	7	3375	7	3064
Specialists	28	1915	30	1843
Workers	141	1412	154	1429
<b>In total:</b>	<b>176</b>	<b>1570</b>	<b>191</b>	<b>1554</b>

The Company seeks to develop and maintain long-term relationships with its employees, especially when the labour market is not satisfying - the lack of highly qualified employees. Therefore, employees are constantly encouraged to develop in the professional field. The Company employees could improve their knowledge and skills in seminars and courses. There are training programs that train and certify specialists, production workers, technicians, operators, locksmiths, brigades, masters, and masters.

## IV. OTHER INFORMATION

### Transactions with associated parties

Transactions of associated parties during the first half of the current financial year that have a material effect on the financial position or performance of the company and / or group of companies during that period, including the amounts of those transactions, are reported in Explanatory Note for the year 2020.

## Judicial and non-judicial processes

### I. Administrative cases

- 1 The Defendant - AB "Žemaitijos pienas", the Claimant/Applicant - Public Institution "Kaimo verslo ir rinkų plėtros agentūra", essence of dispute regarding cancellation of EUR 3 000 fine imposed, the case is in the Supreme Administrative Court of Lithuania, the case is not examined, the first instance cancelled the fine;
- 2 The Claimant/Applicant - Public Institution "Pakuočių tvarkymo organizacija", third party - AB "Žemaitijos pienas", the Defendant – the Department of Environmental Protection under the Ministry of Environment, the essence of the dispute regarding the repeal of an individual legal act, the case in the Supreme Administrative Court of Lithuania, the outcome of the case is unpredictable;
- 3 The Claimant/Applicant - AB "Žemaitijos pienas", the Defendant - the Bank of Lithuania, the essence of the dispute - regarding the cancellation of the fine of EUR 158 000, the case in the Supreme Administrative Court of Lithuania, the outcome of the case is unpredictable;
- 4 Other cases that will not have a significant impact on the rights and obligations of AB "Žemaitijos pienas".

### II. Civil cases

- 1 The Claimant - AB "Žemaitijos pienas", the Defendant - Public Institution "Pakuočių tvarkymo organizacija", the essence of the dispute is a claim for damages of EUR 96 020, the case is in the Vilnius Regional Court, the outcome of the case is unpredictable, by the way, its outcome depends on the outcome of the case, which is being considered in the Supreme Administrative Court of Lithuania;
- 2 Other cases that will not have a significant impact on the rights and obligations of AB "Žemaitijos pienas".

### III. There are no cases pending before the courts or other institutions in criminal, tax law or other relations;

Currently no amounts are recovered in favour of AB "Žemaitijos pienas", as well as from AB "Žemaitijos pienas", nor are there any other processes that could create, change the rights and obligations of the company and/or substantially determine its financial position.

During the period of 2020, the final decision was made in twelve cases, civil cases predominate, in all these cases monetary claims amounted to small amounts on average up to EUR 5 000, also some cases were non-property, in several cases AB "Žemaitijos pienas" had third party status. All these cases did not and will not have any significant impact on the rights, obligations or interests of AB "Žemaitijos pienas".

## Regulated information published by the Company

During the reporting period, the Company submitted 13 notices via the information system of the Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) (on the website). All facts (events) are stored in the Central Regulated Information Database<sup>2</sup>, as well as this information is available on the Company's website [www.zpienas.lt](http://www.zpienas.lt).

Public notices shall be published in accordance with the procedure established by legal acts and submitted in the electronic publication of the Manager of the Register of Legal Entities. Notices on convocation of the General Meeting of Shareholders and other material events are published in accordance with the procedure established by the Law on Securities in the Central Regulated Information Database [www.crib.lt](http://www.crib.lt) and on the Company's website [www.zpienas.lt](http://www.zpienas.lt). The most important events of the reporting period were published in the first half of 2020.

<sup>2</sup> [http://www.nasdaqbaltic.com/market/?pg=news&issuer=ZMP&start\\_d=1&start\\_m=1&start\\_y=1996](http://www.nasdaqbaltic.com/market/?pg=news&issuer=ZMP&start_d=1&start_m=1&start_y=1996)

Date	The most important notices of the reporting period
21/10/2020	Regarding the repurchase of AB "Žemaitijos pienas" own shares
30/09/2020	Information on the company's activities in the first half of 2020
30/09/2020	Preliminary report of AB "Žemaitijos pienas" Group on the Result for the first half of 2020
22/09/2020	Regarding the acquisition (repurchase) of AB "Žemaitijos pienas" own shares
26/08/2020	Regarding the repurchase of the acquisition of own shares of AB "Žemaitijos pienas"
04/08/2020	Regarding the repurchase of the acquisition of own shares of AB "Žemaitijos pienas"
09/04/2020	Decisions of the Ordinary General Meeting of AB "Žemaitijos pienas" Shareholders
04/03/2020	Change of the place of the General Meeting of Shareholders of AB "Žemaitijos pienas" and submission of an alternative decision to the General Meeting of Shareholders
16/03/2020	Convocation of the Ordinary General Meeting of Shareholders of AB "Žemaitijos pienas"
16/03/2020	Impact of COVID -19 (current and potential) on the business of AB "Žemaitijos pienas"
28/02/2020	Unaudited performance results of AB "Žemaitijos pienas" Group in 2019
10/01/2020	Deregistration of AB "Baltijos mineralinių vandenų kompanija" from the Register of Legal Entities
10/01/2020	Dismissal of a member of the Board of AB "Žemaitijos pienas";

#### Information related to the Corporate Governance Code of the Companies.

During the reporting period there were no significant changes related to compliance with the Corporate Governance Code of the Companies. Other information related to compliance with the Corporate Governance Code is provided in consolidated annual report of the Company for 2020, in the annex to this annual report - in the report on compliance with the Corporate Governance Code.

#### The most important post-reporting events

There were no important events during the post-reporting period.

General Director



Robertas Pazemeckas

Chief Accounting Officer

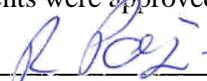


Dalia Gecienė

	Notes	The Group		The Company	
		As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	5	266	335	263	327
Property, plant and equipment	5	53.130	55.624	46.626	49.247
Investment property	6	3.371	3.610	3.297	3.534
	7	1.103	395	1.103	395
Investments in subsidiaries and associates	1	-	-	3.150	3.150
Loans granted	8	1.818	1.771	1.818	1.771
Other financial assets		67	-	67	-
Deferred income tax asset	27	-	548	-	448
<b>Total non-current assets</b>		<b>59.755</b>	<b>62.283</b>	<b>56.325</b>	<b>58.872</b>
<b>Current assets</b>					
Inventories	9	34.043	32.327	32.982	30.760
Prepayments		240	268	215	229
Trade accounts receivable	10	16.799	18.330	16.789	18.216
Other accounts receivable	11	2.494	2.075	2.494	1.471
Cash and cash equivalents	12	16.093	9.901	11.606	8.835
<b>Total current assets</b>		<b>69.669</b>	<b>62.900</b>	<b>64.086</b>	<b>59.512</b>
<b>TOTAL ASSETS</b>		<b>129.424</b>	<b>125.183</b>	<b>120.411</b>	<b>118.384</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	13	14.029	14.029	14.029	14.029
Own shares (-)	13	(3.914)	(3.801)	(3.914)	(3.801)
Legal reserve	13	1.403	1.401	1.403	1.401
Other reserves	13	12.350	10.274	12.350	10.274
Retained earnings		70.833	63.204	64.263	56.839
<b>Equity attributable to equity holders of the Company</b>		<b>94.700</b>	<b>85.107</b>	<b>88.131</b>	<b>78.742</b>
Non-controlling interest	16	1.615	1.611	-	-
<b>Total Equity</b>		<b>96.315</b>	<b>86.718</b>	<b>88.131</b>	<b>78.742</b>
<b>Non-current liabilities</b>					
Grants received	14	3.082	3.357	2.937	3.192
Loans received	19	4.500	11.000	4.500	11.000
Obligations under finance lease	18	647	505	647	505
Deferred Corporate income tax liability		46	-	137	-
Long term provision for defined employee benefits	15	3.439	3.438	3.248	3.158
<b>Total non-current liabilities</b>		<b>11.714</b>	<b>18.300</b>	<b>11.468</b>	<b>17.855</b>
<b>Current liabilities</b>					
Loans received	19	1.500	2.998	1.500	2.998
Obligations under finance lease	18	844	490	844	490
Trade accounts payable	20	12.156	11.365	12.341	13.566
Income tax payable		1.132	-	1.132	-
Accrued expenses and other current liabilities	15, 22	5.763	5.311	4.995	4.733
<b>Total current liabilities</b>		<b>21.395</b>	<b>20.165</b>	<b>20.812</b>	<b>21.787</b>
<b>Total liabilities</b>		<b>33.109</b>	<b>38.465</b>	<b>32.280</b>	<b>39.642</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>129.424</b>	<b>125.183</b>	<b>120.411</b>	<b>118.384</b>

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on March 10, 2021 and signed by:

  
 Robertas Pažemackas  
 General Director

  
 Dalia Gecienė  
 Chief accountant

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**
**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER, 2020**

(All amounts in EUR thousands unless otherwise stated)



	Notes	The Group		The Company	
		2020	2019	2020	2019
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS SALES</b>	23	<b>182.427</b>	<b>185.550</b>	<b>181.394</b>	<b>184.163</b>
Cost of sales	23	(140.870)	(144.499)	(140.959)	(144.152)
<b>GROSS PROFIT</b>		<b>41.557</b>	<b>41.051</b>	<b>40.435</b>	<b>40.011</b>
Operating expenses	24	(29.921)	(29.145)	(29.028)	(27.684)
Other operating income and expenses	25	129	236	141	2.349
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>11.765</b>	<b>12.142</b>	<b>11.548</b>	<b>14.676</b>
Financial income and expenses	26	(233)	205	(233)	210
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>11.532</b>	<b>12.347</b>	<b>11.315</b>	<b>14.886</b>
Income tax benefit (expense)	27	(1.726)	(1.568)	(1.717)	(1.618)
<b>NET PROFIT (LOSS)</b>		<b>9.806</b>	<b>10.779</b>	<b>9.598</b>	<b>13.268</b>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Company		9.802	10.824	9.598	13.268
Non-controlling interest		4	(45)	-	-
		<b>9.806</b>	<b>10.779</b>	<b>9.598</b>	<b>13.268</b>
<b>Basic and diluted earnings per share (EUR)</b>	17	<b>0,22</b>	<b>0,24</b>	<b>0,21</b>	<b>0,30</b>
<b>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods</b>					
Actuarial gains (losses) from long term provision for defined employee benefits, less deferred income tax		(96)	259	(96)	259
<b>Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>(96)</b>	<b>259</b>	<b>(96)</b>	<b>259</b>
<b>Total comprehensive income (loss) for the year, net of tax</b>		<b>9.710</b>	<b>11.038</b>	<b>9.502</b>	<b>13.527</b>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Company		9.706	11.083	9.502	13.527
Non-controlling interest		4	(45)	-	-
		<b>9.710</b>	<b>11.038</b>	<b>9.502</b>	<b>13.527</b>

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on March 10, 2021 and signed by:

Robertas Pažemeckas  
General Director

Dalia Gecienė  
Chief accountant

**ŽEMAITIJOS PIENAS AB**

Company code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in EUR, in thousands, unless otherwise stated)



The Group	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interest	Total equity
<b>Balance as of 1 January 2019</b>	<b>14.029</b>	<b>(1.597)</b>	<b>1.401</b>	<b>5.000</b>	<b>60.640</b>	<b>79.473</b>	<b>1.656</b>	<b>81.129</b>
Net profit	-	-	-	-	<b>10.824</b>	<b>10.824</b>	<b>(45)</b>	<b>10.779</b>
Other comprehensive income	-	-	-	-	259	259	-	259
<b>Total comprehensive income</b>	-	-	-	-	<b>11.083</b>	<b>11.083</b>	<b>(45)</b>	<b>11.038</b>
Dividends	-	-	-	-	(3.692)	(3.692)	-	(3.692)
Acquisition of own shares	-	(2.204)	-	-	-	(2.204)	-	(2.204)
Merger result	-	-	-	-	91	91	-	91
Tantiems	-	-	-	-	354	354	-	354
Used of reserves	-	-	-	(4.726)	4.726	-	-	-
Transfer to/from reserves	-	-	-	10.000	(10.000)	-	-	-
<b>Balance as of 31 December 2019</b>	<b>14.029</b>	<b>(3.801)</b>	<b>1.401</b>	<b>10.274</b>	<b>63.204</b>	<b>85.107</b>	<b>1.611</b>	<b>86.718</b>
Net profit	-	-	-	-	<b>9.802</b>	<b>9.802</b>	<b>4</b>	<b>9.806</b>
Other comprehensive income	-	-	-	-	(96)	(96)	-	(96)
<b>Total comprehensive income</b>	-	-	-	-	<b>9.706</b>	<b>9.706</b>	<b>4</b>	<b>9.710</b>
Dividends	-	-	-	-	-	-	-	-
Acquisition of own shares	-	(113)	-	-	-	(113)	-	(113)
Merger result	-	-	-	-	-	-	-	-
Tantiems	-	-	-	-	-	-	-	-
Used of reserves	-	-	-	(10.274)	10.274	-	-	-
Transfer to/from reserves	-	-	2	12.350	(12.352)	-	-	-
<b>Balance as of 31 December 2020</b>	<b>14.029</b>	<b>(3.914)</b>	<b>1.403</b>	<b>12.350</b>	<b>70.833</b>	<b>94.700</b>	<b>1.615</b>	<b>96.315</b>

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS****STATEMENTS OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in EUR thousands unless otherwise stated)



<b>The Company</b>	<b>Share capital</b>	<b>Own shares (-)</b>	<b>Legal reserve</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as of January 2019</b>	<b>14.029</b>	<b>(1.597)</b>	<b>1.401</b>	<b>5.000</b>	<b>52.101</b>	<b>70.934</b>
Net profit	-	-	-	-	13.268	13.268
Other comprehensive income	-	-	-	-	259	259
<b>Total comprehensive income</b>	-	-	-	-	<b>13.527</b>	<b>13.527</b>
Dividends	-	-	-	-	(3.692)	(3.692)
Acquisition of own shares	-	(2.204)	-	-	-	(2.204)
Merger result	-	-	-	-	(179)	(179)
Tantiems	-	-	-	-	354	354
Used of reserves	-	-	-	(4.726)	4.726	-
Transfer to/from reserves	-	-	-	10.000	(10.000)	-
<b>Balance as of 31 December 2019</b>	<b>14.029</b>	<b>(3.801)</b>	<b>1.401</b>	<b>10.274</b>	<b>56.839</b>	<b>78.742</b>
Net profit	-	-	-	-	9.598	9.598
Other comprehensive income	-	-	-	-	(96)	(96)
<b>Total comprehensive income</b>	-	-	-	-	<b>9.502</b>	<b>9.502</b>
Dividends	-	-	-	-	-	-
Acquisition of own shares	-	(113)	-	-	-	(113)
Merger result	-	-	-	-	-	-
Tantiems	-	-	-	-	-	-
Used of reserves	-	-	-	(10.274)	10.274	-
Transfer to/from reserves	-	-	2	12.350	(12.352)	-
<b>Balance as of 31 December 2020</b>	<b>14.029</b>	<b>(3.914)</b>	<b>1.403</b>	<b>12.350</b>	<b>64.263</b>	<b>88.131</b>

Please refer to Note 17 for dividends paid information.

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on March 10, 2021 and signed by:

A handwritten signature in blue ink, appearing to read "R. Paž.", positioned above a horizontal line.

Robertas Pažemeckas  
General Director

A handwritten signature in blue ink, appearing to read "D. Geci", positioned above a horizontal line.

Dalia Gecienė  
Chief accountant

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**
**CASH FLOW STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in EUR thousands unless otherwise stated)



	Notes	The Group		The Company	
		2020	2019	2020	2019
<b>Cash flow to operating activities</b>					
Profit (loss) for the period		9.806	10.779	9.598	13.268
<b>Adjustments:</b>					
Depreciation and amortization	5,6	4.947	4.207	4.700	3.984
Amortization of grants received	14	(275)	(299)	(255)	(279)
Depreciation right-of-use assets	7	736	687	736	687
Gain (loss) on disposal and write offs of non-current assets		134	49	126	(1.872)
Decrease (increase) in deferred tax asset	27	594	1.565	584	1.618
Impairment (reversal) of accounts receivable	10	(2)	(94)	(2)	(94)
Net financial expenses (income)		(117)	58	(117)	54
Impairment (reversal) of inventories to net realizable value	9	65	(1.582)	144	(1.309)
Elimination of non-cash items		(96)	705	(96)	614
<b>Net cash flows from ordinary activities before changes in working capital</b>		<b>15.792</b>	<b>16.076</b>	<b>15.419</b>	<b>16.671</b>
<b>Changes in working capital:</b>					
(Increase) decrease in inventories	9	(1.781)	592	(2.365)	243
(Increase) decrease in trade receivables	10	1.527	(257)	1.432	2.513
(Increase) decrease in prepayments		28	24	14	49
(Increase) decrease in other receivables		(430)	750	(1.033)	1.155
(Decrease) increase in trade payables	20	791	(1.153)	(1.225)	(6.282)
(Decrease) increase other accounts payable	21,22	1.896	(378)	1.795	(411)
Decrease) increase income tax payables		1.132	-	1.132	-
<b>Net cash flows from operating activities</b>		<b>18.956</b>	<b>15.654</b>	<b>15.169</b>	<b>13.938</b>
<b>Cash flows from (to) investing activities</b>					
(Acquisition) of intangible assets and property, plant and equipment.	5	(2.344)	(9.371)	(1.977)	(6.400)
Proceeds on sale of property, plant and equipment		64	127	64	127
(Acquisition) of subsidiaries, disposal of shares	21	-	(1.912)	-	(1.912)
Goodwill	21	-	(28)	-	(207)
Acquisition of right-of-use assets	7	(1.510)	(442)	(1.510)	(442)
Repayment of loans granted	8	907	1.020	907	1.020
Loans granted	8	(940)	(1.054)	(940)	(1.054)
Interest received	26	83	84	83	83
<b>Net cash flows (to) investing activities</b>		<b>(3.740)</b>	<b>(11.576)</b>	<b>(3.374)</b>	<b>(8.785)</b>
<b>Cash flows from (to) financing activities</b>					
Dividends (paid)	17	-	(3.692)	-	(3.692)
(Acquisition) of own shares	13	(113)	(2.204)	(113)	(2.204)
Grants received	14	-	2.329	-	2.329
Financial lease payments	18	(948)	(967)	(948)	(967)
Loan received	19	-	6.510	-	6.510
Loan (payments)	19	(7.998)	(2.510)	(7.998)	(2.510)
Other financial (income) and expenses	26	205	(6)	205	(6)
Interest (payments)		(171)	(136)	(171)	(130)
<b>Net cash flows from (to) financing activities</b>		<b>(9.024)</b>	<b>(676)</b>	<b>(9.024)</b>	<b>(670)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>6.192</b>	<b>3.402</b>	<b>2.771</b>	<b>4.483</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>9.901</b>	<b>6.499</b>	<b>8.835</b>	<b>4.352</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>16.093</b>	<b>9.901</b>	<b>11.606</b>	<b>8.835</b>

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on March 10, 2021 and signed by:

Robertas Pažemeckas  
General Director

Dalia Gecienė  
Chief accountant

## 1. GENERAL INFORMATION

### Reporting entity

AB “Žemaitijos Pienas” (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of the Company’s registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984.

AB “Žemaitijos Pienas” is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius. The nominal value of one share is 0,29 EUR.

As at 31 December 2020 and 2019, its shares are held by the following shareholders:

Shareholder	31 12 2020		31 12 2019	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	14.034.581	29,01%	14.014.581	28,97%
Pažemeckienė Danutė	14.014.581	28,97%	14.014.581	28,97%
AB Klaipėdos pienas, code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
UAB Baltic Holding, code 302688114, Vilhelmo Berbomo g. 9-4, Klaipėda	4.713.018	9,74%	4.713.018	9,74%
Other shareholders	9.219.475	19,06%	9.314.213	19,26%
“Žemaitijos pienas AB	3.491.501	7,22%	3.416.763	7,06%
<b>Total share capital, shares units</b>	<b>48.375.000</b>	<b>100,00%</b>	<b>48.375.000</b>	<b>100,00%</b>

The management report provides detailed information about the main shareholders, see p.11

As at 31 December 2020 and 2019 the share capital of the Company was EUR 14.028.750. The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 par value each.

In September 2019 AB “Žemaitijos pienas” acquired 100 per cent shares of UAB “Baltijos mineralinių vandenu kompanija”, which until the end of the year was considered an associated company. Detail information on the acquisition of UAB “Baltijos mineralinių vandenu kompanija” is provided in Chapter 21 “Business Combinations” of the Explanatory Note of the Consolidated Financial Statements.

As at 31 December 2020 and 2019 the Group consisted of AB “Žemaitijos Pienas” and the subsidiary of the Company ABF Šilutės Rambynas:

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2020	Cost of investment 2019	Net assets as of 31 December 2020	Main activities
Šilutės Rambynas ABF	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	3.150	3.150	13.257	Cheese production and selling

The subsidiary ABF Šilutės Rambynas does not hold any shares of AB “Žemaitijos Pienas” as at 31 December 2019 and 2020.

The Company employed 1.242 employees as at 31 December 2020 (1.210 employees as at 31 December 2019). The Group employed 1.418 employees as at 31 December 2020 (1.417 employees as at 31 December 2019).

The Company's management authorized these financial statements on March 10, 2021. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

## **2. BASIS FOR DRAWING UP FINANCIAL STATEMENTS**

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

### **Basis of preparation of the financial statements**

The amounts in these financial statements are presented in EUR, rounded to thousands. Due to rounding errors, the numbers in the statements may not match.

The financial statements are prepared on the historical cost basis.

The financial year of the Company and other Group companies coincides with the calendar year.

When preparing financial statements in accordance with IFRS adopted for EU application, management is required to make calculations and estimates on the basis of certain assumptions that influence the choice of accounting principles and the amounts of Assets, Liabilities, Income and Costs. Estimates and related assumptions are based on historical experience and factors reflecting current conditions. On the basis of the above assumptions and estimates, the residual values of assets and liabilities are deduced from other sources. Actual results may differ from estimates. The estimates and their assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period in which the estimate is revised if it only affects that period, or in the period of the revision and subsequent periods if the estimate affects both the revision and future periods (Note 4).

The accounting policies set out below have been consistently applied and are in line with those applied last year.

### **Principles of consolidation and investments in subsidiaries and associates**

The consolidated financial statements of the Group include AB Žemaitijos Pienas and its subsidiary and associate. The financial statements of the subsidiary and the associate are prepared for the same reporting period and use the same accounting principles.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date on which control is transferred outside the Group. All intercompany transactions, balances and unrealized profit and losses on transactions between Group companies have been eliminated. Equity and net income attributable to a minority of shareholders, if any, are disclosed separately in the statement of financial position and comprehensive income.

Control is achieved when the Group determines whether it is entitled to variable returns from its involvement in the investment and has the ability to affect that return through its influence on the investment. The Group controls an investment when, and only when, the Group has:

- Impact on the investment (i.e. rights exist that allow the management of the investment activity in question);
- The right to variable returns from its participation in the investment;
- The ability to use its influence on the investment to influence returns.

It is commonly assumed that most voting rights confer control.

The net result of a subsidiary is attributable to a minority of shareholders even if the result is negative.

Acquisitions and disposals of minority interest in the Group are accounted for as an equity transaction: the difference between the net assets acquired/transferred to the minority in the Group's financial statements and the purchase/sale price of the shares is recognized directly in equity.

### Investment in an associate

An associate is an entity over which the Company has significant influence, but does not control the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another company.

The Group accounts for investments in associates using the equity method. Under the equity method, an investment in an associate is carried in the statement of financial position at cost adjusted for the change in the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not subject to depreciation or individual impairment. The result of the associate is recognized in the statement of comprehensive income.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined by adding the fair value of the consideration transferred at the acquisition date to the amount of the minority interest in the acquire, if any. For each business combination, the acquirer shall measure the minority interest in the acquire either at fair value or at the proportionate share of the acquire's identifiable net assets. Acquisition costs incurred are written off and included in administrative expenses.

If the business combination is achieved in stages, the acquirer's previously owned interest in the acquire is measured at fair value at the acquisition date through the statement of comprehensive income. A contingent consideration to be paid by the buyer is recognized at fair value at the acquisition date. Subsequent estimates of the contingent consideration that is considered an asset or liability are recognized at fair value through profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent payment is recognized in equity.

Goodwill is recognized at cost and is the amount by which the full amount of the consideration transferred, including the amount recognized as a minority interest, exceeds the net amount of the assets acquired and liabilities recognized. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of comprehensive income.

Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. For the purpose of assessing impairment, goodwill acquired in a business combination from the acquisition date is allocated to those cash generating units of the Group that are expected to benefit from the combination, whether or not the acquire's other assets or liabilities are classified as such.

When goodwill forms part of a cash-generating unit and part of the activities of that unit is sold, the goodwill relating to the sale is included in the carrying amount of the sale of the business for the purpose of determining profit or loss on disposal. In this case, the goodwill sold is measured by the relative value of the activity sold relative to the rest of the cash-generating unit.

## **Investments (Companies in separate statements)**

### Investments in an associate

The Company accounts for its investments in subsidiaries using the acquisition cost method. The Company determines at the end of each period whether there are objective reasons that could determine the value of an investment in a subsidiary.

### Investments in subsidiaries

In the statement of financial position of the Company, investments in subsidiaries are accounted for at cost less impairment. Accordingly, at initial recognition, the investment is carried at cost, being the fair value of the consideration paid, less any impairment loss. The carrying amount of an investment is measured when events or changes in circumstances indicate that the investment's carrying amount may exceed its recoverable amount (higher of fair value less costs to sell or value in use). In case of such circumstances, the Company makes an assessment of the recoverable amount of the investment. If the carrying amount of an investment exceeds its recoverable amount,

the investment is written down to its recoverable amount. Impairment is recognized in the statement of comprehensive income, under general and administrative expenses.

### **The impact of new accounting standards, amendments to existing standards and new interpretations on the financial statements**

#### ***Adoption of new and/or changed interpretations of IFRS and International Financial Reporting Interpretations Committee (IFRIC)***

The accounting policies of the Group and the Company have not changed, except for the following new IFRSs and/or amendments thereto, which were applied as at 1 January 2020:

#### ***Application of new and / or amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations***

#### **Application of the Conceptual Framework to International Financial Reporting Standards (IFRS)** (issued on 29 March 2018, effective from 1 January 2020)

On March 29, 2018, the International Accounting Standards Board (IASB) conducted a review of the conceptual financial reporting framework. The conceptual framework provides a comprehensive set of concepts applicable to the preparation of financial statements and the issuance of standards and provides guidance to preparers in developing consistently applied accounting policies and assisting others in understanding and interpreting the standards. The IASB has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which contains amendments to related standards in order to update references to the revised conceptual framework. Its purpose is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS applies to a particular transaction.

#### **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”: Definition of “Material”** (issued on 31 October 2018, effective from 1 January 2020).

The amendments will harmonize the definition of material when determining whether or not information has a material effect on the financial statements. The new definition states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. These amendments had no impact and are not expected to have an impact in the future on the Company’s financial statements.

#### **Amendments to IFRS 3: “Definition of a Business”** (published 22 October 2018, effective from 1 January 2020).

The amendment will clarify the definition of a business for the purpose of helping to determine whether a transaction should be accounted for as an acquisition of an asset or a business combination. These amendments did not have an impact on the Company's financial statements, but may have an impact on future periods if the Company makes business combinations.

#### **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”: Interest Rate Benchmark Reform** (published 26 September 2019, effective from 1 January 2020).

Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Phase two

will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). These amendments did not have an impact on the Company's financial statements.

**Amendments to IFRS 16: COVID-19 related rent concessions/discounts**

(published 28 May 2020, effective from 1 July 2020)

Issued IASB amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the

consideration for the lease immediately preceding the change.

- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.

- There is no substantive change to other terms and conditions of the lease.

In the opinion of the Company's management, the application of these amendments does not have a significant impact on the financial statements, as they have not received any significant concessions / discounts during the reporting period and are not expected to receive them in subsequent reporting periods.

***Standards and amendments that have been approved but are not yet effective and have not been applied in advance***

New standards, amendments and interpretations that are not mandatory for reporting period beginning on 1 January 2020 and have not been early adopted when preparing these financial statements are presented below:

**IFRS 17: Insurance Contracts** (published 18 May 2017, effective from 1 January 2023, but not before approval by the EU)

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

In its March 2020 meeting the Board decided

to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This IFRS will not have any impact on the financial position or performance of the Company as insurance services are not provided.

**Amendments to IFRS 17 and IFRS 4: The deferral of effective dates for IFRS 17 and IFRS 9 for insurers**

(published 25 June 2020, effective from 1 January 2021, but not before approval by the EU)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

The management has assessed that these amendments will not have any impact on the Company's financial statements.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current** (published 23 January 2020, effective from 1 January 2022, but not before approval by the EU)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The Company is currently assessing the impact of this amendment on their financial statements.

**Amendments to IFRS 3 Business combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent liabilities and Contingent Assets as well as Annual Improvements (amendments)** (published 14 May 2020, effective from 1 January 2022, but not before approval by the EU)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The Company's management is currently assessing the impact of these amendments on the Group's and the Company's financial statements.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (published 11 September 2014, effective date not appointed)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IFRS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a transfer of a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The management has assessed that these amendments will not have any impact on the Company's financial statements.

**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**

(published on 27 August 2020, effective from 1 January 2021 and must be applied retrospectively)

Amendments to IFRS 9, IAS 39 and IFRS 7 will conclude phase two focused on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). These amendments will not have an impact on the Company's financial statements.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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

##### *Recognition and evaluation*

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of acquisition of an asset of the Company/Group consists of the costs directly attributable to the acquisition of the asset. The cost of an item of property, plant and equipment includes the cost of materials, direct labour, and other costs incurred in producing the asset before it is used, dismantling, removing, and reconditioning the asset.

When 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.

##### *Subsequent costs*

Subsequent to initial recognition, any costs incurred in replacing a component of property, plant and equipment or related to its reconstruction are capitalized only to the extent that it is probable that future economic benefits will flow to the asset and the cost of the new component can be measured reliably. All other costs are recognized as an expense when they are incurred.

##### *Depreciation*

Depreciation (amortization) starts on the month following the commencement date of the respective unit of plant, property and equipment. The commencement date is the date when the asset is actually ready for use. The transfer of non-current assets for use is formalized by the transfer and acceptance of non-current assets.

Depreciation (amortization) is no longer calculated from the following month when the non-current asset is classified as held for sale or is written off, sold or otherwise disposed of.

Depreciation (amortization) on property, plant and equipment and intangible assets is calculated using the proportional (straight-line) method of depreciation (amortization) over the estimated useful life of the asset. The amount of depreciation (amortization) accrued during the period is recorded in the depreciation (amortization) expense accounts.

If, after the repair of an item of property, plant and equipment or after an impairment assessment, an asset changes its useful life, the carrying amount of the asset, beginning at the date of adjusting its useful life, shall be depreciated over the restated useful life.

The useful lives of the Company's/Group's property, plant and equipment and intangible assets are determined separately for each asset, taking into account future economic benefits as well as the expected period of use in the Company/Group, the intensity of use, the environment in which the asset is used, changes in its useful life, technological and economic progress, morally aging assets, legal and other factors limiting the useful life of property, plant and equipment.

Based on the resolution of the Company/Group Management Board, as at 1 January 2017, the useful life of newly acquired production lines accounted for in "Machinery and equipment" is 10-15 years.

In 2018, the Company and the Group restated the carrying amounts and useful lives of property, plant and equipment as defined in IAS 16 Property, Plant and Equipment and decided to adjust the carrying amounts and useful lives of those items that were not fully depreciated as at 1 January 2018, prospectively. Based on the assessment made, the amendments became effective on 1 January 2018 (Note 5).

As at 1 January 2019, new non-current assets useful lives/depreciation/amortization rates have been approved.

According to the approved terms of reorganization, after the merger of the company AB Baltijos mineralinių vandėnų kompanija with AB Žemaitijos Pienas, non-current assets were taken over. For the transferred non-depreciated property, plant and equipment, new residual values of assets have been determined and the useful life has been extended in accordance with the norms approved by AB Žemaitijos Pienas.

Below are the average useful lives of the Company's/Group's property, plant and equipment by asset class:

- |                             |       |       |
|-----------------------------|-------|-------|
| • Buildings and structures  | 20-40 | years |
| • Machinery and equipment   | 5-15  | years |
| • Production lines          | 10-15 | years |
| • Vehicles and other assets | 3-10  | years |

Depreciation methods, residual values and useful lives of assets are/will be reviewed at the reporting date to ensure that the depreciation period is consistent with the expected useful lives of the property, plant and equipment.

#### **Construction in progress (non-current assets prepared for use)**

Construction in progress is stated at cost less impairment losses. Cost includes design, construction, plant and equipment outsourced and other direct costs. Depreciation on unfinished construction is not calculated. Construction in progress is transferred to the appropriate groups of property, plant and equipment when it is completed and the asset is ready for its intended use.

When property, plant and equipment is derecognised or otherwise disposed of, its cost and related depreciation are no longer recognized in the financial statements and the related profit or loss, calculated as the difference between the proceeds and the carrying amount of the non-current tangible asset disposed of.

#### **Investment assets**

Investment property of the Company/Group includes land and buildings that are leased and earns lease income and are not used for the Group's and the Company's operating activities. Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 to 40 years.

Investment property is written off only when the property is sold or permanently discontinued and no economic benefits are expected from its sale. Any profit or loss on disposal or sale of an investment property is recognized in the statement of comprehensive income in the period in which the asset is sold or otherwise disposed of.

Transfers to investment property are made when, and only when, there is a change in use, when the owner discontinues the use of the property for its own use or when the operating lease begins. Transfers from investment property are made when, and only when, there is a change in use through the use of the property by the owner or the beginning of reconstruction with a view to sale.

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

Intangible assets with finite useful lives that are comprised of purchased computer software and licenses and trademarks are stated at cost less accumulated amortization and impairment.

Amortization is charged to the statement of comprehensive income on a straight-line basis over its estimated useful life. The useful lives of intangible assets are as follows:

- |                                       |   |       |
|---------------------------------------|---|-------|
| • Software, licenses, acquired rights | 3 | years |
|---------------------------------------|---|-------|

Subsequent expenditure on an intangible asset is capitalized only when it increases the future economic benefits of the asset to which it relates. All other costs are expensed as incurred.

Intangible assets are reviewed for impairment whenever there is an indication that the asset may be impaired.

The useful lives, residual values and amortization method are reviewed annually to ensure that they are consistent with the expected pattern of use of the intangible asset. The Company/Group has no intangible assets with indefinite useful lives.

### ***Leased property***

Leases where the Company/Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are recognized as assets of the Company/Group at the commencement date of the lease term and are stated at the lower of fair value of the asset and the present value of the minimum lease payments, less depreciation and impairment losses. All other leases are treated as operating leases.

Assets treated as leases shall be depreciated over the expected useful life on the same basis as the property.

A decision or agreement is a lease based on the substance of the agreement, at the time the agreement is made, to determine whether performance of the agreement is dependent on the use of the particular asset or on whether the agreement grants the right to use the asset.

### **Stocks**

Stocks, including in-progress and finished production, shall be accounted for in the financial statements as the lower of the values (cost or net realised value), after the valuation of impairment for slow-moving and obsolete stocks. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The write-down of stocks to net realizable value below their cost is made when the cost of inventories may not be recoverable through their sale or use. Unrealisable stocks are written off completely. The cost of stocks is calculated using the FIFO method.

Where stocks are produced and in the case of unfinished production, the cost price shall also include an appropriate proportion of the indirect cost of production, allocated at rates calculated on the basis of the utilisation of production capacity. Auxiliary materials and stocks are accounted for as costs when they are put into use or included in the price of finished goods if they are used in production.

### **Cash and cash equivalents**

Cash consists of cash on hand and in bank accounts. Cash equivalents are current, highly liquid investments that are easily converted into a known amount of money. Such investments have a maturity of less than 3 months at the date of the contract and the risk of a change in value is negligible. Bank accounts held for automated payment of taxes and repurchase of overpayments are also considered cash equivalents.

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in bank current accounts, deposits with maturity equal to or less than 3 months at the date of the agreement and tax accounts with the bank.

### **Government grants related to cost compensation**

Grants are accounted for on an accrual basis, i.e. grants received or parts of grants are recognized as being used in the periods in which they are incurred.

### **Grants related to property compensation**

Grants related to assets include grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are recognized as deferred income at the fair value of the non-current assets received or acquired and subsequently recognized as income. Amortization of a grant reduces the depreciation expense of the related non-current assets over the useful life of those non-current assets.

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

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

The recoverable amount of intangible assets with indefinite useful lives and intangible assets not yet available for use is estimated at the reporting date.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest group of cash-generating assets that generates cash flows that are independent of other assets or groups of assets. Any impairment loss is recognized in the statement of comprehensive income.

### **Calculation of recoverable amount**

The recoverable amount of a non-financial asset is the greater of its fair value less costs to sell and value in use. The value in use of an asset is calculated by discounting the future cash flows from the use of the asset to its present value using a tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **Reversal of impairment**

If there is any change in the events or circumstances that led to the measurement of the recoverable amount of the non-financial asset that indicate that the carrying amount of the non-financial asset may be recovered, an impairment loss is reversed. An impairment loss is reversed so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Dividends**

Dividends are recognized as a liability in the period in which they are declared (i.e. approved by the general meeting of shareholders).

### **Foreign currency**

#### *Valuation of foreign currency amounts in national currency*

Foreign currency transactions are translated into euro at the official exchange rate between the euro and the foreign currency (hereinafter referred to as the official exchange rate) published by the Bank of Lithuania on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the euro at the official exchange rate ruling at the date of the statement of financial position. Exchange differences arising on the settlement of these transactions are recognized in the statement of comprehensive income.

The following exchange rates were used for the preparation of the financial statements as at 31 December 2019:

<b>2020</b>		<b>2019</b>	
USD 1	=	USD 1	=
EUR 0.814266		EUR 0.893735	

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset between one entity and a financial liability or equity instrument.

### **Financial assets**

#### *Initial recognition and evaluation*

Financial assets at initial recognition are classified as subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The designation of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets and the business model of the Group/Company that governs the management of the financial assets. Except for trade receivables and contract assets (if any) that do not have a significant financing component, the Group/Company measures at initial recognition financial assets at fair value plus, when financial assets are not carried

at fair value through profit or loss, transaction costs. Trade receivables and contract assets (if any) that do not include a significant financing component are measured at the transaction price in IFRS 15.

For a financial asset to be designated and measured at amortized cost or fair value through other comprehensive income, the cash flows arising from a financial asset need only be the principal and the interest payable (SPPI) on the uncovered principal. This assessment is called the SPPI test and is performed for each financial instrument.

The Group/Company's financial asset management model describes how the Group/Company manages its financial assets to generate cash flows. The business model determines whether the cash flows will be generated by collecting the contractual cash flows, selling the financial asset, or both.

A regular way purchase or sale of a financial asset is recognized on the trade date, i.e. the date on which the Group/Company commits to purchase or sell financial assets.

### ***Subsequent assessment***

After initial recognition, the Company evaluates financial assets:

- a) Amortized cost (debt instruments);
- b) At fair value through other comprehensive income, when the profit or loss on derecognition is transferred to profit or loss (debt instruments). As at 31 December 2020 and 2019, the Group/Company did not have such measures;
- c) At fair value through other comprehensive income, when the gain or loss is derecognised, it is not transferred to profit or loss (equity instruments). As at 31 December 2020 and 2019, the Group/Company did not have such measures;
- d) At fair value through profit or loss. As at 31 December 2020 and 2019, the Group/Company did not have such measures;

### ***Financial assets at amortized cost (debt instruments)***

The Group/Company measures financial assets at amortized cost if both of the following conditions are met:

- i) Financial assets are held in accordance with a business model that seeks to hold financial assets for the purpose of collecting contractual cash flows; and
- ii) The contractual terms of financial assets may give rise to cash flows at specified dates that are only interest payments on the principal and the principal outstanding.

Financial assets carried at amortized cost are subsequently measured using the effective interest rate method (EIR), less impairment losses. Gains and losses are recognized in the statement of comprehensive income when the asset is derecognised, replaced or impaired.

The Group's/Company's financial assets at amortized cost include trade receivables, other current and non-current receivables, loans issued.

### ***Impairment of financial assets***

In accordance with IFRS 9, the Group/Company generally recognizes an expected credit loss (ECL) for all debt instruments that are not measured at fair value through profit or loss. The ECL is based on the difference between the contractual receivable cash flows and the cash flows the Group/Company expects to receive, discounted at the approximate effective initial interest rate. ECLs are recognized in two stages. For credit exposures where the credit risk has not materially increased since initial recognition, the ECL shall be calculated for the credit losses arising from default events occurring within the next 12 months (12-month ECL). For those credit exposures with a significant increase in credit risk since initial recognition, the impairment loss is formed by the amount of credit loss expected to be incurred during the remaining life of the credit exposure, regardless of the default maturity (ECL).

For trade receivables and assets arising from customer contracts (if any), the Group/Company applies a simplified method of calculating ECL. Therefore, the Group/Company does not monitor changes in credit risk, but recognizes impairment at each reporting date based on the effective ECL.

The Group/Company has constructed a matrix of expected loss rates based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment (market macroeconomic factors, employment rate, consumer price index, etc.).

The Company estimates and records the expected credit loss for 12 months when issuing a loan. In subsequent reporting periods, in the absence of a significant increase in the credit risk associated with the borrower, the Company adjusts the expected credit loss balance for the 12 months against the outstanding loan amount at the measurement date. If the borrower's financial position is determined to have materially deteriorated compared to the condition prevailing at the time of the loan issuance, the Company accounts for all expected credit losses over the life of the loan. Loans with expected credit losses during the life of the loan are considered to be credit impaired financial assets.

The Group/Company considers that a debtor has defaulted on a financial asset if the contractual payments are overdue by more than 90 days, or where there are indications that the debtor or group of debtors is in serious financial difficulties, defaulting on payments or interest, it is probable that they will enter bankruptcy or reorganization proceedings, and where observable data indicate that future cash flows are expected, such as changes in debt arrears or changes in economic conditions that correlate with defaults. The total amount of expected credit losses on trade receivables and trade receivables is recognized through profit or loss using a counterpart receivable account. Financial assets are derecognised when there is no reasonable expectation of recovering the contractual cash flows.

## **Financial liabilities**

### ***Initial recognition and evaluation***

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loans and receivables. All financial liabilities are initially recognized at fair value and, in the case of loans and receivables, less any directly attributable transaction costs. Financial liabilities of the Group/Company include trade and other payables, loans received and finance lease liabilities.

### ***Subsequent assessment***

The assessment of financial liabilities depends on their classification as described below.

### ***Financial liabilities***

#### **Loans received and similar accounts payable**

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognised or amortized. Amortized cost is calculated by taking into consideration the discount or premium on the acquisition as well as the taxes or expenses that are an integral part of the EIR. Amortization of an EIR is included in financial expenses in the statement of comprehensive income.

#### **Write-offs of financial instruments**

Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is an enforceable right to clear recognized amounts and it is intended to be settled on a net basis, i.e. realize assets and fulfil liabilities at the same time.

## **Contingent non-current liabilities to employees**

### ***Social security contributions***

The Company and the Group pay social security contributions to the State Social Insurance Fund (hereinafter referred to as the Fund) for their employees in accordance with a defined contribution plan and in accordance with the laws

of the country. A defined contribution plan is a plan under which the Company and the Group make a defined contribution and will have no future legal or constructive obligation to continue to pay such contributions if the Fund does not have sufficient assets to pay all employees related benefits in the current or prior periods. Social security contributions are recognized as an expense on an accrual basis and classified as an expense for employees.

### **Non-current employee benefits**

#### **1. Non-current liabilities (Employee benefit plans under company ordinances)**

The Company and the Group recognizes a liability and an expense for additional benefits based on the Company's and the Group's additional benefit policy, the amount of which depends on the length of service completed in the Company and the Group under 10, 15, 20, 25, etc. years of service. Such changes to the Order came into effect in 2017.

The liability under the entity's employee benefit orders is calculated on the basis of actuarial estimates using the projected unit credit method. Reassessments of actuarial profits and losses are recognized immediately in the statement of financial position with an appropriate debit or credit in retained earnings in other comprehensive income in the period in which they are incurred. Reassessments are not carried forward to profit or loss in subsequent periods.

The liability is recognized in the statement of financial position and reflects the present value of those benefits at the statement of financial position date. The present value of the employee benefit obligation is determined by discounting the estimated future cash flows based on the interest rate on government securities denominated in the same currency as the benefits and having a payout period similar to the expected payout period.

#### **2. Retirement benefits for employees**

In accordance with the requirements of the Labour Code of the Republic of Lithuania, every employee leaving the Company/Group at the age of retirement is entitled to a lump sum of 2 months' salary.

Liabilities to employees are recognized as an expense in the current year in the statement of comprehensive income. Past costs are recognized as an expense on an equal basis over the average period until the benefits become vested. Any gain or loss resulting from a change (decrease or increase) in the benefit terms is recognized immediately in the statement of comprehensive income.

The retirement benefit obligation is calculated on the basis of actuarial assumptions using the projected unit credit method. Reassessments of actuarial profits and losses are recognized immediately in the statement of financial position with an appropriate debit or credit in retained earnings in other comprehensive income in the period in which they are incurred. Reassessments are not carried forward to profit or loss in subsequent periods.

The liability is recognized in the statement of financial position and reflects the present value of those benefits at the statement of financial position date. The present value of the employee benefit obligation is determined by discounting the estimated future cash flows based on the interest rate on government securities denominated in the same currency as the benefits and having a payout period similar to the expected payout period.

### **Revenue**

#### **Revenue from contracts with customers. Sales**

The Company and the Group are engaged in the production, sale and distribution of dairy products.

Revenue from contracts with customers is recognized when the control of goods or services passes to the customer, the amount the Group/Company expects to receive in exchange for the goods or services. The Company/Group estimates that the contracts have only one operating obligation. Revenue from contracts with customers is recognized net of value added tax, excise duties and discounts directly attributable to the sale (usually at the time of sale).

Management considers the impact of other items on revenue recognition, such as:

- 1) Whether the contracts contain several different operational obligations;
- 2) Whether the contracts provide for variable consideration (other than discounts at the point of sale as described above) and restrictions, if any;
- 3) Whether the contracts include non-monetary consideration or significant funding components;
- 4) Whether there other promises in the contracts that should be considered as part of the transaction price;

- 5) Whether the contractual arrangements (if any) are considered consideration or purchase from the buyer to the customer;
- 6) Whether the contracts include a non-refundable advance payment to the customer.

The Company sells to its subsidiary raw material (i.e. milk) which is purchased from milk suppliers. The raw material is used by the subsidiary for the production of cheese, which is subsequently purchased by the Company and sold to third parties. Because these raw materials are the major ingredient used in cheese production, the income and expense of such transactions are recorded net in the Company's separate financial statements to avoid artificially inflating revenue as customer contracts are made with the Company and the subsidiary operates as a production unit.

When the Company sells goods purchased from its subsidiary to third parties (retail entities), the Company assumes all risks associated with these transactions, so that income is not offset as stated in IFRIC 15 relating to the assessment of whether the Company is acting on its own account or as an agent.

Due to the Group's/Company's business model, management has not made any significant accounting judgments, estimates or assumptions related to the recognition of contract revenue with customers other than those disclosed in Note 4.

### **Services rendered, assets transferred, interest income**

Revenue from the rendering of services is recognized in the statement of comprehensive income on the basis of the level of performance of the services over the period. Revenue is recognized net of value added tax and discounts.

Lease income is recognized in the statement of comprehensive income on a straight-line basis over the lease term.

Revenue from disposal of assets is recognized in the statement of comprehensive income when the control of goods or services is transferred to the customer, in the amount that the Group/Company expects to receive in exchange for the goods or services.

Revenue is not recognized if there are significant doubts about the recovery of the revenue or the incurrence of the expense associated with the revenue, or when the expected return of the goods or the probable significant risk and the goods cannot be considered as passed on to the buyer.

Interest income is recognized in the statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognized in the statement of comprehensive income using the effective interest method.

### **Costs**

Costs are recognized on an accrual basis as incurred.

#### *Operating lease payments*

Operating lease payments under operating leases are recognized in the statement of comprehensive income on a systematic basis over the lease term.

#### *Financial lease payments*

Minimum lease payments are apportioned between the finance charge and the outstanding liability, using the effective interest method. Finance charges are spread over the term of the finance lease at a constant periodic rate of interest on the outstanding balance of the liability.

#### *Net financing costs*

Net financing costs include interest expense, calculated using the effective interest rate method, interest income on invested funds and the effect of changes in foreign exchange rates.

#### *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that take time to be prepared for their intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The Group capitalizes borrowing costs on assets whose construction commenced after 1 January 2009.

Debts are initially recognized at the fair value of the proceeds received, less the transaction costs. They are subsequently carried at amortized cost (using the effective interest rate method) and the difference between the

proceeds and the amount that will be payable on the debt (excluding the capitalized portion) is included in profit or loss for the period.

### **Segment disclosure**

A segment is a significant part of the Company's/Group's operations, distinguished by the products or services being supplied (business segment) or by the provision of products or services in a particular economic environment with specific risks and economic benefits (geographical segment). For the purposes of this financial statements, a business segment is a distinguishable component of the Group's and the Company's operations that are involved in the production of a single product or service or a group of related products or services with different risk and returns.

### **Income tax**

Current and prior tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities, including adjustments for prior years. The tax rates used to calculate this amount are those that are (in principle) applicable before the date of the statement of financial position.

The calculation of the income tax is based on the annual profit, taking into account the calculation of the deferred income tax. Income tax is calculated according to the requirements of Lithuanian tax laws.

In 2020, the corporate tax rate in the Republic of Lithuania is 15 percent (in 2019 – 15 percent).

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income taxes are calculated using the liability method.

Deferred tax assets and liabilities are calculated using tax rates that are expected to apply to taxable profit in the year in which the temporary differences are realized, taking into account the tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized in the statement of financial position to the extent that the management of the Company/Group expects it to be realized in the foreseeable future, based on taxable profit forecasts. If part of the deferred tax is not expected to be realized, this part of the deferred tax is not recognized in the financial statements.

From 1 January 2014, the amount of deductible tax losses carried forward cannot exceed 70 percent of the taxable profit for the current year. Tax losses may be carried forward for an indefinite period, except for losses arising from the disposal of securities and/or derivatives.

Such a transfer is terminated if the Company/Group discontinues operations that caused the loss, unless the Company/Group discontinues operations for reasons beyond its control.

Losses arising from the disposal of securities and/or derivative financial instruments may be carried forward for 5 years and only be offset against profits from transactions of the same nature.

Deferred tax assets and liabilities are offset to the extent that the laws permit the offsetting of the income tax expense and the deferred tax assets of the same enterprise and the same tax authority.

In accordance with applicable tax laws, the tax office may at any time during the 5 consecutive years following the reported tax year carry out a tax audit of the Company and the Group and recalculate additional taxes and fines. The management of the Group believes that all taxes have been correctly calculated and paid in accordance with applicable law and are not aware of any circumstances that could give rise to a potential material liability for unpaid taxes.

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

The Company/Group reports basic earnings (losses) per share and diluted earnings (losses) per share. Earnings per share is calculated by dividing the profit/loss attributable to shareholders of the Company/Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by adjusting the profit (loss) attributable to shareholders and the weighted average number of ordinary shares outstanding during the period by all potential ordinary shares. During the reporting period, the Company/Group had not issued any potential ordinary shares.

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**Post-balance sheet events**

Subsequent events that provide additional information about the financial position of the Group and the Company at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

**4. MATERIAL VALUATIONS IN THE CONTEXT OF GROUP AND COMPANY ACCOUNTING POLICIES**

Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, which reflect the current situation and the reasonably foreseeable future events. The management of the Company/Group, having regard to forecasts and budget, borrowing requirements, performance of its obligations, products and markets, financial risk management, after conducting business continuity assessment, believes that there are no uncertainties and uncertainties regarding the Company's/Group's business continuity.

The Company/Group makes estimates and assumptions about future events, so accounting estimates by definition will not always be consistent with actual results. The preparation of the financial statements of the Group and the Company requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and contingencies at the reporting date. However, the uncertainty about these assumptions and estimates may affect results, which may require a significant adjustment to the carrying amounts of assets or liabilities in the future.

As of the date of these financial statements, there was no material risk that the carrying amounts of assets and liabilities would be materially adjusted in the next reporting year due to changes in the related estimates in the following financial years.

**Revenue**

The management of the Group and the Company has adopted a significant accounting valuation assumption relating to accounting for marketing services (purchased from customers) (whether considered as consideration payable to the customer or purchase from the customer as noted above). Based on management's assessment, marketing services acquired from customers (retail entities) are treated as a separate service related to various advertising and marketing services provided to the Group, therefore all advertising and marketing expenses incurred during the financial year are accounted as operating expenses in the consolidated and separate reports.

**Impairment of loans and receivables**

The Company/Group regularly reviews receivables for impairment. As described in the accounting policy, the Company/Group uses the ECL provisioning matrix defined in IFRS 9 for the measurement of impairment, in addition to which individual debtors are individually assessed. The Company/Group has determined that credit losses are less than 1% of total receivables, and, considering the effect of future factors, they have been determined to have no impact on the level of losses. The Company/Group used a matrix of expected credit loss provisions for most receivables, and individual estimates were used for a few individual, non-homogeneous cases as described below. In assessing whether an impairment loss should be recognized in the statement of comprehensive income, the Company/Group adopts an estimate of whether there is an indication of a material decrease in expected cash flows from the receivables portfolio and whether the decrease can be related to a separate receivable in that portfolio. Such evidence may include data showing the existence of adverse changes in borrowers' payments or in national or local economic conditions that are directly correlated with the class of receivables.

Impairment losses on receivables are usually recognized in the event of late payment by the debtor by 90 days or more depending on the payment terms that have been set.

Management estimates the expected cash flows from borrowers based on the historical loss experience of borrowers with similar credit risk. The methods and assumptions used to estimate the amount and timing of cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Loans granted by management are rated as having low credit risk. Such an assessment is based on an assessment of the structure of debtors and their ability to repay debt, including historical (very low) default rates and the projected impact of the economic environment. In addition, it is noted that loan repayment is secured by a pledge of assets with a high loan-to-value ratio (LTV). Therefore, the expected credit losses are considered to be insignificant.

An estimate of the impairment of receivables from related parties is disclosed in Note 30.

### **Net realizable value of inventories and impairment of obsolete inventories**

Inventories represent a significant proportion of the assets of the Group and the Company. As at 31 December 2020 and 2019, the management of the Group and the Company had assessed whether the carrying amount of inventories was greater than their net realizable value (summarized in Note 9). Management has also assessed the value of obsolete inventories by applying depreciation rates (based on historical data and projected sales) and assessing whether the amount of depreciation of obsolete inventories was sufficient.

As at 31 December 2020, Impairment losses recognized by the Group and the Company were EUR 352 thousand and EUR 352 thousand, respectively (as at 31 December 2019: EUR 287 thousand and EUR 208 thousand, respectively). The impairment was based on information such as the date of manufacture, product quality specifications and management's sales forecast calculations. The summarized information related to impairment of stocks is disclosed in Note 9.

### **Transactions with related parties**

The Company and the Group conducts business with related parties in the ordinary course of business. These transactions are mainly aimed at market prices. In the absence of an active market for these transactions, the valuation is used to determine whether the transactions correspond to market prices or not. The basis for measurement is pricing for similar transactions with unrelated parties, if such information is available to the Company or the Group.

### **Non-current liabilities to employees**

As disclosed in Note 3 to the financial statements, the Company and the Group has accounted for non-current liabilities to the employees in accordance with the Labour Code of the Republic of Lithuania and the applicable Company/Group employee benefits policy.

As disclosed in Note 15, the present value of the liabilities includes a range of significant estimates for the assumptions used regarding the level of inflation, the employee turnover rate, the discount rate, etc.

### **Profit sharing bonuses for milk suppliers**

The Company and the Group pay various bonuses to milk suppliers, which are calculated on the basis of the quantity and quality of milk delivered, with regular payments. In addition, the Company/Group may pay additional bonuses to suppliers based on market conditions, annual results of the Company/Group, etc.

The decision as to the fact and the amount of the additional payments to the milk suppliers is a matter of significant appreciation.

As at 31 December 2019, the Company and the Group did not recognize any liabilities relating to the payment of additional bonuses as the Company and the Group had no contractual obligation to the suppliers for these benefits. These benefits are a unilateral decision by the Company and the Group.

About the annual bonuses assigned and accumulated as at 31 December 2020 by the Company to raw material suppliers are disclosed in Note 20

### **Contingent liabilities**

As disclosed in Note 28 to these financial statements, the Company and the Group have been involved in a number of ongoing legal disputes whose outcome and potential economic loss or gain could not be measured reliably to date. Management estimates that the Company and the Group does not expect to incur material losses in the future due to legal disputes.

The effect of legal disputes on financial statements for the purpose of measuring the amount of a potential liability and its recognition in balance sheet items, and the appropriate disclosure of such disputes in the notes to the financial statements, is within the scope of significant measurement.

### **Valuation of deferred tax assets and liabilities**

Deferred tax assets and liabilities are recognized at the balance sheet date, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Significant amounts of deferred tax assets are recognized based on the Company's and the Group's management's estimates, taking into account the expected periods and amounts of future taxable profits and the Company's/Group's tax planning strategies.

### **Correction of accounting estimates and errors**

Change in accounting estimate is an adjustment to the carrying amount of an asset or liability or the amount of a periodic disposal of an asset by measuring the present condition of the asset or liability, its expected future benefits and future liabilities. Changes in accounting estimates result from new information or new circumstances and are not considered as corrections to errors.

The accounting estimate shall be revised if the circumstances on which it was based change or if new information or experience becomes available. Revisions to the estimate, by their nature, are not related to prior reporting periods and are not a correction of an error. The result of a change in an accounting estimate is recognized prospectively.

In 2018, the Company and the Group reviewed the applicable rates of depreciation of property, plant and equipment for certain classes of property, plant and equipment as disclosed in Note 5.

To the extent that a change in an accounting estimate changes an asset or a liability or relates to an equity item, the result of that change is the adjustment to the carrying amount of the related asset, liability or equity item during the period.

Previous period errors – omissions or misstatements omission or misstatement of the data in the prior period financial statements due to failure to use or misuse reliable information available for the reporting periods for which the financial statements were requested to be published; and could have been received and used properly (and could reasonably have been expected) in the preparation and presentation of the financial statements for that reporting period.

Such errors include the consequences of inaccurate mathematical calculations, misapplication of accounting policies, errors, misinterpretation of facts in the recognition, measurement or presentation of financial statements.

### **Impact of COVID-19 outbreak on activity, its outcomes and on financial statements 2020, complying with consistent application of requirements in International Financial Reporting Standards (IFRS)**

As mentioned previously, the Company and the Group managed to hold in the situation under the conditions of the COVID-19 pandemic by mitigating the impact of risks to an acceptable level. While preparing the financial statements 2020 of the Company and the Group, išanalizuota informacija, upon which critical decisions have been and will continue to be made. To accurately and completely reflect the facts in all material respects, this information has been classified, evaluated and is presented below. Prospective information indicates what is expected in 2021, simulation of different scenarios is not presented due to ethical aspects: The forecasts provided in the presence of a high level of uncertainty may be misleading, provide unreasonable assumptions for the assessment to those who read and evaluate the financial statements.

Impact of the COVID-19 pandemic outbreak on the operations and results of the Company and the Group companies in 2020:

- In 2020, it was necessary and likely that in 2021 it will be necessary to devote time and effort to the reorganization and adaptation of production processes and operational functions. There was no need to announce downtime, therefore no targeted State support measures were needed. The situation was managed through organizational measures such as the use of accumulated vacation days and the arrangement of working time schedules.
- Significant price fluctuations of components, packaging and other factors of production have not been experienced so far and the situation is expected to remain similar in 2021.
- Additional costs incurred for protection and disinfection measures, free meals for production workers.

- In 2020, the turnover of the Company and the Group did not reach the planned volumes. Compared to what was planned:
  - Exports to the Baltic States and Poland were higher during the 1st pandemic wave, but did not reach even the level of 2019 during the 2nd wave. Exports to other markets, on the contrary, declined during the first wave and then recovered slightly.
  - The decrease in domestic consumption was significantly influenced by the quarantine measures applied by the Government: limitation of the activities of hotels, restaurants, bars, pre-school education institutions, relocation of live contact lessons in schools to the remote mode, etc.
  - Due to the listed quarantine measures, increased unemployment, and a high level of uncertainty, consumption habits changed, sales and range of existing Premium products decreased.
  - The high level of uncertainty has hampered the review and roll-out of new products, expansion into new geographic markets and new segments of existing markets.
- During the quarantine, e-commerce increased significantly, the Company has opened its e-store.
- The goals for 2021 are to develop e-commerce and export trade channels through the distributors.
- Thanks to the smooth organization of the work of the Centralized Purchasing Division of the Group companies, the Logistics Department of the Company, the delivery of raw materials to the Company and the Group companies and delivery of products to customers and distribution channels in 2020 was not delayed. In 2021, the smooth functioning of the logistics chain is expected as well.
- There were no significant effects of exchange rate fluctuations and customer settlement delays in 2020. In the spring, Lithuanian budget companies were late with payments for production for a few days. In 2021, the situation will depend on quarantine conditions, transformation of consumption habits, financial condition of business partners in those geographical areas where the Company and Group companies trade their products.
- Cash flows remained stable in 2020, settlements with business partners and funding institutions were timely. On purpose to optimize costs, in the spring of 2020 one of the banks was applied for a reduction of interest, however the request was not granted due to the sufficiently good liquidity of the Company. Cash flow and liquidity stability is expected in 2021 as well.
- In pursuance to optimize costs, the Management of the Company and the Group was looking for opportunities to use the available relief and support measures of the Government of the Republic of Lithuania and the European Union.
 

The support of these programs has been used:

  - *Private storage of cheeses.* The aid for cheeses – EUR 15.57 per tonne of product stored to cover fixed costs and EUR 0.40 per tonne of product stored for one day of the storage. The application was submitted for 180 days, for 455 tons.
  - *Private storage of butter.* Private storage aid for butter - EUR 9.83 per tonne to cover fixed storage costs and EUR 0.43 per day of storage. The application was submitted for 180 days, for 25,05 tons.

Impact of the COVID-19 outbreak on the Company's and the Group's annual financial statements 2020:

**ABBREVIATIONS USED:**

**FS** – Financial statements. **C19** - Impact and outcomes of COVID-19. **FVM** – Fair value measurement. **ECL** – Expected credit losses.

**GOING CONCERN**

1. At the date of submission of the FS, there is no reliable information on uncertainties other than employee health related to C19 that are considered significant and could affect business continuity.

2. At the date of submission of the FS, it was not planned to avail any C19 mitigation initiatives, state support, EU funds measures. These measures are usually intended for small and medium-sized enterprises, companies that already have to deal with survival and employee retention, liquidity issues. So far, this does not apply to the Company and the Group companies, and at the date of submission of the FS there were no indications that this could happen in 2021.

3. There was no need for changes in accounting policies or methods of calculating carrying amounts due to C19.

## EVENTS AFTER THE REPORTING PERIOD

### **CONTEXT (what was taken into account when disclosing this type of information):**

- With respect to reporting periods of 2019 or before, there is a general consensus that the effects of the C19 are the result of events that arose after the reporting date. For later reporting dates, including for the year 2020, it is likely to be a current-period event which will require ongoing evaluation to determine the extent to which developments after the reporting date should be recognized in the reporting period.

- If management concludes the impact of non-adjusting events are material, the company is required to disclose the nature of the event and an estimate of its financial effect. If it cannot be reliably quantitatively estimated, there still needs to be a qualitative disclosure, including a statement that it is not possible to estimate the effect. Examples of non-adjusting events that would generally be disclosed in the financial statements include breaches of loan covenants, management plans to discontinue an operation or implement a major restructuring, significant declines in the fair value of investments held and abnormally large changes in asset prices, after the reporting period.

1. The amounts recognized in the 2020 FS did not need to be adjusted to include adjusting events after the reporting period. At the date of submission of the FS, there was no information that such events would occur.

2. In the opinion of the Management, there were no significant non-adjusting events, the financial or descriptive effects of which should be disclosed in the 2020 FS. Such information, which may be interesting and useful, is provided in the descriptive section of this section previously.

## FAIR VALUE MEASUREMENT AND IMPAIRMENT OF NON-FINANCIAL ASSETS

### **CONTEXT (what was taken into account when disclosing this type of information):**

- According to the European Securities and Markets Authority (ESMA), a negative C19 will require many issuers to apply one or more impairment indicators.

- ESMA's Annual Report on Priorities for FS states that the recoverable amount of goodwill, tangible and intangible assets may be affected by the deterioration of the economic outlook in one or more sectors. In order to reflect uncertainty in estimating future cash flows, it is advisable to model several scenarios to describe possible economic alterations.

- The impairment test cannot be replaced over by the one already performed for the last interim reporting period, it is performed at the same time each year, and all hypotheses and assumptions of such tests should be reassessed and, if necessary, updated in an annual test. It is recommended to disclose how assumptions and estimates have changed, if any, since the last annual and interim reports.

- Forecasts should reflect the current condition of the assets. They should not reflect cash inflows and outflows expected to arise from a future restructuring to which the entity is not yet committed or from improving or enhancing the asset's performance.

- If a discounted cash flow model is used in the FVM, the discount rate must also be proportionate to the risks inherent in the expected cash flows that are likely to change due to the current environment.

- If the FVM was based on level 2 inputs, there should be indicated: quoted prices for similar assets / liabilities in active, inactive markets, interest rates, yield curves, implied volatility, credit interest allocations, other market-based data. If the FVM was based on level 3 inputs (not observed in the market, exclusively company data), there should be indicated - the nature and the base of the input.

- If the C19 necessitated the FVM, or a change in the FVM:

a) it is necessary to disclose the assessment methodologies and data used in those assessments;

b) for the recurrent FVM using significant unobservable (level 3) inputs - the effect of those measurements on profit or loss or other comprehensive income for the period;

c) to disclose and explain whether the pre-crisis return on assets was real and what period was considered in the post-C19 scenario.

1. The C19 did not affect the review of the fair value of assets and liabilities and / or their groups in the 2020 FS.

2. The FVM of the available non-financial assets has not been reviewed due to the C19 as well as the decisions regarding the best use of these assets.

3. No amendments in FVM methods have been made due to C19.

4. There were no cases where, due to C19, the fair value of certain assets / liabilities could not be determined on the basis of the quoted price in an active market and therefore certain insights / estimates (level 2, 3 inputs) had to be applied to determine the fair value (e. g. a significant decrease in the turnover / volume of certain assets / liabilities in an active market).

5. There were no need to write off any inventories (a decrease in their share of the value to the possible realizable value) due to lower sales, changed contract conditions under the C19 conditions.

**EXPECTED CREDIT LOSSES FOR FINANCIAL ASSETS**

1. No additional risks of any kind arising from the financial instruments have been incurred as a result of the C19. No additional hedging measures (e. g. collateral received, other credit protection measures) have been applied due to the C19.

2. The C19 has not yet affected changes in liquidity risk / liquidity risk management, including the maturity of non-derivative and derivative financial liabilities.

3. The C19 did not lead to (no change in condition) agreements that are supply chain financing or, more precisely, reverse factoring transactions.

4. The Company and the Group companies have not applied any deferrals to their debtors due to the C19, nor were any payment deferrals granted to the Company and the Group.

5. At the date of submission of the FS, there were no clear indications that C19 could affect / will affect additional credit losses. Trade receivables are valued by the company at the established transaction price.

6. There were no need to change current ECL model / -s (or the logic for estimating expected credit losses) due to complicated current conditions and C19.

7. Due to the C19, the macroeconomic scenarios to be assessed and all their possible changes compared to the scenarios used in last year's forecasts and last interim reports may be innumerable. Due to the high level of uncertainty, such scenarios are not even evaluated.

8. There were no changes in the total carrying value of financial instruments (due to the sale or write-off of financial instruments, grants, acquisitions, etc. (e. g. arising from deferrals of payments), because of which financial assets are not derecognised in accordance with IFRS 9) that would contribute to changes in performance due to C19.

**LEASE ACCOUNTING**

***CONTEXT (what was taken into account when disclosing this type of information):***

- C19-Related Rent Concessions, issued in May 2020, added paragraphs 46A, 46B, 60A, C20A and C20B. A lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020.

- Tenants should carefully consider disclosing additional information that, in particular with respect to the C19, may supplement information already available to users of financial statements about the impact of the pandemic on the issuer's financial position, performance and cash flows. Such information is likely to be relevant to users of financial statements if it helps to understand: i) the flexibility provided or particular restrictions imposed by lease contracts, ii) the sensitivity of reported information to key variables, and iii) the exposure to other risks arising from leases including, for example, liquidity risks, deviations from industry practice, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.

1. During 2020, the Company and the Group companies, both as lessors and tenants, did not have any changes in property (real estate, movable, tangible, intangible, investment) lease agreements due to the C19 (termination of agreements, changes in lease terms, lease price discounts, received or granted rent support measures). At the date of submission of the FS, no such changes were expected in 2021.

**HEDGE ACCOUNTING**

1. The Company and the Group companies do not have any hedging instruments that would be a part of the risk management strategy and those to be accounted for under IAS 39 "Financial Instruments: Recognition and Measurement" or IFRS 9 "Financial Instruments". No such transactions were planned at the date of conclusion of the FA.

**DEFERRED TAX ASSETS / GOVERNMENT SUPPORT**

1. In the current circumstances, the impact of C19 has not affect the Company's and the Group's companies' forecasts of future taxable profit, and, at the date of submission of the FS, there were no significant indications and reliable information that could affect:

- changes in cashflow forecasts - e. g., expected decrease in production or sales prices compared to an increase in costs;
- modifications in the companies' tax strategy;
- applied Government measures to businesses in response to C19;
- other circumstances that may give rise to a deferred tax liability (i.e., additional taxable temporary differences).

## REVENUE RECOGNITION

1. At the date of submission of the FS and with a view to 2021, there were no customers with whom contracts had been entered into, but the impact of C19 on these customers will lead to difficulties in meeting contractual obligations. Regarding the time and amount of income recognition, the recognition of income has not changed, and at the date of submission of the FS there were no indications that should change in 2021.
2. At the date of submission of the FS and looking to the perspective of 2021, the rights of the Company and the Group companies to timely debts receipt for goods / services are entitled under all available contracts (there were no such contracts when, for example, C19 contracts are subject to force majeure or similar terms).
3. There were no contracts whose terms were changed by customers due to the C19, sought to change on the date of conclusion of the FS, and there was no information about such upcoming changes.
4. There were no agreements that transfer control of goods / services, and therefore revenue is recognized over a period of time (IFRS 15, paragraph 35).

## Effects of climate-related matters on financial statements 2020, complying with consistent application of requirements in International Financial Reporting Standards (IFRS)

Most industries have been, or may be, affected by climate change and efforts to manage its effects. It is therefore a topic in which investors and other stakeholders are increasingly interested due to its potential impact on corporate business models, cash flows, financial position and financial performance. IFRSs do not explicitly address climate-related matters, however companies must consider those issues in applying IFRSs when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material if its omission, misstatement or non-disclosure could reasonably be expected to influence decisions made by major users of financial statements (investors).

The Company's and the Group's Management understands the importance of integrating climate-related matters into the risk management system and disclosing these risk management solutions in the financial statements. The following are key climate issues and Management's assessment of the impact of climate issues in applying the principles of many IFRSs, IASs (International Accounting Standards). When preparing the financial statements, it was also considered whether additional information is available if the specific requirements of IFRS are not sufficient to enable investors to understand the impact of climate-related matters on the Company's and the Group's financial position and financial performance:

### ABBREVIATIONS USED:

FS – Financial statements.

### GOING CONCERN

1. At the date of submission of the FS, the Company and the Group companies did not have (and / or did not receive such information) any real estate, movable property, infrastructure objects, which had some carrying value at December 31 2020, but in 2021 or later will have to be written off, dismantled, utilized due to the requirements of climate change policy and environmental regulations, regardless of whether they are completely depreciated.
2. At the date of submission of the FS, the Company and the Group companies did not have (and / or did not receive such information) any real estate, movable property, infrastructure objects, which regardless of their carrying value, will continue to be used in the company's operations in 2021 (or longer), but adapting to the requirements of climate change policy and environmental regulations requires investments, expensive permits, or other significant costs continuing to use such objects in activities.
3. When preparing FS 2020, the Company's and the Group's Management considered whether in 2021 or further significant investments in production technologies or other significant costs (e. g. expensive staff training, increased fees, etc.) will be required to adapt, to meet climate change policies, to comply with environmental regulations. At the date of submission of the FS there was no such information, except for the fact that the tax from stationary and mobile sources of pollution has been increasing since 2021. According to preliminary estimates, the increased pollution tax will not have a significant impact on performance and financial condition of the Company and Group in 2021.

4. At the date of submission of the FS no information was known, other than the general guidelines for climate change policy, on specific existing climate change and environmental issues that give rise to uncertainty in the future:

- how they will need to be addressed,
- what the regulations might be, how they will need to be implemented.

#### **INVENTORY VALUATION**

1. At the date of submission of the FS, the Company and the Group companies did not have (and / or did not receive such information) any goods, whose realizable value may have been decreased due to the requirements of climate change policy and environmental regulations, compared to:

- the price at which the goods were expected to realize,
- the self-cost (carrying value).

2. At the date of submission of the FS there were no (and / or no any information was received) such raw materials, materials, other production component inventory, whose value has decreased or has been lost due to the climate change policy and environmental regulation requirements.

3. At the date of submission of the FS there was no any reasonable information / facts / circumstances on the likely increase in the cost of certain products in the near future (2021) due to the requirements of the climate change policy and environmental regulations (e. g. more expensive or additional production components). The Company and the Group have identified potential threats to cost growth beyond 2021 financial periods. The 2021 budget does not provide for self-cost growth. Examples of such threats may be:

- 2019 an EU directive on the restriction of single-use plastics has been adopted: In the production of PET bottle in 2025, it will have to contain 25% secondary, i.t. - processed raw materials. This can lead to self-cost growth (if in 2025 the supply of secondary raw materials will remain the same as in 2020), but there may be no such effect (if e. g. there were to occur more companies involved in plastics recycling who are willing and able to offer more secondary raw materials to the market).
- Rising pollution charges for the handling of packaging placed on the market.

#### **DEFERRED TAX ASSETS**

1. At the date of submission of the FS no such facts / prospective information was known, that the climate change policy and the requirements of environmental regulations may affect the assessment of a company's taxable profit in 2021, and in such a way that the enterprise will not be able to recognize the deferred tax asset or will be forced to restore the recognition of the previously recognized deferred tax asset.

#### **BUSINESS ADAPTION AND FAIR VALUE OF PRODUCTION ASSETS**

1. At the date of submission of the FS there was no any specific and reasonable information, that climate-related matters may prompt expenditure to change or adapt business activities and operations of the Company and the Group in 2021, including research and development.

2. No climate change related costs were recognized as an asset (long-term tangible and intangible) during the reporting period 2020. In 2021 there are no such planned expansion, development, equipment adaptation costs that would need to be recognized as assets.

3. During the 2020 reporting period, it has not caused any unusual costs associated with climate change policies and environmental legislation requirements that have been recognized as an expense.

4. In 2020, regulations related to climate change policy and environmental requirements did not affect residual value and useful life of the Company's and the Group's any long-term assets (due to obsolescence, legal restrictions or unavailability). At the date of submission of the FS there was no any information on such possible impact in 2021.

#### **IMPAIRMENT OF ASSETS**

1. At the date of submission of the FS no such substantiated facts were known, that in 2021 and further climate-related matters may give rise to indications that an asset (or a group of assets) is impaired. For example, a decline in demand for products that emit greenhouse gases could indicate that a manufacturing plant may be impaired, requiring the asset to be tested for impairment.

2. If there were a need to estimate the recoverable amount of any assets by measuring their value at value in use, given the expected future cash flows from the assets and the expected changes in the amount or timing of those future cash flows, independent valuers would be invoked for this purpose in accordance with the current practice of the Company and the Group. At the date of submission of the FS there was no any substantiated evidence that climate change-related regulations could affect future (2021 and beyond) cash flows.

3. During the reporting period 2020 no impairment losses were incurred due to the regulations of environmental legislation. Such losses are not expected in 2021 and beyond, as there is no substantiated facts and information to do so.

#### **PROVISIONS, CONTINGENT LIABILITIES, CONTINGENT ASSETS**

1. Climate change-related policy issues and regulations did not affect the recognition, measurement and disclosure of liabilities of the Company and the Group in the financial statements for the reporting period 2020. There is also no such knowledge and / or reliable information that such impact could be in 2021 and subsequently due to:

- levies imposed by authorities for failure to meet climate-related targets or to discourage or encourage specified activities,
- regulatory requirements to remediate environmental damage,
- contracts that may become onerous (for example, due to potential loss of revenue or increased costs as a result of climate-related changes in legislation); or
- restructurings to redesign products or services to achieve climate-related targets,
- other reasons.

2. At the date of submission of the FS, the Company's and the Group's Management did not have any information to make assumptions about future events that should be reflected in the amounts of the provisions.

#### **IMPAIRMENT OF FINANCIAL ASSETS**

1. At the date of submission of the FS, no strong arguments or substantiated information were known that to climate-change policy related matters may affect the increase in credit risk of the Company and the Group companies.

2. At the date of submission of the FS, the Company's and the Group's management does not anticipate and does not have any assumptions that climate change related regulations give rise or could lead to market, financial or any other risks (e. g. impairment of assets due to market changes), associated with financial assets during the next 12 months.

3. Climate change related issues and / or regulations did not During the reporting period of 2020, the issues, circumstances and regulations related to climate change did not affect the changes in the value of financial assets and there is no such substantiated data that it may have an impact on 2021 or further.

#### **FAIR VALUE MEASUREMENT**

1. Climate change policy and related regulatory requirements did not have any impact on the determination of the fair value of assets and liabilities in the financial statements of the Company and the Group companies during the reporting period 2020, and there is no information available that those could affect during the period 2021 or further.

#### **INSURANCE CONTRACTS**

1. During the reporting period 2020, climate change-related matters did not in any way lead to any insured events (e. g. business interruption, property damage, illness and death). There is no reasonable information to assume that the probability of such insured events will increase in 2021 and further.

2. At the date of submission of the FS, the Company's and the Group's Management did not have any reasonable information on the assumptions used to assess the impact of climate change-related matters and circumstances on insurance contract liabilities.

3. At the date of submission of the FS there were no any specific and reasonable facts and information, that climate-related matters may affect:

- the significant judgements and changes in judgements made in applying IFRS 17,
- a company's exposure to risks, concentrations of risk, how it manages risks and sensitivity analysis showing the effect of changes in risk variables.

## 5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Changes in intangible assets of the Group:

The Group	Acquired rights and patents	Computer software	Licenses	Total
<b>Acquisition cost</b>				
<b>As of 1 January 2019</b>	<b>190</b>	<b>256</b>	<b>447</b>	<b>893</b>
-acquisition	104	-	175	279
-incorporation/mergers	-	21	1	22
-sold or written-off assets	(50)	(135)	(31)	(215)
<b>As of 31 December 2019</b>	<b>243</b>	<b>142</b>	<b>592</b>	<b>978</b>
-acquisition	40	11	71	122
-reclassification	(69)	-	69	-
-sold or written-off assets	-	(12)	(115)	(127)
<b>As of 31 December 2020</b>	<b>215</b>	<b>142</b>	<b>617</b>	<b>973</b>
<b>Accumulated amortisation</b>				
<b>As of 1 January 2019</b>	<b>104</b>	<b>236</b>	<b>383</b>	<b>723</b>
-amortization	47	11	49	108
-incorporation/mergers	-	21	1	22
-amortization of sold and written-off assets	(44)	(135)	(31)	(209)
<b>As of 31 December 2019</b>	<b>107</b>	<b>134</b>	<b>402</b>	<b>643</b>
-amortization	47	9	113	169
-reclassification	(3)	-	3	-
-amortization of sold and written-off assets	-	(12)	(93)	(104)
<b>As of 31 December 2020</b>	<b>151</b>	<b>131</b>	<b>426</b>	<b>708</b>
<b>Net Book Value</b>				
<b>As of 1 January 2019</b>	<b>86</b>	<b>20</b>	<b>64</b>	<b>170</b>
<b>As of 31 December 2019</b>	<b>136</b>	<b>8</b>	<b>190</b>	<b>335</b>
<b>As of 31 December 2020</b>	<b>64</b>	<b>11</b>	<b>191</b>	<b>266</b>

**Changes in intangible assets of the Company:**

The Company	Aquired rights and patents	Computer software	Licenses	Total
<b>Acquisition cost</b>				
<b>As of 1 January 2019</b>	<b>190</b>	<b>226</b>	<b>447</b>	<b>863</b>
-acquisition	104	0	175	279
-incorporation/mergers	0	21	1	22
-sold or written-off assets	(50)	(133)	(30)	(213)
<b>As of 31 December 2019</b>	<b>243</b>	<b>114</b>	<b>592</b>	<b>950</b>
-acquisition	40	11	71	122
-reclassification	(69)	-	69	-
-sold or written-off assets	-	(12)	(115)	(127)
<b>As of 31 December 2020</b>	<b>215</b>	<b>114</b>	<b>617</b>	<b>946</b>
<b>Accumulated amortisation</b>				
<b>As of 1 January 2019</b>	<b>104</b>	<b>219</b>	<b>383</b>	<b>706</b>
-amortization	47	6	49	102
- incorporation/mergers	-	21	1	22
-amortization of sold and written-off assets	(44)	(133)	(30)	(207)
<b>As of 31 December 2019</b>	<b>107</b>	<b>114</b>	<b>402</b>	<b>623</b>
-amortization	47	4	113	164
- reclassification	(3)	-	3	-
-amortization of sold and written-off assets	-	(12)	(93)	(104)
<b>As of 31 December 2020</b>	<b>151</b>	<b>106</b>	<b>426</b>	<b>683</b>
<b>Net Book Value</b>				
<b>As of 1 January 2019</b>	<b>86</b>	<b>7</b>	<b>64</b>	<b>157</b>
<b>As of 31 December 2019</b>	<b>136</b>	<b>1</b>	<b>190</b>	<b>327</b>
<b>As of 31 December 2020</b>	<b>64</b>	<b>8</b>	<b>191</b>	<b>263</b>

In 2020 amortization of non-current intangible assets of the Group and the Company amounts to EUR 169 thousand and EUR 164 thousand respectively (In 2019 – EUR 108 thousand and EUR 102 thousand, respectively).

Amortization expenses of intangible assets are recognized as Operating expenses in the statement of comprehensive income (Note 24).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2020 amount to EUR 122 thousand and EUR 122 thousand, respectively (in 2019 - EUR 279 thousand and EUR 279 thousand). All the acquisitions above are located in Lithuania.

As at 31 December 2020, the Company and the Group have EUR 491 thousand and EUR 496 thousand (EUR 437 thousand and EUR 441 thousand as at 31 December 2019, respectively) of fully amortized non-current intangible assets that are still in use.

**Changes in property, plant and equipment of the Group:**

<b>The Group</b>	<b>Land, buildings and constructions</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Other property, plant and equipment</b>	<b>Construction in progress and prepayments</b>	<b>Total</b>
<b>Acquisition cost</b>						
<b>As of 1 January 2019</b>	<b>21.769</b>	<b>79.752</b>	<b>10.822</b>	<b>3.658</b>	<b>3.195</b>	<b>119.196</b>
-acquisition	2.005	2.512	1.218	715	3.474	9.924
-sold or written-off assets	(2.972)	(1.485)	(614)	(116)	-	(5.187)
-reclassification	982	2.887	-	234	(4.102)	-
-incorporation/mergers	1.682	4.180	31	447	-	6.341
-transfers to investment property	(1.020)	-	-	-	-	(1.020)
-transfers from investment property	-	-	-	-	-	-
<b>As of 31 December 2019</b>	<b>22.446</b>	<b>87.846</b>	<b>11.457</b>	<b>4.938</b>	<b>2.567</b>	<b>129.254</b>
-acquisition	163	451	532	195	881	2.222
-sold or written-off assets	(132)	(436)	(587)	(340)	-	(1.495)
-reclassification	12	2.362	41	100	(2.514)	-
-incorporation/mergers	-	-	-	-	-	-
-transfers to investment property	(21)	-	-	-	-	(21)
-transfers from investment property	25	-	-	-	-	25
<b>As of 31 December 2020</b>	<b>22.492</b>	<b>90.222</b>	<b>11.443</b>	<b>4.892</b>	<b>934</b>	<b>129.983</b>
<b>Accumulated depreciation</b>						
<b>As of 1 January 2019</b>	<b>8.797</b>	<b>49.637</b>	<b>9.202</b>	<b>2.410</b>	<b>-</b>	<b>70.046</b>
-depreciation	668	2.674	298	225	-	3.865
-depreciation of written-off and sold assets	(2.021)	(1.485)	(517)	(106)	-	(4.129)
-incorporation/mergers	1.123	2.315	29	436	-	3.902
-reclassification ( subsidiary)	-	-	-	-	-	-
-transfers to investment property	(55)	-	-	-	-	(55)
-transfers from investment property	-	-	-	-	-	-
<b>As of 31 December 2019</b>	<b>8.510</b>	<b>53.142</b>	<b>9.012</b>	<b>2.965</b>	<b>-</b>	<b>73.627</b>
-depreciation	626	3.189	381	343	-	4.540
-depreciation of written-off and sold assets	(32)	(436)	(515)	(336)	-	(1.319)
-incorporation/mergers	-	-	-	-	-	-
-reversals (subsidiary)	-	-	-	-	-	-
-reclassification (subsidiary)	-	-	-	-	-	-
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	4	-	-	-	-	4
<b>As of 31 December 2020</b>	<b>9.108</b>	<b>55.895</b>	<b>8.878</b>	<b>2.972</b>	<b>-</b>	<b>76.853</b>
<b>Impairment</b>						
<b>As of 1 January 2019</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>19</b>
-impairment losses	-	-	-	-	-	-
-transfers to investment property	-	-	-	-	-	-
-reversal of impairment	(17)	-	-	-	(2)	(19)
<b>As of 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
-impairment losses	-	-	-	-	-	-
-transfers to investment property	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>						
<b>As of 1 January 2019</b>	<b>12.955</b>	<b>30.114</b>	<b>1.621</b>	<b>1.248</b>	<b>3.192</b>	<b>49.130</b>
<b>As of 31 December 2019</b>	<b>13.935</b>	<b>34.704</b>	<b>2.445</b>	<b>1.973</b>	<b>2.567</b>	<b>55.624</b>
<b>As of 31 December 2020</b>	<b>13.385</b>	<b>34.326</b>	<b>2.565</b>	<b>1.920</b>	<b>934</b>	<b>53.130</b>

**Changes in property, plant and equipment of the Company:**

<b>The Company</b>	<b>Land, buildings and constructions</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Other property, plant and equipment</b>	<b>Construction in progress and prepayments</b>	<b>Total</b>
<b>Acquisition cost</b>						
<b>As of 1 January 2019</b>	<b>17.391</b>	<b>72.705</b>	<b>9.309</b>	<b>3.224</b>	<b>2.476</b>	<b>105.105</b>
-acquisition	1.077	2.526	1.194	638	666	6.101
-incorporation/mergers	1.682	4.180	31	447	-	6.340
-sold or written-off assets	(212)	(1.478)	(551)	(116)	-	(2.357)
-adding value	-	-	-	-	-	-
-reclassification	770	1.907	-	234	(2.911)	-
-transfers to investment property	(957)	-	-	-	-	(957)
-transfers from investment property	-	-	-	-	-	-
<b>As of 31 December 2019</b>	<b>19.750</b>	<b>79.841</b>	<b>9.983</b>	<b>4.427</b>	<b>231</b>	<b>114.232</b>
-acquisition	113	424	532	169	618	1.856
-incorporation/mergers	-	-	-	-	-	-
-sold or written-off assets	(132)	(436)	(587)	(340)	-	(1.494)
-adding value	-	-	-	-	-	-
-reclassification	-	243	41	100	(384)	-
-transfers to investment property	(21)	-	-	-	-	(21)
-transfers from investment property	25	-	-	-	-	25
<b>As of 31 December 2020</b>	<b>19.734</b>	<b>80.073</b>	<b>9.969</b>	<b>4.355</b>	<b>465</b>	<b>114.597</b>
<b>Accumulated depreciation</b>						
<b>As of 1 January 2019</b>	<b>5.812</b>	<b>44.183</b>	<b>7.574</b>	<b>2.056</b>	<b>-</b>	<b>59.625</b>
-depreciation	624	2.500	305	211	-	3.640
-incorporation/mergers	1.123	2.315	29	436	-	3.902
-depreciation of written-off and sold assets	(145)	(1.477)	(454)	(106)	-	(2.182)
-transfers from investment property	-	-	-	-	-	-
<b>As of 31 December 2019</b>	<b>7.413</b>	<b>47.521</b>	<b>7.454</b>	<b>2.597</b>	<b>-</b>	<b>64.985</b>
-depreciation	586	2.974	419	320	-	4.299
-incorporation/mergers	-	-	-	-	-	-
-depreciation of written-off and sold assets	(32)	(436)	(515)	(336)	-	(1.319)
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	4	-	-	-	-	4
<b>As of 31 December 2020</b>	<b>7.792</b>	<b>50.059</b>	<b>7.358</b>	<b>2.581</b>	<b>-</b>	<b>67.970</b>
<b>Impairment</b>						
<b>As of 1 January 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>						
<b>As of 1 January 2019</b>	<b>11.579</b>	<b>28.522</b>	<b>1.734</b>	<b>1.169</b>	<b>2.476</b>	<b>45.480</b>
<b>As of 31 December 2019</b>	<b>12.337</b>	<b>32.320</b>	<b>2.529</b>	<b>1.830</b>	<b>231</b>	<b>49.247</b>
<b>As of 31 December 2020</b>	<b>11.762</b>	<b>30.014</b>	<b>2.611</b>	<b>1.774</b>	<b>465</b>	<b>46.626</b>

For the year ending at 31 December 2020 the depreciation costs of the Group's and the Company's property, plant and equipment amount to EUR 4.540 thousand and EUR 4.299 thousand, respectively (2019 – EUR 3.865 thousand and EUR 3.640 thousand).

The amount of depreciation accounted under the caption 'Cost of Sales' for the financial years 2020 and 2019 amounts to EUR 3.085 thousand and EUR 2.614 thousand by the Company, respectively. By the Group, EUR 3.449 thousand and 2.920 thousand, respectively. The rest of the Company's and the Group's depreciation is accounted under the 'Operating expenses' caption. Part of the depreciation amount is also accounted under the 'Inventory' caption in the value of unsold Inventories as of 31 December 2019 and 2020.

In 2018, the Company and the Group have revised the residual values and useful lives of non-current tangible assets as according to IAS 16 "Property, plant and equipment" and decided to adjust the residual values and useful lives for

assets that are not fully depreciated as of 1 January 2018, prospectively. The Company and the Group reviewed the liquidation values and useful lives on an annual basis.

As for the changes in the depreciation assessment, in 2020 depreciation costs for the Group and the Company decreased by EUR 616 thousand and EUR 437 thousand respectively, compared to the residual values and useful lives of 2017, in 2019 depreciation costs for the Group and the Company decreased by EUR 1.250 thousand and EUR 998 thousand.

All of the acquisitions of non-current tangible and intangible assets made by the Group and the Company during year 2020 and 2019 as disclosed above relate to the Lithuanian segment.

Part of property, plant and equipment of the Company and the Group with the acquisition cost amounting to EUR 41.593 thousand and EUR 48.588 thousand, respectively, was fully depreciated as at 31 December 2020 (EUR 39.996 thousand and EUR 47.117 thousand as at 31 December 2019), but was still in use.

## 6. INVESTMENT PROPERTY

	<b>The Group</b>	<b>The Company</b>
<b>Acquisition cost</b>		
<b>As of 1 January 2019</b>	<b>3.848</b>	<b>5.887</b>
- acquisition	35	35
- transfers from property, plant and equipment	1.020	957
-reversals (subsidiary)	(11)	-
-sold or written-off investment property	-	(2.758)
-transfers to property, plant and equipment	-	-
<b>As of 31 December 2019</b>	<b>4.892</b>	<b>4.121</b>
-acquisition	-	-
-transfers from property, plant and equipment	21	21
-reversals (subsidiary)	-	-
-sold or written-off investment property	-	-
-transfers to property, plant and equipment	(25)	(25)
<b>As of 31 December 2020</b>	<b>4.888</b>	<b>4.117</b>
<b>Accumulated depreciation</b>		
<b>As of 1 January 2019</b>	<b>990</b>	<b>2.219</b>
- depreciation	235	242
-transfers to property, plant and equipment	-	-
-reversals (subsidiary)	2	-
-sold or written-off investment property	-	(1.873)
- transfers from property, plant and equipment	55	-
<b>As of 31 December 2019</b>	<b>1.282</b>	<b>587</b>
-depreciation	238	237
-transfers to property, plant and equipment	(4)	(4)
-reversals (subsidiary)	-	-
-sold or written-off investment property	-	-
-transfers from property, plant and equipment	-	-
<b>As of 31 December 2020</b>	<b>1.516</b>	<b>820</b>
<b>Impairment</b>		
<b>As of 1 January 2019</b>	<b>10</b>	<b>-</b>
-impairment losses	-	-
-reversal of impairment	(10)	-
-transfers from property, plant and equipment	-	-
<b>As of 31 December 2019</b>	<b>-</b>	<b>-</b>
-impairment losses	-	-
-reversal of impairment	-	-
-transfers from property, plant and equipment	-	-
<b>As of 31 December 2020</b>	<b>-</b>	<b>-</b>
<b>Net book value, Eur thousand:</b>		
<b>As of 1 January 2019</b>	<b>2.847</b>	<b>3.668</b>
<b>As of 31 December 2019</b>	<b>3.610</b>	<b>3.534</b>
<b>As of 31 December 2020</b>	<b>3.371</b>	<b>3.297</b>

Investment property has been evaluated by independent valuator on 20 April 2018 (adjusted comparable price method was used as primarily valuation method to establish fair value, level 3 in fair value hierarchy).

The Company's investment property in 2018 represents rented assets to ABF Šilutės Rambynas, UAB Čia Market, other non-related parties and legal persons. In 2019 the Company's rent contract with ABF Šilutės Rambynas was terminated. As per valuation reports, the fair value of investment property is varies slightly than net book value as at 31 December 2019 and 31 December 2020.

At the moment of acquisition, the Company and the Group use independent valuator valuations in case the assets are bought/sold within related parties. In other cases assets are purchased in competitive market at the market price.

For the year ending at 31 December 2020 the depreciation costs of the Company's investment property amount to EUR 237 thousand (2019 – EUR 242 thousand). Rental income and related costs are disclosed in Notes 24,25.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

There were no investment property under construction in 2020 and 2019.

Depreciation of investment property is included in the 'Operating expenses' caption.

## 7. RIGHT-OF-USE-ASSET

According to the new IFRS 16 "Leases" effective as of January 1, 2019 the right-of use asset account to the following:

### The Group

	Land, buildings and constructions	Movable property	Vehicles	Total
<b>Acquisition cost</b>				
<b>As of 01 January 2019</b>	<b>2.163</b>	<b>346</b>	<b>103</b>	<b>2.612</b>
-acquisition	447	-	-	447
-reclassification				
-the end of the contract	(2.016)		(31)	(2.047)
<b>Acquisition cost</b>				
<b>As of 31 December 2019</b>	<b>594</b>	<b>346</b>	<b>72</b>	<b>1.012</b>
-acquisition	1.354	69	23	1.446
-reclassification				
-the end of the contract			(13)	(13)
<b>Acquisition cost</b>				
<b>As of 31 December 2020</b>	<b>1.948</b>	<b>415</b>	<b>83</b>	<b>2.445</b>
<b>Accumulated depreciation</b>				
<b>As of 01 January 2019</b>	<b>1.794</b>	<b>138</b>	<b>39</b>	<b>1.971</b>
-depreciation	564	92	31	687
-reclassification	(0)	-	-	(0)
-the end of the contract	(2.016)	-	(26)	(2.042)
<b>Accumulated depreciation</b>				
<b>As of 31 December 2019</b>	<b>342</b>	<b>230</b>	<b>44</b>	<b>616</b>
-depreciation	618	92	25	736
-reclassification	-			
-the end of the contract	-		(10)	(10)
<b>Accumulated depreciation</b>				
<b>As of 31 December 2020</b>	<b>960</b>	<b>323</b>	<b>60</b>	<b>1.342</b>
<b>Net book value, Eur thousand:</b>				
<b>As of 31 December 2019</b>	<b>252</b>	<b>116</b>	<b>28</b>	<b>395</b>
<b>As of 31 December 2020</b>	<b>988</b>	<b>92</b>	<b>23</b>	<b>1.103</b>

**The Company**

	<b>Land, buildings and constructions</b>	<b>Movable property</b>	<b>Vehicles</b>	<b>Total</b>
<b>Acquisition cost</b>				
<b>As of 01 January 2019</b>	<b>2.163</b>	<b>346</b>	<b>103</b>	<b>2.612</b>
-acquisition	447	-	-	447
-reclassification				
-the end of the contract	(2.016)		(31)	(2.047)
<b>Acquisition cost</b>				
<b>As of 31 December 2019</b>	<b>594</b>	<b>346</b>	<b>72</b>	<b>1.012</b>
-acquisition	1.354	69	23	1.446
-reclassification				
-the end of the contract			(13)	(13)
<b>Acquisition cost</b>				
<b>As of 31 December 2020</b>	<b>1.948</b>	<b>415</b>	<b>83</b>	<b>2.445</b>
<b>Accumulated depreciation</b>				
<b>As of 01 January 2019</b>	<b>1.794</b>	<b>138</b>	<b>39</b>	<b>1.971</b>
-depreciation	564	92	31	687
-reclassification	(0)	-	-	(0)
-the end of contract	(2.016)	-	(26)	(2.042)
<b>Accumulated depreciation</b>				
<b>As of 31 December 2019</b>	<b>342</b>	<b>230</b>	<b>44</b>	<b>616</b>
-depreciation	618	92	25	736
-reclassification	-			
-the end of the contract	-		(10)	(10)
<b>Accumulated depreciation</b>				
<b>As of 31 December 2020</b>	<b>960</b>	<b>323</b>	<b>60</b>	<b>1.342</b>
<b>Net book value, Eur thousand:</b>				
<b>As of 31 December 2019</b>	<b>252</b>	<b>116</b>	<b>28</b>	<b>395</b>
<b>As of 31 December 2020</b>	<b>988</b>	<b>92</b>	<b>23</b>	<b>1.103</b>

**8.LOANS GRANTED**

The Company and the Group have granted loans to 22 Company's employees as at 31 December 2020 (26 as at 31 December 2019). The average annual loan interest rate: 3%.

Loans have been granted to the employees as a motivating tool based on the Regulations for Provision of Loans to employees. The maximum limit of the fund intended for these loans granted makes up EUR 231.696. On all occasions loans are being granted to a borrower after he/she undertakes to secure repayment of a loan by pledging his/her or another person's real estate property or using other means of security of repayment of a loan acceptable to the company (a credit institution guarantee or other). Upon assessment of a possible risk, liquidity of property being pledged and etc. a fair value of the property being pledged makes up from 100% to 200% of an amount being borrowed.

The Company and the Group have also granted loans to 73 farmers (milk-suppliers) as at 31 December 2020 (75 as at 31 December 2019). Loans in the amount of EUR 833 thousand had been granted to farmers within the period from 01/01/2020 to 31/12/2020. The average interest rate on loans granted: 3,5 %. All long-term loans have been granted with collateral (land have been pledged at market prices).

The related party Klaipėdos pienas AB owed EUR 628,5 thousand to the Company as at 31 December 2020 (as at 31 December 2019 – EUR 736,5 thousand). The loan has been granted with a variable/floating annual interest rate; a loan repayment period – the year 2029; pledged shares.

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
<b>Loans granted:</b>	<b>2.608</b>	<b>2.577</b>	<b>2.608</b>	<b>2.577</b>
Loans granted to related parties	629	737	629	737
Loans granted to milk suppliers	1.799	1.709	1.799	1.709
Loans granted to the staff	120	131	120	131
Loans granted to not related parties	60	-	60	-
<b>Current portion of loans granted (Note 11)</b>	<b>(790)</b>	<b>(806)</b>	<b>(790)</b>	<b>(806)</b>
<i>In the number loans granted to milk suppliers impairment</i>	-	(17)	-	(17)
<b>Non- current loans granted</b>	<b>1.818</b>	<b>1.771</b>	<b>1.818</b>	<b>1.771</b>

All granted loans are in EUR. Granted loan's payback periods are between 1 – 12 years.

## 9. INVENTORIES

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Raw materials	4.530	4.182	4.035	3.642
Finished goods and work in progress	29.593	27.896	29.026	26.790
Goods for resale	272	536	272	536
	<b>34.395</b>	<b>32.614</b>	<b>33.334</b>	<b>30.968</b>
Less: Allowance for inventories	(352)	(287)	(352)	(208)
<b>Total</b>	<b>34.043</b>	<b>32.327</b>	<b>32.982</b>	<b>30.760</b>

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

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
<b>Balance at beginning of year</b>	<b>287</b>	<b>1.869</b>	<b>208</b>	<b>1.517</b>
Additional allowance made	-	-	-	-
Reversals of allowance made	65	(1.582)*	144	(1.309)*
Write-off	-	-	-	-
<b>Balance at end of year</b>	<b>352</b>	<b>287</b>	<b>352</b>	<b>208</b>

\* In 2019 the reversal of the decline in production was due to the marketing of matured hard cheese in 2019 and the increased customer demand for long maturation cheese (see note 4)

The acquisition cost of the Group's and the Company's inventories accounted at net realizable value as at 31 December 2020 amounted to EUR 6.890 thousand and EUR 6.890 thousand, respectively (as at 31 December 2019, EUR 5.130 thousand and EUR 4.263 thousand, respectively). Changes in impairment allowance for inventories during 2020 and 2019 were recorded within the Group's and the Company's operating expenses (Note 24).

As at 31 December of 2020 the Company held a stock of EUR 182 thousand at the third parties ( as at 31 December 2019, EUR 33 thousand, respectively).

The allowance formed by the Company for the inventories as at 31 December 2020 and 2019 (EUR 352 thousand and EUR 208 thousand, respectively) was formed for illiquid –stationary material and amount of inventories was greater than their net realizable value.

The amount of inventory used (written-off) by the Group and the Company in production of goods for the financial year 2020 accounted under the caption 'Cost of Sales' amounts to EUR 99.691 thousand and EUR 97.082 thousand, respectively (EUR 99.274 thousand and EUR 96.335 thousand in 2019, respectively).

## 10. TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Trade accounts receivable	14.650	15.700	14.124	15.178
Accounts receivable from related parties	3.018	3.496	3.013	3.383
<b>Total accounts receivable:</b>	<b>17.668</b>	<b>19.196</b>	<b>17.137</b>	<b>18.561</b>
Allowance for bad debts	(604)	(601)	(83)	(80)
Allowance for bad debts of related parties	(265)	(265)	(265)	(265)
<b>Net trade receivables:</b>	<b>16.799</b>	<b>18.330</b>	<b>16.789</b>	<b>18.216</b>

Changes in the allowance for impairment of trade accounts receivable (EUR thousand):

	The Group		The Company	
	2020	2019	2020	2019
<b>Balance at beginning of year</b>	866	960	345	439
Additional allowance made	3	(94)	3	(94)
Reversals of allowance made	-	-	-	-
Write-off	-	-	-	-
<b>Balance at end of year</b>	<b>869</b>	<b>866</b>	<b>348</b>	<b>345</b>

Analysis of trade receivables based on the terms of payment on the 31<sup>st</sup> December, 2020 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables past due				
	Trade accounts receivables, not past due	Less than 60 days	60-120 days	More than 120 days	Total
<b>Trade account receivables</b>	11.397	2.624	29	601	<b>14.651</b>
<b>Allowance formed</b>	-	-	(6)	(598)	<b>(604)</b>
<b>Trade accounts receivables from related parties</b>	1.434	923	229	431	<b>3.017</b>
<b>Allowance formed</b>	-	(265)	-	-	<b>(265)</b>

The Company (EUR thousand)	Trade accounts receivables passed due				
	Trade accounts receivables, not past due	Less than 60 days	60-120 days	More than 120 days	Total
<b>Trade account receivables</b>	11.396	2.623	28	77	<b>14.124</b>
<b>Allowance formed</b>	-	-	(6)	(77)	<b>(83)</b>
<b>Trade accounts receivables from related parties</b>	1.430	923	229	431	<b>3.013</b>
<b>Allowance formed</b>	-	(265)	-	-	<b>(265)</b>

Analysis of trade receivables based on the terms of payment on the 31<sup>st</sup> December, 2019 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables which due term has passed				
	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days	Total
<b>Trade account receivables</b>	14.144	942	26	588	<b>15.700</b>
<b>Allowance formed</b>	-	-	(13)	(588)	<b>(601)</b>

<b>Trade accounts receivables from related parties</b>	2.007	1.212	130	147	<b>3.496</b>
<b>Allowance formed</b>	-	(96)	(130)	(39)	<b>(265)</b>
<b>Trade accounts receivables which due term has passed</b>					
<b>The Company (EUR thousand)</b>	<b>Trade accounts receivables, which period has not passed</b>	<b>Less than 60 days</b>	<b>60-120 days</b>	<b>More than 120 days</b>	<b>Total</b>
<b>Trade account receivables</b>	14.143	942	26	67	<b>15.178</b>
<b>Allowance formed</b>	-	-	(13)	(67)	<b>(80)</b>
<b>Trade accounts receivables from related parties</b>	2.002	1.212	130	39	<b>3.383</b>
<b>Allowance formed</b>	-	(96)	(130)	(39)	<b>(265)</b>

For the assessment of allowance on intercompany trade receivables, please refer to Note 30.

## 11. OTHER ACCOUNTS RECEIVABLE

	<b>The Group</b>		<b>The Company</b>	
	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>
Prepaid income tax	-	407	-	286
Current portion of long-term loans granted (Note 8)	790	806	790	806
VAT receivable	1.016	783	1.016	300
Other receivables	688	79	688	79
<b>Total:</b>	<b>2.494</b>	<b>2.075</b>	<b>2.494</b>	<b>1.471</b>

## 12. CASH AND CASH EQUIVALENTS

	<b>The Group</b>		<b>The Company</b>	
	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>
Cash at bank	16.038	9.879	11.551	8.813
Cash on hand	55	22	55	22
<b>Total:</b>	<b>16.093</b>	<b>9.901</b>	<b>11.606</b>	<b>8.835</b>

## 13. CAPITAL AND RESERVES

### Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of EUR 0,29 each, and the total share capital is EUR 14.028.750, fully paid.

The holders of the ordinary shares are entitled to one vote per fully paid share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital as well as other interest and non-interest as per the Company Law of the Republic of Lithuania as well as other statutes and legal acts.

On 31 December 2019 the Company owned 3.416.763 units of its shares or 7,06 % of shares in total. During financial year 2020, the Company has acquired 74.738 units of own shares additionally in amount of EUR 113 thousand. On 31<sup>st</sup> December 2020 the total value of acquired shares amounted to EUR 3.914 thousand (EUR 3.801 thousand as at 31<sup>st</sup> December 2019).

On 31 December 2020 the Company owned 3.491.501 units of its shares or 7,22 % of shares in total. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

### Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the annual profit are required until legal reserve reaches 10% of the authorised capital. This reserve cannot be distributed. It can be used only for covering accumulated losses. Legal reserve of the Company wasn't fully formed.

In 2020 year additionally 1693 Eur compulsory reserve was built by required Law up to 10% of share capital.

### Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to be used should be restored to retained earnings and redistributed.

The reserve of EUR 10.000 thousand for acquisition of the own shares was formed through the allocation of profits of the year 2019.

## 14. GOVERNMENT GRANTS RECEIVED

Changes in the grants received by the Group and the Company ( EUR thousand):

	The Group	The Company
<b>Grants received</b>		
As of 1 January 2019 (balance)	8.517	6.322
- received	2.329	2.329
As of 31 December 2019 (balance)	10.846	8.651
- received	-	-
As of 31 December 2020 (balance)	10.846	8.651
<b>Accumulated amortisation</b>		
As of 1 January 2019 (balance)	7.190	5.180
- amortization	299	279
As of 31 December 2019 (balance)	7.489	5.459
- amortization	275	255
As of 31 December 2020 (balance)	7.764	5.714
<b>Net book value (EUR thousand)</b>		
As of 1 January 2019	1.327	1.142
As of 31 December 2019	3.357	3.192
As of 31 December 2020	3.082	2.937

The amounts of the grant received are amortized in equal parts within the respective useful service life of the asset acquired from these funds. Grant amortization is included in the statement of comprehensive income, under the caption 'Cost of Sales' and reduces depreciation costs of non-current assets.

As according to the grant agreement, the Company and the Group is obligated to fulfil the requirements related to Company's and Group's revenue and net profit. In 2020, the Company and the Group was in compliance with the grant agreement requirements.

In 2019 the Company completed implementation of the Project (see previous Annual Reports) signed in 2016 with the National Paying Agency regarding assignment of support within the scope of the "Investments in processing of agricultural products, in marketing and (or) development" field of activities under Lithuania's 2014-2020 Rural Development Program measure "Investment in tangible assets".

In accordance with the latest concluded support contract (discussed in detail in Section „Review of activities, performances and development“ of the Annual Consolidated Report for 2018) by 31 December 2020 and 31 December 2019 the Company/Group did not have procurement obligations.

## 15. DEFINED BENEFIT OBLIGATIONS

The Company has accounted for long-term defined benefit obligations for its employees based on requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's employee additional rewards policy.

	The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Long term liability of post retirement employee benefits	487	205
Short term liability of post retirement employee benefits (Note 22)	154	121
Long term liability under additional rewards policy	2.761	2.953
Short term liability under additional rewards policy (Note 22)	490	490
<b>Total:</b>	<b>3.892</b>	<b>3.769</b>

	The Group	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Long term liability of post retirement employee benefits	514	239
Short term liability of post retirement employee benefits (Note 22)	187	160
Long term liability under additional rewards policy	2.925	3.199
Short term liability under additional rewards policy (Note 22)	631	535
<b>Total:</b>	<b>4.257</b>	<b>4.133</b>

### The movement of defined benefit obligations

	The Group	The Company
	Post retirement employee benefits and long term employee benefits (Premium based on additional rewards policy)	Post retirement employee benefits and long term employee benefits (Premium based on additional rewards policy)
<b>Balance as at 1 January 2019</b>	<b>4.404</b>	<b>4.085</b>
Change accounted in the statements of comprehensive income	(12)	(57)
Actuarial (gain) loss	(259)	(259)
<b>Balance as at 31 December 2019</b>	<b>4.133</b>	<b>3.769</b>
Change accounted in the statements of comprehensive income	28	27
Actuarial (gain) loss	96	96
<b>Balance as at 31 December 2020</b>	<b>4.257</b>	<b>3.892</b>

The main assumptions used in assessing the liability of the Company's long-term employee benefits are presented below:

	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Discount rate	1,73%	1,70%
Inflation rate	3,00%	6,00%
Turnover rate	20%-24%	20%-24%

## 16. NON-CONTROLLING INTEREST

Financial information of subsidiaries that have material non-controlling interests is provided below.

Summarised financial information of the subsidiary is as follows (in EUR thousand):

	Silutes Rambynas ABF	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Current assets	6.403	6.532
Non-current assets	8.594	8.658
Current liabilities	1.423	1.535
Non-current liabilities	190	281
Revenue	27.180	32.191
Profit	34	(374)
<b>Total comprehensive income</b>	<b>34</b>	<b>(374)</b>

The subsidiary paid no dividends neither in year 2020 no in year 2019.

## 17. EARNINGS AND DIVIDENDS PER SHARE

Basic earnings (loss) per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary circulation shares in issue during the year.

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Net profit (loss) attributable to the equity shareholders in EUR thousand	9.802	10.824	9.598	13.268
Weighted average number of circulation shares (units)	44.883.499	44.958.237	44.883.499	44.958.237
<b>Basic earnings (loss) per share in EUR</b>	<b>0,22</b>	<b>0,24</b>	<b>0,21</b>	<b>0,30</b>

The Company has not issued any other securities convertible to shares. Therefore, the diluted earnings per share are equal to basic earnings per share.

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Dividends declared	-	3.692	-	3.692
Weighted average number of circulation shares (units)	44.883.499	44.958.237	44.883.499	44.958.237
<b>Dividends declared per share in EUR</b>	<b>-</b>	<b>0,08</b>	<b>-</b>	<b>0,08</b>

## 18. FINANCIAL LEASE

As at 31 December 2020, finance lease liabilities of the Group and the Company included liabilities from lease contracts concluded with the leasing companies and liabilities for the right-of-use assets in accordance with IAS 16 "Leases", newly effective as of 01-01-2019.

Future financial lease payments according to the signed financial lease contracts and liabilities for the right-of-use assets are as follows (EUR thousand):

The Group	2020 12 31		2019 12 31	
	Minimal financial lease payments	Present value of financial lease minimal payments	Minimal financial lease payments	Present value of financial lease minimal payments
Less than 1 year	848	844	497	490
2 – 5 years	652	647	516	505
<b>Minimal financial lease payments, EUR thousand</b>	<b>1.500</b>	<b>1.491</b>	<b>1.013</b>	<b>995</b>

Less: future interest	(9)	-	(18)	-
<b>Present value of minimal financial lease payments, EUR thousand</b>	<b>1.491</b>	<b>1.491</b>	<b>995</b>	<b>995</b>
	2020 12 31		2019 12 31	
<b>The Company</b>	<b>Minimal financial lease payments</b>	<b>Present value of financial lease minimal payments</b>	<b>Minimal financial lease payments</b>	<b>Present value of financial lease minimal payments</b>
Less than 1 year	848	844	497	490
2 – 5 years	652	647	516	505
<b>Minimal financial lease payments, EUR thousand</b>	<b>1.500</b>	<b>1.491</b>	<b>1.013</b>	<b>995</b>
Less: future interest	(9)	-	(18)	-
<b>Present value of minimal financial lease payments, EUR thousand</b>	<b>1.491</b>	<b>1.491</b>	<b>995</b>	<b>995</b>

As at 31st December 2020, 2019 the financial lease contracts of the Company and the Group are signed in EUR. The terms and conditions of the contract with all later additions do not provide any restrictions on the Company's and Group's activities, associated with dividends, additional borrowings or additional long-term rent.

## 19. LOANS RECEIVED

The loans of the Company and the Group as at 31<sup>st</sup> December 2020 (EUR thousand):

Creditor	Date of agreement	Loan maturity date	Currency	Interest rate	2020.12.31	2019.12.31
AB SEB bank	2018-06-11	2023-06-11	EUR	1,35% Euribor 3m	-	7.000
AB SEB bank	2019-07-16	2024-03-30	EUR	1,40% Euribor 3m	6.000	6.000
AB SEB bank	2019-01-09	2024-06-15	EUR	2,15% Euribor 6m	-	998
<b>Total: thousand EUR</b>					<b>6.000</b>	<b>13.998</b>

In June 2018, Žemaitijos Pienas, AB concluded a credit agreement with SEB Bankas, AB for the amount of EUR 10 million. The credit was granted for the period of 5 (five) years and bears fluctuating interest rate. The last date of its repayment: June 2023. Collateral for the performance of the obligations under this credit agreement includes the following: current account of the Company at SEB Bankas, AB and real estate at the address 3, Klaipėdos Street, Šilutė. On the 8th of June 2020, the Company signed an annex "Account credit overdraft limit" to the above-mentioned agreement in the amount of 5 million Eur overdraft limit. The credit balance of 5.5 million Eur was repaid ahead of schedule on 11th of November 2020.

In July 2019, the Company concluded an amendment to the credit agreement with SEB Bankas, AB on the basis of which a new business credit amounting to EUR 6 million was granted to the Company. The credit bears fluctuating annual interest rate. Its repayment date: March 2024. The additional collateral includes industrial building in Šiauliai (with all the equipment).

In addition to the credit agreement, the Company concluded an agreement on financial indicators and other liabilities with SEB Bankas, AB. The financial indicators and non-financial liabilities set down in the agreement are being carried out.

During the reorganization, in the process of merger of Baltijos Mineralinių Vandenių Kompanija with the Company (under the act of the assets, rights and obligations transfer-acceptance dated 31/12/2019), the Company took over the debt of EUR 997 907 that comes from the credit agreement concluded with SEB Bankas, AB. The loan was fully repaid to the bank on 14/02/2020.

Also, during 2020 year total amount of uncovered credit by 2018-06-11 credit agreement with AB SEB was repaid – total EUR 7 million.

As at 31 December 2020, the outstanding balance of the loans received by the Group and the Company amounted to EUR 6.000 thousand.

## 20. PAYABLES

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Payables to suppliers	10164	10.485	9.559	9.701
Annual bonuses to the suppliers of raw material*	1.350		1.350	
Payables to related parties	152	223	989	3.378
Advances received	490	657	443	487
<b>Total:</b>	<b>12.156</b>	<b>11.365</b>	<b>12.341</b>	<b>13.566</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms.

\*Annual bonuses for the raw material suppliers of 1350 thousand Eur are accounted according to the decision made in General Meeting of AB “Žemaitijos pienas” shareholders held on 9th of April 2020. As stated by the regulations on the payment of annual partnership bonuses for persons (sellers) selling milk to AB “Žemaitijos pienas” that were approved by the Board of the Company on 10th of July, annual bonuses are planned to be paid until 1st of May 2021 in accordance with the payment procedure approved at the next meeting of Board.

## 21. BUSINESS COMBINATIONS

**Regarding reorganization of AB “Žemaitijos pienas” and AB “Baltijos mineralinių vandenų kompanija” by merging**

On 31 December 2019 AB “Žemaitijos Pienas” (hereinafter referred to as the Company) successfully completed the reorganization process, during which AB “Baltijos mineralinių vandenų kompanija” was merged with the Company. This merger has increased operational efficiency and reduced costs. AB “Žemaitijos pienas” has been successfully exporting its products to a several dozens of world markets for many years.

## 22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
Vacation reserve	1.303	1.200	1.118	1.014
Bonuses for employees	-	-	-	-
Wages and salaries payable	1.202	1.058	1.048	912
Social security payable	736	669	654	592
Dividends payable	861	890	861	890
Payables based on defined obligations to employees (Note 15)	818	695	644	612
Management Bonus	-	-	-	-
Accrued expenses	254	334	254	334
Taxes payable, other than income tax	408	455	408	374
Other short-term liabilities	181	10	8	5
<b>Total:</b>	<b>5.763</b>	<b>5.311</b>	<b>4.995</b>	<b>4.733</b>

Other payables are non-interest bearing and have an average term of one month.

## 23. INFORMATION ON SEGMENTS

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading :

The Group	Sales, EUR thousand		Variation in % As comparing 2020 with 2019
	2020	2019	
Fermented cheese	86.367	85.921	0,52%
Fresh dairy products	61.319	59.776	2,58%
Butter and spreadable fat mixes	14.658	15.087	-2,84%
Dry dairy products	13.628	14.108	-3,4%
Other	6.455	10.658	-39,44%
<b>Total:</b>	<b>182.427</b>	<b>185.550</b>	<b>-1,68%</b>

The Company	Sales, EUR thousand		Variation in % As comparing 2020 with 2019
	2020	2019	
Fermented cheese	83.447	82.736	0,86%
Fresh dairy products	61.026	59.535	2,50%
Butter and spreadable fat mixes	14.658	15.087	-2,84%
Dry dairy products	13.628	14.108	-3,40%
Other	8.634	12.697	-31,99%
<b>Total:</b>	<b>181.394</b>	<b>184.163</b>	<b>-1,50%</b>

In order to better plan, organise and control sales, employees of the Marketing and Sales Division are assigned different geographic regions according to the location of final market of the products' sale.

Information on revenue made in different geographical markets is provided below:

	The Group		The Company	
	2020	2019	2020	2019
<b>Sales, EUR thousand:</b>				
Lithuania	93.322	94.068	94.756	95.888
Other Baltic States and CIS countries	34.399	34.193	32.507	31.568
Other Europe countries	39.189	43.952	39.090	43.944
Other	15.517	13.337	15.041	12.763
<b>Total, EUR thousand:</b>	<b>182.427</b>	<b>185.550</b>	<b>181.394</b>	<b>184.163</b>

Other non-core activities are considered to be not significant, therefore such information is not provided separately to the decision makers.

For the disclosure on the revenues from transactions with a single external customer that amount to 10% or more of the entity's revenues, please refer to Note 29.

## 24. OPERATING EXPENSES

	The Group		The Company	
	2020	2019	2020	2019
Wages, salaries and social security**	13.612	13.187	13.242	12.764
Marketing expenses	8.032	8.066	8.012	7.968
Rent and insurance	798	976	791	848
Logistic services	1.898	2.100	1.756	1.904

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS****EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in EUR thousands unless otherwise stated)



Repairs	650	1.149	644	1.132
Materials	730	807	777	773
IT consulting	287	300	277	285
Taxes, other than income tax	790	347	738	287
Consulting	239	210	203	174
Depreciation or amortisation	1.006	735	974	707
Business trips	103	339	103	329
Trade accounts receivable impairment (reversal)	15	(94)	15	(94)
Utilities	286	411	155	165
Production for advertising purposes	96	113	94	109
Telecommunication	60	66	53	59
Pension reserve and other employee related accruals	13	19	12	(26)
Employee bonuses	394	-	394	-
Other expenses	768	1.644	644	1.609
Inventory allowance (reversal)*	144	(1.230)	144	(1.309)
<b>Total:</b>	<b>29.921</b>	<b>29.145</b>	<b>29.028</b>	<b>27.684</b>

\* In 2019 a part of inventory allowance reversal EUR 352 thousand the Group accounted under Cost of Sales .

\*\* A part of salary and social security expenses and employee bonuses is accounted under Cost of Sales (the Company during 2020 and 2019 accounted EUR 8.341 and 7.624 thousand respectively, the Group accounted EUR 10.661 and EUR 10.150 thousand respectively)

**25. INCOME AND EXPENSES OF OTHER ACTIVITIES**

	<b>The Group</b>		<b>The Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Other operating income</b>				
Goods for resale sales income	372	238	397	283
Gain on disposal of property, plant and equipment	26	176	26	2.112
Rental income	427	394	412	525
Income of the canteen	-	-	-	-
Other	127	96	101	115
	<b>952</b>	<b>904</b>	<b>936</b>	<b>3.035</b>
<b>Other operating expenses</b>				
Cost of goods for resale sold	(265)	(204)	(282)	(269)
Rental expenses	(315)	(333)	(319)	(316)
Other	(243)	(131)	(194)	(101)
	<b>(823)</b>	<b>(668)</b>	<b>(795)</b>	<b>(686)</b>
<b>Net income and expenses of other activities:</b>	<b>129</b>	<b>236</b>	<b>141</b>	<b>2.349</b>

Future rent income according to the signed rent agreements are as follows (EUR thousand):

<b>Rent Income</b>	<b>The Group</b>		<b>The Company</b>	
	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>	<b>31<sup>st</sup> Dec 2020</b>	<b>31<sup>st</sup> Dec 2019</b>
Less than 1 year	381	382	381	382
2 – 5 years	1.733	1.188	1.733	1.188
Over 5 years	-	251	-	251
<b>Total:</b>	<b>2.114</b>	<b>1.821</b>	<b>2.114</b>	<b>1.821</b>

In the year 2020 and 2019 the currency of the rent income agreements was EUR.

## 26. FINANCIAL AND INVESTMENT ACTIVITY INCOME AND EXPENSES

	The Group		The Company	
	2020	2019	2020	2019
<b>Income from financial and investment activities</b>				
Interest income	83	84	83	83
Foreign currency exchange gain	-	-	-	-
Other financial income	60	56	60	56
Goodwill/merger result	-	207	-	207
	<b>143</b>	<b>347</b>	<b>143</b>	<b>346</b>
<b>Expenses from financial and investment activities</b>				
Foreign currency exchange (loss)	(205)	(6)	(205)	(6)
Interest expense	(171)	(136)	(171)	(130)
Other financial expenses	-	-	-	-
	<b>(376)</b>	<b>(142)</b>	<b>(376)</b>	<b>(136)</b>
<b>Total:</b>	<b>(233)</b>	<b>205</b>	<b>(233)</b>	<b>210</b>

## 27. CORPORATE INCOME TAX EXPENSES (BENEFIT)

	The Group		The Company	
	2020	2019	2020	2019
Current income tax expenses	-	-	-	-
Change in deferred income tax asset	1.726	1.568	1.717	1.618
Change in deferred income tax accounted through OCI	-	-	-	-
The correction of prior year income tax	-	-	-	-
<b>Income tax expenses (income) recognised in the statement of comprehensive income</b>	<b>1.726</b>	<b>1.568</b>	<b>1.717</b>	<b>1.618</b>

	The Group		The Company	
	2020	2019	2020	2019
Profit before tax	11.532	12.347	11.315	14.886
Income tax, applying valid tax rate (15%)	1.697	2.233	1.697	2.233
Permanent differences	698	1.949	689	1.921
Investment incentive utilization	(669)	(1.790)	(669)	(1.790)
Change in deferred tax allowance	-	(227)	-	(149)
Deferred tax recognition from investment incentive that was not previously recognised	-	(597)	-	(597)
<b>Income tax expenses (income) reported in the statement of comprehensive income</b>	<b>1.726</b>	<b>1.568</b>	<b>1.717</b>	<b>1.618</b>
<b>The correction of prior year income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income tax expenses (income) reported in the statement of comprehensive income</b>	<b>1.726</b>	<b>1.568</b>	<b>1.717</b>	<b>1.618</b>

	The Group		The Company	
	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019	31 <sup>st</sup> Dec 2020	31 <sup>st</sup> Dec 2019
<b>Deferred income tax asset</b>				
Accounts receivable	54	54	54	54
Inventory allowance	53	43	53	31
Accrued vacation reserve	168	152	168	152

Other accrued expenses	841	626	786	572
Tax loss	183	135	-	-
Investment incentive	-	597	-	597
<b>Total deferred income tax asset</b>	<b>1.299</b>	<b>1.607</b>	<b>1.061</b>	<b>1.406</b>
Deferred income tax asset realization allowance*	(-)	(-)	(-)	(-)
Deferred income tax asset (after realization allowance)	<b>1.299</b>	<b>1.607</b>	<b>1.061</b>	<b>1.406</b>
<b>Deferred income tax liability</b>				
Change in depreciation rates of tangible assets	(1.345)	(1.059)	(1.198)	(958)
<b>Total deferred income tax liability, in total</b>	<b>(1.345)</b>	<b>(1.059)</b>	<b>(1.198)</b>	<b>(958)</b>
<b>Deferred income tax asset, net</b>	<b>(46)</b>	<b>548</b>	<b>(137)</b>	<b>448</b>

## 28. COMMITMENTS AND CONTINGENCIES

During the financial year 2020 the Company had litigation proceedings indicated below.

### *Judicial and non-judicial processes*

#### **Administrative cases**

1. The Defendant - AB “Žemaitijos pienas”, the Claimant/Applicant - Public Institution “Kaimo verslo ir rinkų plėtros agentūra”, essence of dispute regarding cancellation of EUR 3 000 fine imposed, the case is in the Supreme Administrative Court of Lithuania, the case is not examined, the first instance cancelled the fine;
2. The Claimant/Applicant - Public Institution “Pakuočių tvarkymo organizacija”, third party - AB “Žemaitijos pienas”, the Defendant – the Department of Environmental Protection under the Ministry of Environment, the essence of the dispute regarding the repeal of an individual legal act, the case in the Supreme Administrative Court of Lithuania, the outcome of the case is unpredictable;
3. The Claimant/Applicant - AB “Žemaitijos pienas”, the Defendant - the Bank of Lithuania, the essence of the dispute - regarding the cancellation of the fine of EUR 158 000, the case in the Supreme Administrative Court of Lithuania, the outcome of the case is unpredictable;
4. Other cases that will not have a significant impact on the rights and obligations of AB “Žemaitijos pienas”.

#### **Civil cases**

1. The Claimant - AB “Žemaitijos pienas”, the Defendant - Public Institution “Pakuočių tvarkymo organizacija”, the essence of the dispute is a claim for damages of EUR 96 020, the case is in the Vilnius Regional Court, the outcome of the case is unpredictable, by the way, its outcome depends on the outcome of the case, which is being considered in the Supreme Administrative Court of Lithuania;
2. Other cases that will not have a significant impact on the rights and obligations of AB “Žemaitijos pienas”.

#### **There are no cases pending before the courts or other institutions in criminal, tax law or other relations;**

Currently no amounts are recovered in favour of AB “Žemaitijos pienas”, as well as from AB “Žemaitijos pienas”, nor are there any other processes that could create, change the rights and obligations of the company and/or substantially determine its financial position.

During the period of 2020, the final decision was made in twelve cases, civil cases predominate, in all these cases monetary claims amounted to small amounts on average up to EUR 5 000, also some cases were non-property, in several cases AB “Žemaitijos pienas” had third party status. All these cases did not and will not have any significant impact on the rights, obligations or interests of AB “Žemaitijos pienas”.

## 29. FINANCIAL RISK MANAGEMENT

In the course of using financial instruments, the Company and the Group face the following risks:

- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

The present note provides information on each of the aforementioned risks the Company/Group faces, the Company's/Group's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's/Group's capital management.

The Company's management is completely responsible for development and supervision of the Company's/Group's risk management structure. The Company's/Group's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's/Group's activities. With the help of trainings, procedures of management standards, the Company/Group aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

### Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

The Company's and the Group's credit risk consisted of the following:

	The Group		The Company	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019
Cash and cash equivalents	16.093	9.901	11.606	8.835
Loans granted	1.818	1.771	1.818	1.771
Trade accounts receivable	16.799	18.330	16.789	18.216
Other accounts receivable	2.494	2.075	2.494	1.471
Other	-	-	-	-
<b>Total financial assets</b>	<b>37.204</b>	<b>32.077</b>	<b>32.707</b>	<b>30.293</b>

The Group and the Company have no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. There were three clients in the Group and in the Company from which outstanding trade receivables were higher than 10% calculated from total trade receivables before trade receivables allowance as at 31 December 2020 and 2019. The composition of trade receivables of such clients is stated in the table below. Moreover, the Client No. 2 generated approximately 10% of total Company's revenue during 2019 and 2020.

	The Group		The Company	
	2020 12 31	2019 12 31	2020 12 31	2019 12 31
Customer No. 1	14%	12%	14%	12%
Customer No. 2	17%	11%	17%	12%
Customer No. 3 (related party)	12%	15%	12%	15%

Customers' credit risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

An impairment analysis is performed at each reporting date using a provision matrix and individual assessment to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on the analysis performed, the Company/Group concluded that its customers fall under the low-credit risk category.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of financial assets presented above.

With respect to loans granted, trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks belonging to international financial groups with high credit ratings assigned by international credit-rating agencies.

### Liquidity risk

Liquidity risk is the risk that, upon maturity, the Company and the Group will be unable to fulfil its financial liabilities. The Group's liquidity management objective is to maximally secure sufficient liquidity of the Group, which enables the Group to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of losing its good reputation.

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

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities to banks and suppliers based on contractual undiscounted payments:

The Group	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Trade payables	-	11.142	-	-	-	11.142
Trade payables to related parties	-	223	-	-	-	223
Loans received	-	1.498	1.500	11.000	-	13.998
Financial lease	-	188	302	505	-	995
Other financial debts	-	158	-	-	-	158
<b>Balance as of 31 December 2019</b>	<b>-</b>	<b>13.209</b>	<b>1.802</b>	<b>11.505</b>	<b>-</b>	<b>26.516</b>
Trade payables	-	12.003	-	-	-	12.003
Trade payables to related parties	-	153	-	-	-	153
Loans received	-	-	1.500	4.500	-	6.000
Financial lease	-	216	628	647	-	1.491
Other financial debts	-	158	-	-	-	158
<b>Balance as of 31 December 2020</b>	<b>-</b>	<b>12.530</b>	<b>2.128</b>	<b>5.147</b>	<b>-</b>	<b>19.805</b>

The Company	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Trade payables	-	10.188	-	-	-	10.188
Trade payables to related parties	-	3.378	-	-	-	3.378
Loans received	-	1.498	1.500	11.000	-	13.998
Financial lease	-	188	302	505	-	995
Other financial debts	-	158	-	-	-	158
<b>Balance as of 31 December 2019</b>	<b>-</b>	<b>15.410</b>	<b>1.802</b>	<b>11.505</b>	<b>-</b>	<b>28.717</b>

Trade payables	-	11.352	-	-	-	11.352
Trade payables to related parties	-	989	-	-	-	989
Loans received		-	1.500	4.500	-	6.000
Financial lease		216	628	647	-	1.491
Other financial debts	-	158	-	-	-	158
<b>Balance as of 31 December 2020</b>	<b>-</b>	<b>12.715</b>	<b>2.128</b>	<b>5.147</b>	<b>-</b>	<b>19.990</b>

## Market risk

Market risk is the risk that market price changes, e.g. raw materials (i.e. milk), foreign exchange rates or interest rates, will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimization of the return.

## Foreign exchange risk

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

The monetary assets and liabilities stated in various currencies were as follows (EUR thousand):

	The Group		The Company	
	31 12 2020		31 12 2020	
	Assets	Liabilities	Assets	Liabilities
EUR	34.167	29.967	29.645	29.283
USD	3.090	25	3.090	25
PLN	7	6	7	6
GBP	61	26	61	26
HUF	118	3	118	3
Other	1	0	1	0
<b>Total:</b>	<b>37.444</b>	<b>30.027</b>	<b>32.922</b>	<b>29.343</b>

	The Group		The Company	
	31 12 2019		31 12 2019	
	Assets	Liabilities	Assets	Liabilities
EUR	31.232	34.375	29.409	35.718
USD	976	676	976	676
PLN	3	8	3	8
GBP	13	33	13	33
HUF	120	15	120	15
Other	1	0	1	0
<b>Total:</b>	<b>32.345</b>	<b>35.107</b>	<b>30.522</b>	<b>36.450</b>

## Fair value of assets and liabilities

The fair value of the Group's and the Company's investment property was estimated based on the third level of fair value hierarchy (Note 6).

The fair value of financial assets and liabilities provided in the statement of financial position as at the 31 December 2020 does not significantly differ from their carrying amounts.

Trade payables and receivables, except for receivables from related party Cia Market, accounted for in the Group's and the Company's statement of financial position should be settled within a period shorter than three months,

therefore, it is deemed that their fair value equals their carrying amount as at 31 December 2020 and 2019 (third level of fair value hierarchy).

The fair value of non-current borrowings is based on the similar non-current borrowings available in the market or on the current rates available for borrowings with the same maturity and risk profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (third level of fair value hierarchy).

The fair value of receivables from UAB Cia Market and loans granted to related parties by the Company is estimated by discounting expected cash flows at market interest rates, management estimates that their fair value approximates carrying amounts as at 31 December 2020 and 2019 (third level of fair value hierarchy).

## Capital management

The objective of the Group's and the Company's management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The management observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans. The primary objectives of the capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value. The Group's and Company's capital consists of share capital in the amount of EUR 14 million, own shares (-) EUR 3,9 million, retained earnings, other reserves and legal reserve.

Under the Lithuanian laws a company has to maintain its equity at no less than ½ of its share capital, the Company was in compliance with this requirement as of 31 December 2020 and 2019.

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2020

The Group and 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. The Group and the Company monitor capital using debt to equity ratio. There is no specific target for debt to equity ratio set out by the Group's and the Company's management, however the management strives for maintaining the balance between higher return, which could be achieved through a higher level of liabilities, and safety, which is provided by a higher level of owner's equity.

## 30. RELATED PARTY TRANSACTIONS

### Related parties of the Group and the Company are:

- the parties that control, are controlled by or are under common control with the Company;
- the parties that have significant influence over the Company;
- the parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- the companies that are under control or significant influence of the aforesaid persons.

The main related parties of the Group and the Company are:

Item No.	Company Name	Company Details	Nature of Main Activities
1.	Šilutės Rambynas, ABF	Company code: 277141670; address: Klaipėdos g. 3, Šilutė, LT-99115	Dairy activities and cheese making
2.	Žemaitijos pieno investicija, AB	Company code: 300041701; address: Sedos g. 35, Telšiai, LT-87101	Renting and operating own and rented real estate
3.	Baltijos mineralinių vandenių kompanija, UAB	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Manufacture of bottled natural mineral water
4.	Klaipėdos pienas, AB	Company code: 240026930; address: Šilutės pl. 33, Klaipėda, LT-91107	Ice-cream production
5.	Čia Market, UAB	Company code: 141354683, address: Sedos g. 35A, Telšiai LT-87101	Retail trade in non-specialized stores.
6.	Muižas piens, SIA	Company code: 40003786632, address: Bauskas iela 58a-8, 5stavs room 507, Riga, LV-1004, Latvia	Wholesale trade in food products, marketing

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7.	Samogitija, UAB	Company code: 302501454, address: Narutavičių g. 4, Telšiai, LT-87101	Production, transportation, storage, distribution, etc. of dairy and other food products.
8.	S.A.R. Dziugas France	Company code: 751860669, address: 149 avenue du Maine, Paris	Production and sale of dairy products
9.	Dziugas USA L.L.C.	Company code: 0400754292, address: Five greentree centre, ste. 104, 525 Route 73 North Marlon, NJ08053,	Wholesale import, marketing of dairy products
10.	Dziugas Eesti OU	Company code: 14324189, address: Punane 56, Tallinn, Estonia	Wholesale import, sales and marketing of dairy products
11.	Dziugas Poland	Company code: 368496450, address: ul. Luki Wielke 5, Warsaw, Poland	Activities of agents trading in food and beverages
12.	Baltic Holding, UAB	Company code: 302688114, address: Įgulos g. 18B -4, Klaipėda	IT services
13.	Nepriklausoma tyrimų laboratorija, UAB	Company code: 110824551, address: Narutavičių g. 4, Telšiai	Laboratory and other tests of materials and analysis services
14.	Dziugas Deutschland GmbH	Company code: HRB 154342, address: Chilehaus A, Fischertwiete 2 20095 Hamburg, Germany	Marketing and product sales
15.	Dziugas Hungary Kft	Company code: 01-09-325932, address: H-1132 Budapest, Váci út 22-24. VII. em., Hungary	Wholesale import, sales and marketing of dairy products
16.	Dziugas UK Ltd	Company code: 11405400; address: 10 Bloomsbury Way, London WC1A 2SL, United Kingdom	Activities of agents trading in food and beverages
17.	Baltijos mineralinių vandenių kompanija, AB*	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Manufacture of bottled natural mineral water

\*On 31 December 2019 "Žemaitijos Pienas" AB (hereinafter referred to as the Company) after the reorganization process, during which "Baltijos mineralinių vandenių kompanija" AB was merged with the Company.

Milk purchase/sales, acquisition/sales of fixed assets and inventory, purchase/sales of services and other transactions between associated parties are carried out under normal/usual market conditions.

**Sales to and purchases from related parties (EUR thousand):**

	The Group		The Company	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019
<b>1) Sales</b>				
<b>Sales of goods</b>				
<i>To the subsidiaries</i>				
Šilutės Rambynas ABF	-	-	2.735	2.870
Baltijos mineralinių vandenių kompanija AB	-	-	-	5
	<u>-</u>	<u>-</u>	<u>2.735</u>	<u>2.875</u>
<i>To other related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	-	7	-	7
Klaipėdos pienas AB	869	620	341	120
Žemaitijos pieno investicija AB	-	1	-	1
Čia Market UAB	5.689	6.896	5.689	6.896
Dziugas USA LLC	-	63	-	63
S.A.R.Dziugas France	1	1	-	1
Dziugas Deutschland GmbH	0	1	0	1
Dziugas Hungary Kft	30	4	30	4
Dziugas Eesti OU	11	15	11	15
Dziugas Poland	81	1	81	1
Nepriklausoma tyrimų laboratorija UAB	15	15	13	13
Muizas piens SIA	728	867	728	867
	<u>7.424</u>	<u>8.491</u>	<u>6.894</u>	<u>7.989</u>
<b>Sales of inventory and services</b>				
<i>To the subsidiaries</i>				
Šilutės Rambynas ABF	-	-	45	3.027
Baltijos mineralinių vandenių kompanija AB	-	-	-	18
	<u>-</u>	<u>-</u>	<u>45</u>	<u>3.045</u>
<i>To other related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	-	55	-	55
Klaipėdos pienas AB	377	346	377	342

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Žemaitijos pieno investicija AB	32	37	32	37
Samogitija UAB	0	1	0	1
Čia Market UAB	340	378	336	373
Muizas piens SIA	1	12	1	12
Nepriklausoma tyrimų laboratorija UAB	32	35	32	35
Dziugas UK Ltd	0	-	0	-
S.A.R.Dziugas France	-	-	-	-
Dziugas Deutschland GmbH	24	27	24	27
Dziugas Hungary Kft	3	1	3	1
Dziugas Eesti OU	4	2	4	2
Dziugas USA LLC	-	-	-	-
Dziugas Poland	14	12	14	12
	<b>827</b>	<b>906</b>	<b>823</b>	<b>897</b>
<b>Total Sales:</b>	<b>8.251</b>	<b>9.397</b>	<b>10.498</b>	<b>14.806</b>

	The Group		The Company	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019
<b>2) Purchases</b>				
<i>From the subsidiaries</i>	-	-	-	-
Šilutės Rambynas ABF	-	-	8.213	8.172
Baltijos mineralinių vandenų kompanija AB	-	-	-	230
	<b>-</b>	<b>-</b>	<b>8.213</b>	<b>8.402</b>
<i>From other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	1.039	-	1.039
Samogitija UAB	9	38	9	38
Čia Market UAB	2.717	3.077	2.713	3.075
Klaipėdos pienas AB	82	101	82	100
Žemaitijos pieno investicija AB	892	856	892	855
Muizas piens SIA	339	688	339	688
Nepriklausoma tyrimų laboratorija UAB	1.214	1.156	1.160	1.109
Dziugas Poland	463	229	463	229
Dziugas UK Ltd	106	136	106	136
Dziugas Hungary Kft	103	72	103	72
Dziugas Deutschland GmbH	412	316	412	316
S.A.R.Dziugas France	265	239	265	239
Dziugas USA LLC	3	31	3	31
Dziugas Eesti OU	352	323	352	323
	<b>6.957</b>	<b>8.301</b>	<b>6.899</b>	<b>8.250</b>
<b>Total Purchases:</b>	<b>6.957</b>	<b>8.301</b>	<b>15.112</b>	<b>16.652</b>

	The Group		The Company	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019
<b>Balances outstanding with related parties</b>				
<b>3) Accounts receivable and financial debts</b>				
<i>Subsidiaries</i>				
Šilutės Rambynas ABF	-	-	-	-
Baltijos mineralinių vandenų kompanija AB	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	-	-	-
Samogitija UAB	0	-	0	-
Čia Market UAB (including financial lease)	2.023	2.675	2.022	2.675
Klaipėdos pienas AB (including loan)	1.511	1.339	1.507	1.226
Žemaitijos pieno investicija UAB	-	-	-	-
Muizas piens SIA	92	215	92	215

Dziugas Hungary Kft	4	2	4	2
Dziugas Deutschland GmbH	1	3	1	3
S.A.R.Dziugas France	-	-	-	-
Dziugas Eesti Ou	-	-	-	-
Dziugas Poland	15	4	15	4
Dziugas USA LLC	0	-	0	-
	<b>3.646</b>	<b>4.238</b>	<b>3.641</b>	<b>4.125</b>
<b>Total balances of receivables:</b>	<b>3.646</b>	<b>4.238</b>	<b>3.641</b>	<b>4.125</b>

	The Group		The Company	
	31 12 2020	31 12 2019	31 12 2020	31 12 2019
<b>4) Balances of payables</b>				
<i>Subsidiaries</i>				
Šilutės Rambynas ABF	-	-	839	3.158
Baltijos mineralinių vandenu kompanija AB	-	-	-	-
	-	-	<b>839</b>	<b>3.158</b>
<i>Other related parties</i>				
Baltijos mineralinių vandenu kompanija UAB	-	-	-	-
Žemaitijos pieno investicija UAB	8	34	7	34
Klaipėdos pienas AB	-	-	-	-
Čia Market UAB	-	0	-	-
Muizas piens SIA	-	-	-	-
Samogitija UAB	-	40	-	40
Nepriklausoma tyrimų laboratorija UAB	109	97	107	94
Dziugas Poland	-	-	-	-
Dziugas UK Ltd	-	-	-	-
S.A.R.Dziugas France	-	23	-	23
Dziugas USA LLC	-	3	-	3
Dziugas Deutschland GmbH	-	-	-	-
Dziugas Hungary Kft	-	-	-	-
Dziugas Eesti OU	36	26	36	26
	<b>153</b>	<b>223</b>	<b>150</b>	<b>220</b>
<b>Total balances of payables:</b>	<b>153</b>	<b>223</b>	<b>989</b>	<b>3.378</b>

In 2020 the Company accounted for impairment losses for doubtful debts related to amounts belonging to related parties, i.e. UAB Čia Market - 265 thousand (in 2019 – EUR 265 thousand). The assessment of these doubtful debts is reviewed each financial year by checking the financial position of the party concerned, the market in which the party concerned is operating and forward looking factors (as described in Note 3 – Impairment of financial assets). The key judgements and estimates used by the Management of the Company in the evaluation of this allowance was a) the anticipated time over which the outstanding accounts receivable amount is expected to be repaid by UAB Čia Market (approximately 3-4 years as at 31 December 2020 and approximately 3-4 years as at 31 December 2019) and b) the discount rate used in the allowance computation (7,1% as at 31 December 2020 and 7,1% as at 31 December 2019).

The Company and the Group have concluded a number of transactions with related parties (AB “Žemaitijos pieno investicijos” group companies) and the Group's profit and sales are significantly affected by transactions with AB “Žemaitijos pieno investicija” group. Transactions include the leasing of fixed assets, the sale of raw materials and the purchase of manufactured products (cheese) from ABF “Šilutės Rambynas”, the sale of distribution services to UAB “Baltijos mineralinių vandenu kompanija”, the sale of the finished products to UAB “Čia Market”, and the sale of raw materials, production and services to AB "Klaipėdos Pienas".

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## **31. EVENTS AFTER THE REPORTING PERIOD**

There were no other material post balance sheet events, that could make a significant impact to the financial statement of the Company and the Group as at 31<sup>st</sup> December 2020.

The Group's consolidated financial statements and the Company's financial statements are signed and approved on March 10, 2021.

A handwritten signature in blue ink, appearing to read "R. Paž.", written over a horizontal line.

Robertas Pažemeckas  
General Director

A handwritten signature in blue ink, appearing to read "D. Geci", written over a horizontal line.

Dalia Gecienė  
Chief accountant