



**VILNIAUS
BALDAI**

ANNO 1883

VILNIAUS BALDAI AB

Social Responsibility Report 2019



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GENERAL MANAGER'S WORD



I am very excited to present social responsibility report of Vilniaus baldai AB for financial year 2019, which was not only a year of company growth but also of significant transformation.

Recently we signed a long-term cooperation agreement with IKEA, based on which the company is investing in the construction of new factory.

The new plant will be installed with modern equipment which will allow us to work more efficient and faster to achieve our goals. More efficient production processes and new technological solutions will allow Vilniaus baldai to reduce the amount of carbon dioxide and waste produced in the environment, as well as to reduce energy consumption. At the same time, this will lead to more high-skilled and

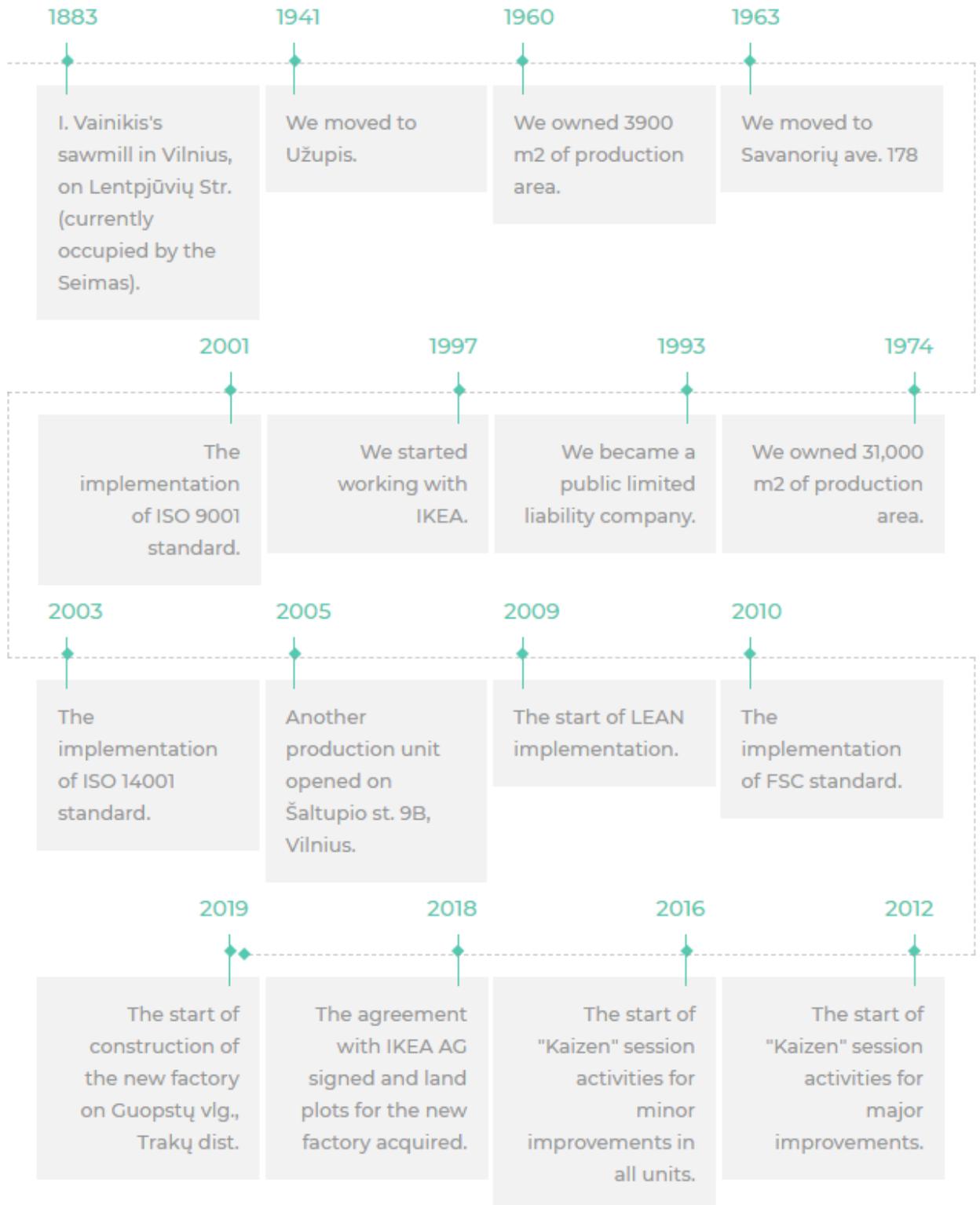
better-paid job positions for our employees. Also we will improve working conditions for employees by creating more comfortable working and leisure spaces.

In financial year 2019 company invested in new modern equipment for current production units as well. Without stopping our processes we installed cold press, two CNC machines, automated stacking on painting line, upgraded edge banding line, packaging and palletising lines. It is a pleasure that our partners appreciate our progress.

In 2019 we have started to implement program - Team year of Vilniaus baldai - based on the company's core values - responsibility, professionalism and team. Main elements of this program are collaboration, engagement and development, which will allow us to get to know each other better and focus on a common goal for achieving the highest results.

Jonas Krutinis
General Manager

HISTORY



ABOUT THE COMPANY

Vilniaus baldai AB - is one of the leading manufacturers of flat-pack furniture which main customer is Swedish IKEA. Company that cherishes time-honored traditions, applies modern technologies and enjoys a stable and continuous business growth.

Vilniaus baldai AB - specialize in the production of light storage flat-pack furniture (from honeycomb panels). When employing this technology less raw materials can be used, and stable quality of the production is attained. Each year new products are developed, and production technologies of existing ones are improved taking into consideration the needs of consumers and prevailing tendencies. The planning system implemented in the Company is constantly developed to achieve higher production flexibility and efficiency. Most of our products consist of children's furniture, which are subject to the strictest safety and quality requirements.

Modern equipment, purchased from such world-renowned manufacturers as Schelling“, „Burkle“, „Weeke“, „Wikoma“, „Biesse“, „Biele“, „Cefla“ etc., enables to manufacture different types of the furniture, coated with plywood, pigment or foil.

In FY2018 Vilniaus baldai AB and IKEA AG have signed a long-term contract, according to which the company plans to increase its turnover and production capacity. To fulfill the contractual obligations and prepare for sustainable further growth, company plans to invest into new production and warehousing facilities in Guopstos, Trakai district, equipment, technologies and development of the production base. Planned investments should comprise 53 mEUR and would be done in the next 3 years. These investments will allow the company to significantly reduce direct and indirect costs, while ensuring sustainable cost of the products.

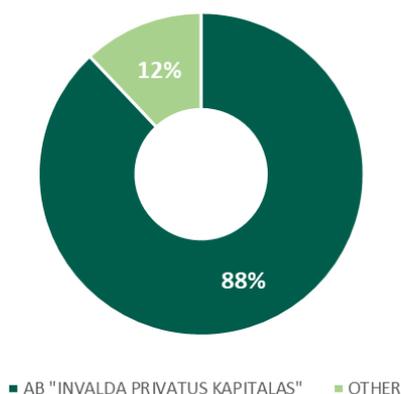
COMPANY LOCATED

Vilniaus baldai AB furniture production unit No. 1 is in the western part of Vilnius Savanorių ave.178 B. Vilniaus baldai AB furniture production unit No. 2 is on Šaltupio st. 9B, Vilnius. In 2020Y company is planning to start the production in new factory located in Guopstai, Trakai district.

SHARES AND SHAREHOLDERS

The Company's ordinary registered shares are included in the supplementary trading list of the NASDAQ Vilnius Stock Exchange (BALTIC SECONDARY LIST). They are abbreviated VBL1L. The shares were first listed on 5 June 2000.

Authorised capital structure



Distribution of the shareholders of "Vilniaus Baldai" AB by countries, 31/08/2019

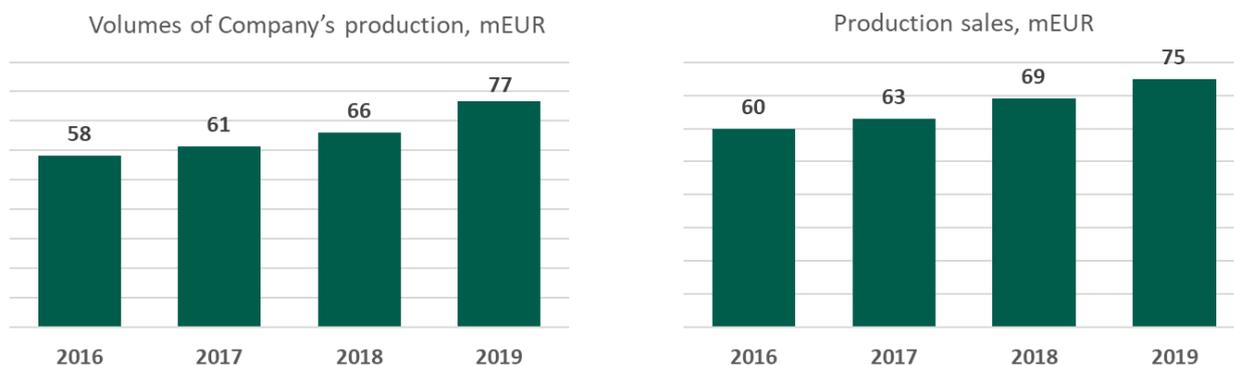


SUPPLY

Vilniaus Baldai AB has introduced an effective system of the purchase of raw materials and services. The Company maintains strategic relations with suppliers and constantly searches for new opportunities in the markets of raw materials and services. The purchase process is distinguished into strategic and operational purchases. The Company aims to manage the supply risk, therefore, main raw materials may be supplied by principal or alternative suppliers. Vilniaus Baldai AB has implemented and continuously improves the assessment system of suppliers; audits of suppliers are carried out. The Company establishes long-term contracts with its suppliers. The Company acquires the main raw materials from the local, Polish, Slovak and German suppliers.

PRODUCTION AND SALES

Vilniaus Baldai AB sales revenue reached EUR 75,2 million in 2019. In 2019 the Company increased its production capacity further, successfully increased production of its priority products.



We are participants in the global market, as we compete with manufacturers from Poland, Germany, Portugal and the US. Our products are sold in Europe, Asia, the US, Australia.



EMPLOYEES

The Company pays great attention and allocates funds for the improvement of working conditions and trainings, qualification improvement of the personnel, implementation of LEAN principles and methods. Vilniaus Baldai AB makes regular investments in production facilities, automation of technological processes in order to improve working conditions, reduce physical workload of employees. Investments in occupational safety and wellbeing of employees serve as a basis for establishing a different working environment, which encourages to aim for better performance and achieve higher competitiveness in the international markets.

There were 730 employees working in the Group as of the end of FY2019 (776 at the Group as of the end FY2018). The average age of the employees is 40 years.

The average wages of the employees in the period of 2015–2019, EUR

	2019* Y	2018 Y	2017 Y	2016 Y	2015 Y
Executive personnel	6.573	6.355	5.599	4.189	5.339
Specialists	2.146	1.569	1.482	1.369	1.700
Workers	1.550	1.091	1.077	922	962
Total	1.643	1.172	1.151	999	1.030

* - As a result of the tax reform on 01-01-2019, payroll calculations have changed. The distribution between wages (BRUTO) and social security contributions has the greatest impact.

Remuneration comprises a basic and variable component. A variable component of remuneration depends on the Company's results of operations.



Indicators characterising the operation of the Group 2017–2019

	2019 m.	2018 m.	2017 m.
Net profitability = net profit / sales * 100	5,41%	3,25%	7,02%
Average return on assets ROA = net profit / (assets at the beginning of the period + assets at the end of the period) / 2 *100	2,15%	7,10%	17,10%
Return on equity ROE = net profit / equity*100	20,66%	14,21%	30,38%
Net earnings per share EPS = net profit / number of shares	1,05	0,58	1,15
Debt ratio = liabilities / assets	0,66	0,57	0,45
Debt to equity coefficient = liabilities / share capital	1,94	1,32	0,84
Current ratio = current assets / current liabilities	0,69	1,48	1,16
Asset's turnover = sales / assets	1,3	1,89	2,35
Book value of share = equity / number of shares	5,07	4,08	3,77
Turnover (thousand EUR)	75.204	69.322	63.423
Gross profit (thousand EUR)	6.748	6.447	8.838
Net profit (thousand EUR)	4.071	2.252	4.450
EBITDA (million EUR)	5,64	4,23	6,39
EBIT (million EUR)	3,93	2,65	5,02
Dividends per share (for the prior accounting period)	0.08 EUR	0.26 EUR	0,27 EUR
Earnings per share P/E	7,28	18,81	11,6
The lowest share price	7.00 EUR	10.70 EUR	12,80 EUR
The highest share price	10.70 EUR	13.60 EUR	14,50 EUR
Closing price	7.15 EUR	10.90 EUR	13,30 EUR
Capitalisation (thousand EUR)	27.785	42.360	51.687



NEW FACTORY OF „VILNIAUS BALDAI“

In Guopstai, Trakai district a new factory of Vilniaus Baldai is being built with the area of 73 thousand square meters or about the size of ten football stadiums. Construction of the new factory will be completed in spring 2020.

The new plant will be more efficient and intelligent with more advanced new and upgraded existing equipment. This will lead to more high-skilled and better-paid job positions. Employees of new factory will be provided with specific trainings for deepening existing knowledge and improving skills.

The new factory is built to the highest standards that are enshrined in the IKEA IWAY standard, as well as the current and future needs of the customer. More efficient production processes and new technological solutions will allow Vilniaus Baldai to reduce the amount of carbon dioxide and waste produced in the environment, as well as to reduce energy consumption.



ETHICAL PRINCIPLES

Vilniaus baldai AB Code of Ethics is a guide to help us work with highest ethical standards. Code of Ethics based on our values, trust, honor, honesty determines how the Company's employees should work, establish and develop relationships with colleagues, clients, business partners and other members of society. The Code's rules apply to all employees of the Company.

COMPANY'S VALUES SYSTEM

During the long history the company has been able to preserve its manufacturing traditions, create and shape its organizational culture and business philosophy. Our business is based on values that are important to each of us.

In 2019 company's values were reviewed and renewed. During the discussions and meetings senior and middle managers identified core values and behaviors that illustrate them. During the Employee Day, all company's employees were introduced to new values while grouped into teams where they discussed the manifestation and the ways of incorporating presented values into our daily work. The Employee Day introduced the new direction for 2020 – the Team year of Vilniaus baldai, with the special emphasis on communication, engagement and development.





RESPONSIBILITY

- If I see a problem, I help to solve it
- I have enough courage to make decision on time
- I work as if I worked for myself and I aim to make it well at my first attempt
- I stick to what is agreed
- I turn goals into the results
- I make examples of good behavior public and celebrate them

- I listen and I hear, I am open to listen to other opinion with respect
- I am engaged and I show initiative
- I am looking for solutions rather than the guilty ones
- I am ready to be the leader when it is needed
- I share the information with my colleagues
- I give my feedback in a proper manner and proper time
- I use positive statements instead of negative ones



TEAM



PROFESSIONALISM

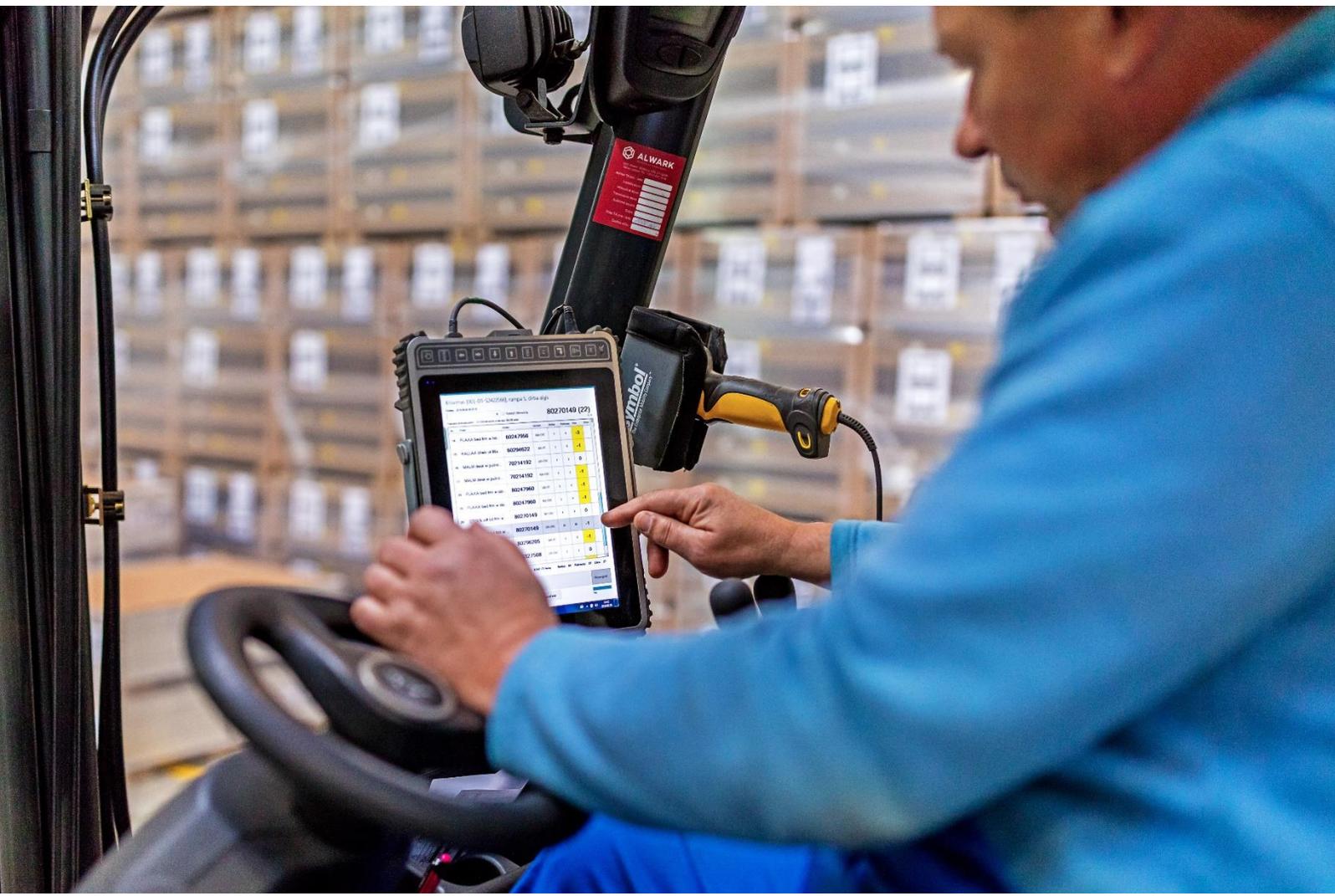
- I constantly learn and improve myself
- I am interested in good practices of other companies and I strive to apply it in my work
- I share my knowledge and experience with my colleagues
- I make decisions based on arguments and analysis of available information rather than emotions
- I ensure the compliance with the requirements applicable in the company when I do any task
- I check the result once again after I complete the task

EMPLOYEES AND OTHER COMPLAINTS

All employees, as well suppliers of the Company, sub-suppliers or employees of companies working in the Company's territory, can complain about provisions of laws, contracts, Code of Ethics, threats, risks, discrimination, harassment, abuse or other.

All complaints, claims are noted in a confidential register, they are investigated, the responsible person is assigned, the preventive actions are envisaged, and the deadlines of their fulfillment and control.

The question, note, complaint can be presented anonymously by using the confidential boxes in the company or reported to the Head of Human-Resources or Head of Independent Trade Union.



GOVERNANCE

The Company has a general meeting of shareholders, a sole management body, i.e. the General Manager and a collegial management body, i.e. the Board of Directors. A Supervisory Board is not formed at the Company.

The Board of Directors of the Company consists of 3 members. It is elected for a period of four years by the general meeting of shareholders. The Board of Directors elects and dismisses the General Manager, sets his/her salary, encourages and penalizes him/her.

Board of Directors

Vytautas Bučas	Chairman of the Board, elected to the Board on 12.04.2007, re-elected on 29.04.2008, 27.04.2012, and 05.07.2016 end of the term – 2020.
Dalius Kaziūnas	Board member, elected to the Board on 29.04.2010, re-elected on 27.04.2012 and 05.07.2016 end of the term – 2020.
Vaidas Savukynas	Board member, elected to the Board on 08.10.2014, re-elected on 05.07.2016 end of the term - 2020.

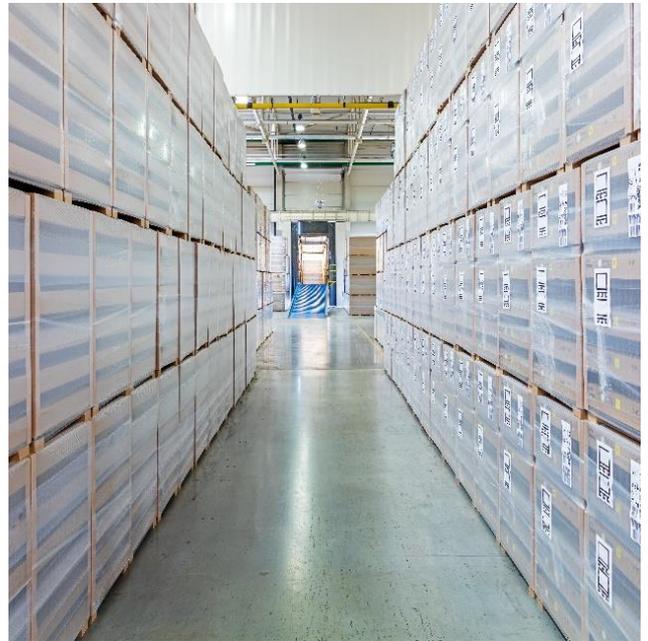
Management team

Jonas Krutinis	General Manager
Edgaras Kabečius	Chief Financial Officer
Rytis Ignatavičius	Head of Production
Giedrė Tiškevičienė	Head of Quality and Technology
Stanislovas Keževičius	Head of Technical Services
Sigita Katinaitė	Head of Human-Resources

TRANSPARENT BUSINESS PRACTICE

Bribery and corruption

No person employed by the company, directly or indirectly, ask, give or receive any personal payments, gifts or benefits in exchange for favorable conditions intended to affect a business transaction or gain business or personal advantage.



Company suppliers, sub-suppliers and their business environment

We ensure that the Company's business partners, service providers, suppliers of goods or raw materials, as well as suppliers of these suppliers adhere to the same principles on equal opportunities at work, respect for human rights, prevention of harassment and child or forced labor, occupational health and safety, and prevention of the use of drugs, alcohol or other psychotropic substances.

WORKPLACE

Equal opportunities at work

We promote diversity at the company. We have zero tolerance towards discrimination on any grounds: ethnic, gender, sexual orientation, marital or social status, paternity or maternity, religion, political opinion, nationality, disability or age. We guarantee non-discrimination and equal opportunities in all employee management processes, including job vacancies, selection, recruitment, education, and others.

Respect for human rights

Regardless of whether the employees are temporary or permanent, we treat everyone with respect, without violating their dignity and by guaranteeing basic human rights. We respect the personality and individuality of each employee and encourage the submission of proposals, opinions and comments; in discussions, we use arguments, but not personal preferences or emotions. We not tolerating the interference for employees' private live.





Working environment without harassment

We have zero tolerance towards harassment in any form.

Prevention of child and forced labor

We do not use child labor - we do not employ anyone who is younger than the statutory minimum age of employment. The company strictly prohibits all forms of forced labor.

Occupational health and safety

We commit to ensure our employees a safe working environment. We provide our employees with free personal protective equipment, workwear, shoes, medicines, vaccines. We are monitoring and testing health, providing the necessary information about the safety and health issues, including (but not limited to, the following areas) fire safety, proper handling of chemicals, equipment, and first aid. We carry out the internal, delegate the specialists to external trainings - we constantly develop the awareness of the employees, that everyone will personally protect themselves and colleagues.

Drugs, alcohol and other psychotropic substances at the workplace

Working at the company requires clear thinking and often the ability to react quickly—this not only determines the quality of work, but also on the safety of the colleagues and the worker itself. The effect of alcohol, drugs or misuse of drugs reduces the ability of an employee to perform his duties well, which is why the Company strictly prohibits any abuse of drugs, alcohol or other psychotropic substances.

EMPLOYEE BENEFITS

We are honest and encourage our employees; we adhere to agreements and always pay salaries on time; all our employees have the opportunity to earn a variable salary, depending on the outcome.

We provide the opportunity for continuous improvement, as production workers can refresh their qualifications, gaining a higher category, which provides a higher salary (certifications are held quarterly). Specialists are periodically sent to various trainings and seminars as well as to exhibitions and other companies of similar profile to share best practices.

Newcomers are encouraged, they are consulted and trained by training coordinators and practicing teachers. We also periodically organize the "Newcomer Day", which introduces newcomers to various topics from a detailed presentation of the company, its values to nuances of quality management and peculiarities of the production process and technology.



We are a team that can not only work productively, but also have fun. Every year we organize: A summer celebration; A Christmas celebration, Christmas gifts for employees' children; An Employee Day; An Employees' Children Day; A March 8th flower campaign; A Pie Day campaign.



To thank our employees, the company runs "AČIŪ" project, employees receive "AČIŪ" gifts, "Quarterly/SUPER AČIŪ" awards for outstanding results, efforts and initiative, demonstrated behavior that reflects the company's values.



On the basis of a collective agreement, we support our employees by grants for their marriage, child birth, letting their child to the first grade. The company provides financial support to employees raising children with disabilities or special needs.



Employees have the right to join organizations protecting their rights and the Company has an independent trade union.



SOCIAL ENTERPRISE



Our subsidiary Ari-Lux, UAB employs people who have lost their professional and general work capacity, are economically inactive, unable to compete in the labor market on equal terms, and encourages their return to the labor market and their social integration in order to reduce social exclusion and develop labor and social skills of people with limited work capacity. We have unofficially made our subsidiary a non-profit enterprise and we strive to meet the needs of its employees as much as possible by properly adapting the workplaces and enabling them to work according to their potential. August 2019Y in the company worked 60 employees.



ENVIRONMENTAL PROTECTION AND QUALITY

We are constantly evaluating and ensuring the balance between preserving the environment, meeting the needs of the society and developing the company's business. We are committed to:

- comply with the relevant laws and to follow other normative documents on air pollution, environmental protection, noise, wastewater, soil pollution, storage and use of chemicals and etc.;
- choose solutions with the least negative impact on the environment and if the case of adverse effects, to have the plans with concrete corrective actions and deadlines;
- use rationally materials and energy resources, recycle waste at the work.



VISION OF THE ENVIRONMENTAL PROTECTION AND QUALITY MANAGEMENT SYSTEM



**VILNIAUS
BALDAI**

ANNO 1883

*... Better
Faster
Stronger ...*

REDUCE



Reduce the consumption of energy resources and materials

To reduce the amount of waste

Reduce the amount of non-conforming product in production to 3% and utilization up to 1%

PROTECT



Protect the environment and human health

Protect forests. Only use FSC-certified raw materials for production

IMPROVE



ISO management system

IKEA IWAY standard

FSC-STD standard

Production systems LEAN, KAIZEN, 5S, SMED

Vilniaus Baldai AB has implemented and periodically certifies the Quality, Environmental Protection and FSC Production Management System in accordance with **ISO 9001**, **ISO 14001** and **FSC-STD-40-004** standards. We also listen to the customer's environmental, social and working condition requirements when purchasing products, raw materials and services.

By seeking to produce furniture that meet the requirements, we ensure that consumers purchase not only high-quality but also ecologically clean furniture. The team seeks to assess the potential environmental impact as early as possible, which is why we pay a lot of attention to it in the furniture design and production planning stage.

Every year we set environmental goals that help us protect the environment better and more efficiently, for example, economical use of energy resources and raw materials, waste sorting and recycling, and constant improvement of the working environment. In all production and administrative premises, we have containers for sorting waste-everyone is involved and we use different means to constantly strengthen the responsible attitude within the company.

Vilniaus Baldai AB is following IKEA's 2030 goal of 100% renewable or recycled material use in business activity. Currently, 82% is recycled, 17% is used for incinerated energy recovery and 1% sent to landfill.

DISPOSAL RATES IN FY19 (% OF TOTAL)

Unit	Recycled, %	Incinerated for energy recovery, %	Sent to landfill, %
Vilniaus baldai	82	17	1

Energy infrastructure renovation

From the beginning of 2018Y Vilniaus baldai AB became independent supplier of heating energy. Energy infrastructure renovation project allowed to reach the closed production cycle: - the sawdust - is used to generate heat. Vilniaus baldai AB now is contributing to the principle of the circularity, improving efficient use of resources and the preservation of the environment. We can supply of 4.5 MW of thermal power to the centralized heat network and improve competition in centralized heating market. Total investment exceeded 1.5 MEUR (including the heat exchanger).

Period		Sales heating energy, MWh
2018	September	1.978
2018	October	2.438
2018	November	1.205
2018	December	2.232
2019	January	2.162
2019	February	1.721
2019	March	1.646
2019	April	1.074
2019	May	0
2019	June	815
2019	July	0
2019	August	2.501



ABOUT REPORT

Vilniaus baldai AB Social Responsibility Report is produced once a year and published together with annual audited report. FY2019 report is produced the second time. Social Responsibility Report of Vilniaus baldai AB is available in Lithuanian and English on the website www.vilniausbaldai.lt and the website of stock exchange Nasdaq Vilnius along with the annual financial report.

Preparation of this report has been based by the Guidelines of the Global Reporting Initiative (GRI) of the United Nations. Vilniaus baldai AB Social Responsibility Report presents relations with employees, clients, business partners and environmental protection progress.

If you have any questions and comments related the Social Responsibility Report, please contact us at info@vilniausbaldai.lt





info@vilniausbaldai.lt