AB VILKYŠKIŲ PIENINĖ

Consolidated financial statements for the year ended 31 December 2015

Content

Company details

AB VILKYŠKIŲ PIENINĖ

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Board of Directors

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

Management

Gintaras Bertašius, General Director
Vaidotas Juškys, Chief Operation Officer
Sigitas Trijonis, Technical Director
Rimantas Jancevičius, Raw materials Purchasing
Arvydas Zaranka, Production Director
Vilija Milaševičiutė, Economics and Finance Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas
Swedbank, AB
DnB Nord Bankas
Nordea Bank AB
AB Šiaulių Bankas

Management's statement on consolidated financial statements

The Management has today discussed and authorized for issue the consolidated annual financial statements (hereinafter „the consolidated financial statements").

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements give a true and fair view of the Company's financial position as at 31 December 2015, performance and cash flows in accordance with International Financial Reporting Standards as adopted by the European Union.

We recommend the consolidated annual financial statements to be approved by the annual General Meeting.

Vilkyškiai, 6 April 2016

Management:

Gintaras Bertašius
General Director

Vilija Milaševičiutė
Economics and Finance Director

KPMG Baltics, UAB
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Independent Auditor's Report

To the shareholders of AB VILKYŠKIŲ PIENINĖ

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AB VILKYŠKIŲ PIENINĖ ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, set out on pages 5-56.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of AB VILKYŠKIŲ PIENINĖ for the year ended 31 December 2015, set out on pages 57-101 of the consolidated financial statements, and have not identified any material inconsistencies between the consolidated financial information included in the annual report and the consolidated financial statements of AB VILKYŠKIŲ PIENINĖ for the year ended 31 December 2015.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Klaipėda, the Republic of Lithuania
7 April 2016

Consolidated statement of financial position

Thousand EUR	Note	31 December 2015	31 December 2014
Assets			
Property, plant and equipment	10	35,263	31,210
Intangible assets	11	7,047	6,951
Long term receivables	12	405	406
Non-current assets		42,715	38,567
Inventories	13	12,047	10,321
Trade and other receivables	14	6,002	6,756
Prepayments	15	448	478
Cash and cash equivalents	16	154	115
Current assets		18,651	17,670
Total assets		61,366	56,237
Equity			
Share capital		3,463	3,459
Share premium		3,301	3,301
Reserves		5,157	5,126
Retained earnings		12,366	11,944
Total equity attributable to the shareholders of the Group	17	24,287	23,830
Non-controlling interest		46	47
Total equity	17	24,333	23,877
Liabilities			
Interest-bearing loans and finance lease liabilities	18	13,092	7,216
Derivative financial instruments	22	239	375
Government grants	19	3,134	3,119
Deferred tax liabilities	20	388	1,022
Non-current liabilities		16,853	11,732
Interest-bearing loans and finance lease liabilities	18	9,123	8,965
Current tax liabilities		8	11
Derivative financial instruments	22	125	109
Trade and other payables	21	10,924	11,543
Current liabilities		20,180	20,628
Total liabilities		37,033	32,360
Total equity and liabilities		61,366	56,237

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December

Thousand EUR	Note	2015	2014
Revenue	1	84,445	109,660
Cost of sales	2	-75,595	-98,380
Gross profit		8,850	11,280
Other operating income	3	424	747
Distribution expenses	5	-5,443	-4,898
Administrative expenses	6	-2,529	-3,083
Other operating costs	4	-165	-280
Result from operating activities		1,137	3,766
Finance income		37	20
Finance costs		-629	-615
Net finance expense	7	-592	-595
Profit before tax		545	3,171
Income tax expense	8	623	36
Profit for the year		1,168	3,207
Attributable to:			
Shareholders of the Company		1,169	3,207
Non-controlling interest		-1	0
Profit for the year		1,168	3,207
Basic and diluted earnings per share (EUR)	9	0.10	0.27

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

Thousand EUR	Note	2015	2014
Profit for the year		**1,168**	**3,207**
Other comprehensive income			
Items that will never be reclassified to income statement			
Difference on translation of Litas into EUR		4	-
Result of revaluation of non-current assets net of deferred tax asset		-	1,152
Items that are or can be reclassified to income statement			
Change in fair value of hedging instruments		120	-31
Other comprehensive income for the year, net of income tax		**124**	**1,121**
Total comprehensive income		1,292	4,328
Attributable to:			
Shareholders of the Company		1,293	4,328
Non-controlling interest		-1	0
Total comprehensive income		1,292	4,328

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

		Equity attributable to shareholders of the Group									
Thousand EUR	Note	Share capital	Share premium	Revalu-ation reserve	Hedging reserve	For acquisition of own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2015		3,459	3,301	2,843	-484	2,421	346	11,944	23,830	47	23,877
Comprehensive income for the period											
Net profit		-	-	-	-	-	-	1,169	1,169	-1	1,168
Other comprehensive income											
Difference in authorized capital due to change of nominal value into EUR		4	-	-	-	-	-	-	4	-	4
Allocated from reserves		-	-	-176	-	-	-	176	-	-	-
Change in fair value of hedging instruments		-	-	-	120	-	-		120	-	120
Total other comprehensive income		4	-	-176	120	-	-	176	124	-	124
Total comprehensive income for the period		4	-	-176	120	-	-	1,345	1,293	-1	1,292
Contributions by and distributions to owners:											
Allocated to legal reserve		-	-	-	-	-	-	-	-	-	-
Allocated to reserve for acquiring own shares		-	-	-	-	87	-	-87	-	-	-
Dividends		-	-	-	-	-	-	-836	-836	-	-836
Total contributions by and distributions to owners		-	-	-	-	87	-	-923	-836		-836
Changes in the Group without losing control											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-	-	-
At 31 December 2015	17	3,463	3,301	2,667	-364	2,508	346	12,366	24,287	46	24,333

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (cont‘d)

Thousand EUR	Note	Equity attributable to shareholders of the Group									
		Share capital	Share premium	Revalu-ation reserve	Hedging reserve	Reserve for acquisition of own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2014		3,459	3,301	1,800	-453	1,729	346	10,352	20,534	53	20,587
Comprehensive income for the period											
Net profit		-	-	-	-	-	-	3,207	3,207	-	3,207
Other comprehensive income											
Result of revaluation of non-current assets net of deferred tax asset		-	-	1,152	-	-	-	-	1,152	-	1,152
Allocated from reserves		-	-	-109	-	-	-	109	-	-	-
Change in fair value of hedging instruments		-	-	-	-31	-	-	-	-31	-	-31
Total other comprehensive Income		-	-	1,043	-31	-	-	109	1,121	-	1,121
Total comprehensive income for the period		-	-	1,043	-31	-	-	3,316	4,328	-	4,328
Contributions by and distributions to owners:											
Allocated to legal reserve		-	-	-	-	-	-	-		-	-
Allocated to reserve for acquiring own shares		-	-	-	-	692	-	-692		-	-
Dividends		-	-	-	-	-	-	-1,038	-1,038	-	-1,038
Total contributions by and distributions to owners		-	-	-	-	692	-	-1,730	-1,038	-	-1,038
Changes in the Group without losing control											
Changes in non-controlling interest (decrease)		-	-	-	-	-	-	6	6	-6	--
Total contributions by and distributions to owners		-	-	-	-	-	-	6	6	-6	-
At 31 December 2014	17	3,459	3,301	2,843	-484	2,421	346	11,944	23,830	47	23,877

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

Thousand EUR	Note	2015	2014
Cash flows from operating activities			
Profit for the year		1,168	3,207
Adjustments:			
Depreciation of property, plant and equipment	10	3,138	2,826
Amortization of intangible assets	11	48	12
Amortization and write down of grants	19	-447	-386
Loss (profit) on disposal and write off of property, plant and equipment		39	126
Income tax expense		-623	-36
Net financing expenses		592	599
		3,915	**6,348**
Change in inventories		-1,729	-1,575
Change in non-current receivables		1	80
Change in trade and other receivables and prepayments		809	809
Change in trade and other payables		-682	-160
		2,314	**5,502**
Interest paid*		-511	-552
Income tax paid		-11	-
Net cash from operating activities		**1,792**	**4,950**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-7,236	-4,487
Acquisition of intangible assets		-145	-34
Proceeds from sale of property, plant and equipment		31	109
Acquisition of the subsidiary‘s shares		-	-8
Issued loans		-12	-
Net cash flows used in investing activities		**-7,362**	**-4,420**

Consolidated statement of cash flows (cont‘d)

For the year ended 31 December

Thousand EUR	Note	2015	2014
Cash flows from financing activities			
Loans received		11,173	4,479
Repayment of borrowings		-5,139	-4,295
Dividends paid		-887	-930
Government grants received	19	462	261
Net cash flows used in financing activities		**5,609**	**-485**
Increase (decrease) in cash and cash equivalents		39	45
Cash and cash equivalents at 1 January		115	70
Cash and cash equivalents at 31 December	16	154	115

*Interest, amounting to 70 thousand EUR, was capitalized under construction in progress.

The notes on pages 12-56 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Background information

The Group consists of the following companies (hereinafter – the Group)

- AB VILKYŠKIŲ PIENINĖ, the parent Company (hereinafter – the Parent Company or the Company)
- AB Modest, a subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, a subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė).
- AB Pieno Logistika, a subsidiary (hereinafter – the subsidiary AB Pieno Logistika).

AB VILKYŠKIŲ PIENINĖ was established in 1993. The Parent Company does not have any branches or representative offices.

AB VILKYŠKIŲ PIENINĖ is a Lithuanian company listed on AB Nasdaq Vilnius Stock Exchange. As at 31 December 2015, the Company‘s shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in EUR	Total value in EUR
Gintaras Bertašius	6,067,206	0.29	1,759,490
Multi Asset Selection Fund	2,035,729	0.29	590,361
Other minor shareholders	3,840,065	0.29	1,113,619
Total	**11,943,000**	0.29	**3,463,470**

Gintaras Bertašius and persons related to him are an ultimate controlling party of the Company.

The main activity of the Company is production and sale of different types of cheese.

The Company also produces and sells whey products, raw milk and cream.

Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region.

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 99.7% of voting rights of the subsidiary. AB Modest specializes in production of cheese mozzarella, blue cheese and other cheese products.

The Parent Company has a subsidiary AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. The Company holds 100% of voting rights of AB Kelmės Pieninė. AB Kelmės Pieninė specializes in production of fresh dairy products.

From 2013, the Group includes a subsidiary AB Pieno Logistika. The authorized capital of the mentioned company amounts to 107 thousand EUR; the main activity is lease of buildings. AB VILKYŠKIŲ PIENINĖ holds 56.1% of shares of AB Pieno Logistika.

As at 31 December 2015, the Group had 975 employees (at 31 December 2014 - 966).

Notes to the consolidated financial statements
Basis for preparation

Statement of compliance

These are the consolidated financial statements (hereinafter - financial statements or consolidated financial statements) of AB VILKYŠKIŲ PIENINĖ Group, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The management of the Parent Company is authorized to issue the consolidated financial statements of the Group after approval by the general shareholders meeting, which must be convened by 30 April of the coming year as prescribed by the Companies Law of the Republic of Lithuania.

Basis of measurement

The financial statements are prepared on the historical cost basis except for:

- derivative financial instruments which are measured at fair value;
- buildings that are part of property, plant and equipment are measured at fair value less any subsequent accumulated depreciation and impairment losses.

Functional and presentation currency

The financial statements are presented in Euro (EUR). As of 1 January 2015, EUR is the legal currency of Lithuania and the functional currency of the Parent Company and its subsidiaries. The financial information is presented in EUR and rounded to the nearest thousand.

The financial data for 2014, denominated in Litas, was restated in EUR applying the official exchange rate containing five notional figures – 3.4528 Litas for 1 EUR.

Foreign currency transactions

Transactions in foreign currencies are translated into EUR at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into EUR at the exchange rate ruling at that date. All transactions made in foreign currencies have been translated to EUR in accordance with the provisions of the Law on Bookkeeping, applying the exchange rate ruling at the date of the transaction.

Foreign currency exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost or fair value in a foreign currency are stated in EUR using the exchange rate at the date of the transaction.

Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable (due to financial instruments potentially convertible into shares) are taken into account. The financial statements of the subsidiaries are included in the Group consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements
Significant accounting policies

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

Property, plant and equipment

Items of property, plant and equipment, including assets under finance lease terms, but excluding buildings, are stated at cost less accumulated depreciation and impairment losses. The cost includes costs incurred when acquiring the asset. Cost of assets, internally created by the Group, includes the cost of materials, direct labour costs and an appropriate proportion of production overheads.

When parts of an item of property, plant and equipment have different useful lives, they are accounted as separate items of property, plant and equipment.

The Group includes the cost of a replacing part in the carrying amount of an item of property, plant and equipment, if it is probable that the future economic benefits embodied with the item will flow to the Group and the costs of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

Buildings are recognized at restated amounts, being the estimated fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the statement of financial position date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful economic lives of assets. The revaluation reserve for buildings is being transferred to prior year retained earnings in proportion to depreciation of revalued buildings.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded through other comprehensive income into the revaluation reserve of property, plant and equipment under equity. Depreciation is calculated on the amount which is equal to the acquisition cost/restated amount net of residual value of the asset.

In the event of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the change in value is recognized is deducted from the previous revaluation increases recognized in the revaluation reserve, to the extent it does not exceed the amount of such increases, and thereafter as an loss in the profit and loss statement.

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

The estimated useful lives are as follows:

Buildings	10-40 years
Machinery and equipment	5-15 years
Other assets	3-7 years

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Property, plant and equipment (cont‘d)

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

Intangible assets

Intangible assets with a finite useful life that are acquired by the Group are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of 3 years.

The Group does not have any intangible assets, except for goodwill, with an unlimited useful lifetime.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Goodwill that arises on the acquisition of subsidiaries is presented under intangible assets.

After initial recognition, goodwill is stated at acquisition cost, less any accumulated impairment losses (tested on annual basis). For the purposes of impairment estimation, from the date of acquisition the goodwill, acquired in a business combination, is allocated to the Group’s cash generating units that are expected to benefit from the business combination, irrespective of whether other acquired assets or liabilities are assigned to these units:

Thousand EUR	**31-12-2015**	**31-12-2014**
AB Kelmės Pieninė	6,616	6,616
AB Modest	299	299
	6,915	6,915

Where goodwill forms part of a cash-generating unit, containing part of operation which is being disposed, the goodwill associated with the operation disposed is included in its carrying amount when determining the gain or loss on disposal of the operation. In this case, goodwill is measured based on the relative value of the disposed operation, compared to the rest of the cash-generating unit retained.

Non-controlling interest

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the parent. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interest without loss of control are based on a proportionate amount of the net assets of the subsidiary.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Inventories

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

Inventories are measured initially at production cost or acquisition cost. Production costs include direct labour, materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

Inventories at the end of the reporting period are measured at the lower of cost or net realizable value, after deducting any write-downs. Net realizable value is the estimated selling price in the basic course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Any adjustment to net realizable value is accounted under cost of sales in the income statement.

The cost of inventories is estimated using the first-in first-out principle.

Non-derivative financial assets and liabilities

Non-derivative financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date, except loans, receivables and deposits which are recognized at the date they are originated. When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Related gains or losses on revaluation are charged directly to the income statement. Interest income and expense and dividends on such investments are recognized as interest income and dividend income or interest expenses, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method, less any impairment losses. The effective interest method is a method, used for calculation of amortized cost of a financial asset or liability and for allocation of interest income or costs over a relevant period. The effective interest rate is the rate, which allows an accurate discounting of future cash payments over the expected period of the financial liability or, where possible, over a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Non-derivative financial assets and liabilities (cont’d)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses, except impairment losses, being recognized through other comprehensive income as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised within different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

As at 31 December 2015, the fair values of assets and liabilities stated in the statement of financial position do not significantly differ from their carrying amounts.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, plus attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest rate method.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Non-derivative financial assets and liabilities (cont’d)

Borrowing costs

Borrowing costs on loans used for acquisition of qualifying property, plant and equipment are recognized as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment before the asset is put into operation.

Trade and other payables

Trade and other payables are recognized initially at fair value plus any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method.

Derivative financial instruments

Derivatives are recognized initially at fair value: attributable transaction costs are recognized in profit and loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Hedging from cash flow risk

Changes in fair value of the derivatives that are designated as hedging against cash flow risks are recognised directly in equity through other comprehensive income to the extent this hedging is effective. When the hedging is not effective, the fair value changes are recognised in profit or loss.

The amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

Impairment

Financial assets

Financial assets not carried at fair value through profit or losses are reviewed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial assets carried at amortized cost, whenever it is probable that the Parent Company or subsidiaries will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement.

In relation to trade and other receivables impairment loss is recognized when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Parent Company or subsidiaries will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Reversal of impairment losses

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized.

Non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed for possible indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate possible impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Impairment (cont‘d)

Non-financial assets (cont'd)

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee benefits

Short-term employee benefits are recognized as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no long-term employee benefits.

Finance and operating leases

The Group determines whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date.

The Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant period rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as expenses in profit or loss on a straight-line basis over the lease term.

Acquisition of own shares

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

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Dividends

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

Government grants

Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement in the period in which they were incurred.

Grants that compensate the Group for the cost of an asset are amortized over the same period as the asset for which the grant has been received. Amortization costs are included in production cost or administrative costs as well as in depreciation of property, plant and equipment for which the grant has been received.

Revenue

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

Cost of sales

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs are recognised based on accrual and matching principles.

Distribution and administrative expenses

Distribution and administrative expenses comprise expenses of transportation, administrative staff, management, office expenses, etc. including depreciation and amortization.

Operating costs are recognized based on accrual principle.

Other operating income and costs

Other operating income and charges comprise gain or loss from disposal of non-current assets as well as other income and costs not related to the primary activity.

Financial income and expenses

Financial income and expenses comprise interest receivable and payable, realized and unrealized exchange gains and losses regarding debtors and creditors denominated in foreign currencies.

Interest income is recognized in the income statement using the effective interest method. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Income tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Standard profit tax rate applied to the companies registered in the Republic of Lithuania is 15%. Tax losses can be carried forward for an indefinite period if the Company does not change its activities due to which these losses incurred, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. The amendment to the Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the amount of tax losses to be carried forward cannot be larger than 70% of income for the taxable period, which is calculated by deducting non-taxable income, allowed and restricted deductions, except for losses of the previous taxable periods.

The procedure of carrying forward the loss incurred as a result of disposal of securities and/or derivative financial instruments has not changed; therefore, it can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated on temporary differences arising on initial recognition of assets and liabilities, if these differences do not affect the tax provided in the financial statements nor the taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the enacted tax rates known at the statement of financial position date.

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

Earnings per share

The Group provides information on basic earnings per share and diluted earnings per share. Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by adjusting the net profit attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding during the year by all potential ordinary shares.

Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. The Group has 3 reportable segments are different product groups (cheese and cheese products, fresh dairy products and other products) and also has 4 distinguishable segments established on the basis of legal entities (AB VILKYŠKIŲ PIENINĖ, AB Kelmės Pieninė, AB Modest and AB Pieno Logistika).

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Segments (cont'd)

All operating segments' operating results are reviewed regularly by the chief executive body of the Parent Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Effect on financial statements of application of new standards and amendments and new interpretations to standards

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

The following new standards and amendments with effective date of 1 January 2015 did not have any impact on these consolidated financial statements:

- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- IFRIC 21 guidance on a levy imposed by government
- Annual Improvements to IFRSs

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.
It is expected that the Amendments, will not have a material impact on the Group's financial statements because the Group is not a party in any joint operation.

(ii) I IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

It is expected that the Amendments will not have a material impact on presentation of the Group's financial statements.

(iii) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)
New standards and interpretations not yet adopted (cont'd)

This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Group's financial statements, as the Group does not apply revenue-based methods of amortisation/depreciation.

(iv) IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)

These amendments result in bearer plants being in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*, to reflect the fact that their operation is similar to that of manufacturing.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

(v) IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(vi) IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Entity does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries, associates or joint ventures [*at cost/in accordance with IAS 39*].

(vii) Annual Improvements to IFRSs

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Subsequent events

Subsequent events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Use of judgments and estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Fair value of derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Determination of an effective hedge

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%.

Determining whether an arrangement contains a lease

At inception of an arrangement the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

1) The fulfilment of the arrangement is dependent on the use of the specific asset or assets and,
2) The arrangement contains a right to use the asset(s).

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Use of judgments and estimates (cont’d)

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group’s incremental borrowing rate.

Impairment losses on goodwill and property, plant and equipment

The carrying amounts of the Group's goodwill and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value.

Valuation of buildings

Information about assumptions and estimation uncertainties related to valuation of buildings is included in Note 10 “Property, plant and equipment”.

Impairment losses on receivables

The Parent Company and subsidiaries review receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Parent Company and subsidiaries makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the Parent Company and subsidiaries of the receivables.

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

Useful lives for property, plant and equipment

Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilization and physical condition of the assets concerned.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont'd)

Financial risk management

The Group have exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Financial risk management (cont'd)

The note 26 "Financial instruments and risk management" presents quantitative information about the Group's exposure to each of the risks and the Group's management of capital. Further quantitative disclosures are also included throughout these annual financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Within its trading activity the Group sells products and services with deferred payment terms, which may result in the risk that customers will not pay for the Group's receivables from sales of products and services. In order to minimize credit risk the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types such as:

- Limit,
- insurance,
- guarantees,
- credit insurance.

In 2014, the Parent Company insured foreign customers by credit insurance for a period of two years in the company Eurler Hermes.

For each client, the credit risk is assessed on an individual basis. Trade receivables are regularly reviewed by the Finance Department. In the event of overdue accounts receivable, the sales are stopped and the debt recovery procedures are started.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Notes to the consolidated financial statements
Summary of significant accounting policies (cont‘d)

Liquidity risk (cont’d)

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

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Group is satisfactory.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 26 Financial instruments and risk management.

The Group’s income and operating cash flows are in general independent of changes in market interest rates. The Group does not have significant interest-bearing assets. The Group use derivative instruments to hedge the interest rate risk (refer to Note 22).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Notes to the consolidated financial statements

1 Segment reporting

The Company has several reportable segments, as prescribed below.

Reportable segments are different product groups, which are managed separately because they require different technology and marketing strategies. For each of the product groups, the General Director reviews internal management reports on at least monthly basis.

The following summary describes the products in each of the Groups reportable segments:

- *Cheese and cheese products.* Includes cheese and cheese products produced by the parent Company and its subsidiaries;
- *Fresh dairy products.* Includes fresh dairy products produced by the subsidiaries (milk, sour milk, yoghurt, curd)
- *Other dairy products*. Includes other dairy products.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit, as included in the internal management reports that are reviewed by the General Director. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results.

Segments results for the year ended 31 December 2015 are as follows:

Thousand EUR	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	40,880	22,214	21,351	84,445
Cost of sales	-39,843	-18,420	-17,332	-75,595
Gross profit	1,037	3,794	4,019	8,850

Segments results for the year ended 31 December 2014 are as follows:

Thousand EUR	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	52,262	25,307	32,091	109,660
Cost of sales	-49,899	-20,758	-27,723	-98,380
Gross profit	2,363	4,549	4,368	11,280

Information on assets, liabilities, interest income and expenses, result before tax, tax expenses and other non-monetary captions attributable to each of the separate segments is not provided to the General Director. The opinion of the management is that it is not reasonable to allocate these captions to separate reportable segments.

Notes to the consolidated financial statements

1 Segment reporting (cont‘d)

The Group has also 4 distinguishable segments established on the basis of legal entities: AB VILKYŠKIŲ PIENINĖ (parent Company), AB Kelmės Pieninė (a subsidiary), AB Modest (a subsidiary) and AB Pieno Logistika (a subsidiary). The activity of each company (segment) is related to production of dairy products, except for AB Pieno Logistika, which is engaged in the lease of buildings. The companies produce different dairy products; therefore, they use different technologies and apply different marketing strategies. The General Director reviews internal management reports of the segments on a monthly basis.

The largest segment of the Group is AB VILKYŠKIŲ PIENINĖ. More detailed information about segments of the separate Group AB VILKYŠKIŲ PIENINĖ is presented in the separate financial statements.

Segment information for 2015:

Thousand EUR	AB VILKYŠKIŲ PIENINĖ	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika	Adjustment	Total
Revenue	97,404	23,316	9,568	9	-45,852	84,445
Interest income	8	45	6		-52	7
Interest expenses	-472	-38	-52	-1	52	-511
Depreciation and amortization, net of grants amortization	1,913	503	348	5	-	2,769
Profit before tax	-717	3,907	842	-1	-3,486	545
Income tax expense	634	-	-11	-	-	623
Profit for the year	-83	3,907	831	-1	-3,486	1,168
Other material non-cash items						
Segment assets	48,315	7,870	12,189	200	-7,208	61,366
Acquisition of property, plant and equipment and intangible assets	810	215	6,379	-	-	7,404
Segment liabilities	26,820	2,911	10,622	93	-3,413	37,033

Adjustments are related to elimination of intra-Group transactions and balances.

When presenting information as to geographical location, segment income is recognised according to the clients‘ geographical location. Segment assets are allocated according to their geographical location.

Segment information for 2015 per geographical zones:

Thousand EUR	**Revenue**	**Assets**
Lithuania	31,391	58,571
European Union, except Lithuania	38,593	1,248
Russia	-	-
Other	14,461	1,547
	84,445	61,366

Notes to the consolidated financial statements

1 Segment reporting (cont'd)

Segment information for 2014:

Thousand EUR	AB VILKYŠKIŲ PIENINĖ	AB Kelmės Pieninė	AB Modest	AB Pieno Logistika	Adjustment	Total
Revenue	126,297	26,812	9,405	9	-52,863	109,660
Interest income	8	45	15	-	-61	7
Interest expenses	-500	-68	-44	-1	61	-552
Depreciation and amortization, net of grants amortization	1,769	462	227	5	-	2,463
Profit before tax	1,839	3,499	261	-1	-2,427	3,171
Income tax expense	47	-	-11	-	-	36
Profit for the year	1,886	3,499	250	-1	-2,427	3,207
Other material non-cash items						
Segment assets	48,492	9,399	5,957	206	-7,817	56,237
Acquisition of property, plant and equipment and intangible assets	1,726	1,121	1,865	20	-	4,732
Segment liabilities	26,203	4,859	2,646	98	-1,446	32,360

Adjustments are related to elimination of inter-Group transactions and balances.

Segment information for 2014 per geographical zones:

Thousand EUR	**Revenue**	**Assets**
Lithuania	34,574	52,978
European Union	40,933	2,606
Russia	27,350	1
Other	6,803	652
	109,660	56,237

Information about major clients

The Group did not have any customers, which sales would account for more than 10% of total sales.

2 Cost of sales

Thousand EUR	**2015**	**2014**
Raw materials	-48,480	-74,093
Staff costs	-6,717	-6,176
Milk collection and transportation costs	-3,409	-3,001
Gas, electricity	-2,274	-2,844
Depreciation and amortization of grants	-2,268	-2,079
Other costs	-12,447	-10,187
	-75,595	-98,380

Notes to the consolidated financial statements

	Thousand EUR	2015	2014
3	**Other operating income**		
	Services rendered	113	375
	Transportation services	60	123
	Gain from sales of materials	59	79
	Gain from disposal of non-current assets	-	69
	Accounting services	17	17
	Not claimed arrears	115	-
	Other	60	84
		424	747
4	**Other operating expenses**		
	Cost of services rendered	-128	-166
	Cost of sold materials	-37	-112
	Other	-	-2
		-165	-280
5	**Distribution expenses**		
	Logistics and transportation	-2,245	-2,269
	Marketing and advertising	-2,018	-1,421
	Staff costs	-604	-607
	Depreciation	-85	-94
	Other sales expenses	-491	-507
		-5,443	-4,898
6	**Administrative expenses**		
	Staff costs	-1,119	-1,301
	Depreciation and amortization, net of grants amortization	-200	-149
	Veterinary services	-102	-119
	Consultations	-99	-59
	Security	-82	-101
	Taxes except for income tax	-82	-120
	Penalties	-71	-50
	Bank charges	-56	-63
	Payments to Board members	-43	-43
	Fuel	-40	-55
	Membership fee	-24	-314
	Repair	-24	-30
	Insurance	-20	-14
	Security commission services	-2	-27
	Impairment of property, plant and equipment due to revaluation	-	-160
	Write off of bad debts	-	-64
	Other	-565	-414
		-2,529	-3,083

Notes to the consolidated financial statements

7 Net financing costs

Thousand EUR	2015	2014
Financing income		
Interest	7	7
Other	30	13
Total financing income	37	20
Financing costs		
Interest	-511	-552
Loss from foreign exchange	-25	-23
Other	-93	-40
Total financing costs	-629	-615
	-592	-595

8 Income tax expense

Thousand EUR	2015	2014
Recognized in the income statement		
Current income tax expense		
Current period	-11	-11
Deferred tax		
Change in deferred tax	634	47
	623	36

Reconciliation of effective tax rate

Thousand EUR		2015		2014
Profit for the year		1,168		3,207
Income tax expense		-623		-36
Profit before tax		545		3,171
Income tax applying the effective tax rate	*15.00%*	-82	*15.00%*	-476
Non-taxable result of subsidiary AB Kelmės Pieninė due to the social status of the subsidiary	*-107.52%*	586	*-16.56%*	525
Non-deductible expenses	*90.46%*	-493	*1.20%*	-38
Income tax expense	-2.02%	-11	-0.35%	-11
Change in deferred tax		634		47
		623		36

Notes to the consolidated financial statements

9 Earnings per share

	2015	2014
Number of issued shares calculated based on weighted average method, in thousand units	11,943	11,943
Net profit, attributable to ordinary shareholders of the Parent Company, in thousand EUR	1,169	3,207
Basic earnings per share, in EUR	0.10	0.27

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

10 Property, plant and equipment

Thousand EUR	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2014	10,323	26,362	2,815	3,495	42,995
Acquisitions	1,221	2,538	218	1,896	5,873
Disposals	-94	-503	-261	-	-858
Reclassification	696	2,291	36	-3,023	-
Transfer*	-2,233	-	-	-	-2,233
Balance as at 31 December 2014	9,913	30,688	2,808	2,368	45,777
Balance as at 1 January 2015	9,913	30,688	2,808	2,368	45,777
Acquisitions	15	779	230	6,351	7,375
Disposals	-	-725	-262	-	-987
Reclassification	562	914	23	-1,615	-116**
Balance as at 31 December 2015	10,490	31,656	2,799	7,104	52,049
Depreciation and impairment					
Balance as at 1 January 2014	3,028	9,899	1,832	-	14,759
Depreciation for the year	360	2,265	201	-	2,826
Disposals	-85	-441	-259	-	-785
Reclassification	-630	630	-	-	-
Transfer*	-2,233	-	-	-	-2,233
Balance as at 31 December 2014	440	12,353	1,774	-	14,567
Balance as at 1 January 2015	440	12,353	1,774	-	14,567
Depreciation for the year	458	2,472	208	-	3,138
Disposals	-	-674	-245	-	-919
Reclassification	-	-	-	-	-
Balance as at 31 December 2015	898	14,151	1,737	-	16,786
Carrying amounts					
1 January 2014	7,295	16,463	983	3,495	28,236
31 December 2014	9,473	18,335	1,034	2,368	31,210
31 December 2015	9,592	17,505	1,062	7,104	35,263

* Elimination of accumulated depreciation due to revaluation of buildings.

Notes to the consolidated financial statements

10 Property, plant and equipment (cont'd)

**116 thousand EUR is related to completed intangible asset project which was directly transferred from construction in progress to intangible assets.

Prepayments for property, plant and equipment are classified as acquisitions of property, plant and equipment.

The Company did not capitalise interest in carrying amount of property, plant and equipment in the year 2015 and 2014.

Pledges

To secure the bank loans, the Group has pledged its property, plant and equipment:

- buildings with book value, as agreed by the parties, of 4.068 thousand EUR. As at 31 December of 2014 such agreement did not exist.
- machinery and equipment with a book value amounting to 11,236 thousand EUR as at 31 December 2015 (at 31 December 2014: property, plant and equipment amounting to 21,579 thousand EUR) (note 18).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 7,232 thousand EUR as at 31 December 2015 (at 31 December 2014: 5,774 thousand EUR).

Vehicles under finance lease contracts

The Group has acquired several transport vehicles under finance lease arrangements. The carrying amount of the leased assets amounted to 310 thousand EUR as at 31 December 2015 (at 31 December 2014: 816 thousand EUR).

Depreciation

Depreciation is provided for in the following items:

Thousand EUR	2015	2014
Cost of finished goods	2,899	2,596
Distribution expenses	85	94
Administrative expenses	154	136
	3,138	2,826

Valuation of buildings

Buildings are recognized at revalued amounts, less accumulated depreciation and impairment losses.

As at 31 December 2014 the Group has revalued its buildings and in the financial statements accounted the revaluation results.

An increase in value of 1,152 thousand EUR (net of deferred tax liability) was recognized in equity. Total revaluation surplus amounted to 1,175 thousand EUR and is accounted under 2014 acquisition line in property, plant and equipment table. Elimination of accumulated depreciation in amount 2.233 thousand EUR was due to revaluation of buildings.

The fair value of the buildings is attributed to level 3 according to the fair value hierarchy. The valuation method used by an independent valuator - a comparative value, cost method and their combination.

Notes to the consolidated financial statements

10 Property, plant and equipment (cont'd)

As at 31 December 2015, net value of the revaluation reserve amounts to 2,667 thousand EUR (at 31 December 2014: 2,843 thousand EUR).

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2015 would be 5,822 thousand EUR (the revalued value – 8,779 thousand EUR) (at 31 December 2014: 5,285 thousand EUR, the revalued value – 8,450 thousand EUR).

11 Intangible assets

Thousand EUR	Goodwill	Software	Total
Cost			
Balance as at 1 January 2014	6,915	487	7,402
Acquisitions	-	35	35
Disposals	-	-1	-1
Balance as at 31 December 2014	6,915	521	7,436
Balance as at 1 January 2015	6,915	521	7,436
Acquisitions	-	29	29
Disposals	-	-3	-3
Reclassification*		116	116
Balance as at 31 December 2015	6,915	663	7,578
Amortization and impairment			
Balance as at 1 January 2014	-	474	474
Amortization for the year	-	12	12
Disposals	-	-1	-1
Balance as at 31 December 2014	-	485	485
Balance as at 1 January 2015	-	485	485
Amortization for the year	-	48	48
Disposals	-	-2	-2
Balance as at 31 December 2015	-	531	531
Carrying amounts			
1 January 2014	6,915	13	6,928
31 December 2014	6,915	36	6,951
31 December 2015	6,915	132	7,047

*116 thousand EUR is related to completed intangible asset project which was directly transferred from property, plant and equipment group construction in progress.

Amortization charge for the year is included in administrative expenses.

Recoverable amount of cash generating units to which goodwill is assigned

Goodwill resulting from business combination is attributable mainly to synergy, which was reached after integration of the acquisitions in the Group's activity of dairy goods production.

Notes to the consolidated financial statements

11 Intangible assets (cont'd)

Recoverable amount of cash generating units to which goodwill is assigned **(cont'd)**

Goodwill is assigned to the following cash generating units of the Group:

Thousand EUR	**31-12-2015**	**31-12-2014**
AB Kelmės Pieninė	6,616	6,616
AB Modest	299	299
	6,915	6,915

An impairment test of these cash generating units was performed when calculating their recoverable value. For assessment of the value in use, the estimated future cash flows were discounted to their present value applying the pre-tax rate of the average weighted cost of capital in the industry which equalled to 8.64 %. The main assumptions used for the calculation of the value in use are as follows:

- The future cash flows have been calculated based on historical experience and the business plan for 5 years. The cash flows expected during the remaining useful life of the machinery and equipment have been calculated by extrapolating the cash flow of the 5th year with a 5 percent growth rate.
- For an increase of revenues and improvement of performance results, the Group is planning: to increase sales not only of usual assortment of cheese, but also of the new product – whey; to increase production and sales of blue cheese using the new technological equipment, to find target markets for these products; to improve operation of the logistics warehouse; to review workload of the production employees.
- The Group‘s management expects that prices for raw milk will not differ significantly from the prices in 2015;
- The Group‘s management is planning to strengthen marketing of the Group and increase export sales;

The recoverable amount of the goodwill estimated based on these assumptions was higher than the carrying amount. Therefore, no impairment loss was recognised in the financial statements.

12 Long term receivables

Thousand EUR	Note	**31-12-2015**	**31-12-2014**
Financial instruments			
Loans granted to related parties (b)	25	102	102
Long term receivables from farmers (c)		84	81
Other long term receivables		5	9
		191	192
Non - Financial assets			
Prepayments to related parties (a)	25	214	214
		405	406

Notes to the consolidated financial statements

12 Long term receivables (cont'd)

a) A prepayment (214 thousand EUR) is made to a related company ŪKB Šilgaliai. The prepayment must be fully covered by 31 December 2019. The outstanding balance of the prepayment is subject to administration fee.

b) The loan (102 thousand EUR) issued to a related party ŪKB Šilgaliai, matures on 31 December 2017. The outstanding balance of the loan bears a fixed interest rate.

c) Non-current receivables from farmers include prepayments to milk suppliers. The outstanding balance of the prepayments bears an administrative fee.

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

13 Inventories

Thousand EUR	**31-12-2015**	**31-12-2014**
Finished production	9,478	8,091
	9,478	8,091
Raw materials	81	24
Auxiliary materials	2,381	2,089
Production in progress	107	114
Goods for re-sale	-	3
	12,047	10,321

Raw materials include milk and other materials used in production.

As at 31 December 2015, there were no inventories (finished production) written down to net realisable value. As at 31 December 2014, write down of inventories (finished production) to net realisable value was recognized by an amount of 850 thousand EUR.

As at 31 December 2015, write down of inventories (tare and packing materials, i.e. auxiliary materials) to net realisable value amounted to 139 thousand EUR (at 31 December 2014 – 146 thousand EUR).

Write-off to net realisable value of inventories (finished production) and reversal of the write down is accounted for in cost of sales.

Write down of inventories (tare) and reversal of the write down is stated under administrative expenses.

As at 31 December 2015, the inventories with the carrying amount of up to 6,2 million EUR (2014 : up to 5,9 million EUR) have been pledged to financial institutions (note 18).

Notes to the consolidated financial statements

14 Trade and other receivables

Thousand EUR	Note	31-12-2015	31-12-2014
Trade receivables		5,138	5,751
Impairment losses		-114	-114
Loans issued to related parties, including calculated interest and administration fee	25	102	141
Other receivable		64	68
Total financial assets		5,190	5,846
Taxes receivable (excluding income tax)		812	910
Total trade and other receivables		6,002	6,756

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

Taxes receivable mainly include receivable VAT.

Trade and other receivable amounts are interest free and their settlement term is up to 30 days.

The receivable of 102 thousand EUR is due from the related party ŪKB Šilgaliai. The amount includes interest on the loan and an administrative fee for prepayments.

The trade receivables with the carrying amount of not less than 81 thousand EUR have been pledged to Nordea Bank AB. As at 31 December 2015, the pledged amount is 251 thousand EUR (as at 31 December 2014 the pledged amount was 268 thousand EUR).

15 Prepayments

Thousand EUR	Note	31-12-2015	31-12-2014
Prepayments	a)	278	344
Prepayments to related parties	25	170	134
		448	478

a) Prepayments include amounts prepaid to suppliers for goods and services and to farmers for raw milk.

16 Cash and cash equivalents

Thousand EUR	31-12-2015	31-12-2014
Cash at bank	69	105
Cash on hand	85	10
	154	115

All cash as at 31 December 2015 have been pledged to secure the bank loans (note 18). Furthermore, cash inflows in the bank accounts are pledged to secure the bank loans (note 18).

The interest rate risk of the Group, related to cash and cash equivalents, is disclosed in note 26.

Notes to the consolidated financial statements

17 Capital and reserves

As of 1 January 2015, Euro is an official currency in Lithuania used for settlement. The parent company and its subsidiaries have restated the nominal value of the shares in accordance with the Lithuanian Law on Introduction of Euro.

Authorized capital of the Parent Company as at 31 December 2015 comprised 11,943,000 ordinary shares at par value of 0.29 EUR each. All shares are fully paid.

According to the Law on Companies, holders of ordinary shares have at the shareholders meeting one voting right per one share and the right to dividends, which are declared from time to time, and to participate in capital on a winding up.

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. According to law, the reserve can be used only to cover the retained losses. As at 31 December 2015, legal reserve of the Company was 346 thousand EUR (at 31 December 2014 – 346 thousand EUR).

Share premium

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

Revaluation reserve

Revaluation reserve is related to revaluation of buildings and is stated net of deferred tax. The reserve is decreased annually for the depreciation in respect to revalued buildings and disposal of revalued assets.

When depreciating the revalued buildings, a transfer is made from the revaluation reserve to retained earnings. The amount for transfer is determined as a difference between depreciation, calculated from the restated value, and depreciation, calculated from the initial cost of the buildings.

The revaluation reserve can be used for an increase of share capital.

Hedging reserve

As at 31 December 2015, the hedging reserve comprises the effective part of the fair value of the derivative financial instrument in relation to hedging against interest rate fluctuations. The hedging reserve amount to 364 thousand EUR (as at 31 December 2014 – 484 thousand EUR).

Reserve for acquiring own shares

The reserve for acquiring own shares was formed in 2011 and amounted to 1,671 thousand EUR.

The general shareholders meeting, dated 24 April 2015, decided that the Company can acquire up to 10 % of own shares.

At the end of the year 2015, the reserve for acquiring own shares amounted to 2,508 thousand EUR as at 31 December 2014 – 2,421 thousand EUR).

According to the Lithuanian legislation, the reserve will be retained for as long as the Group acquires own shares.

During the years 2015 and 2014, the Group did not acquire any own shares.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities

The Company's interest bearing loans and finance lease liabilities are as follows:

Credit institution	Ref.	Currency	Contracted amount, thousand EUR	Balance at 31-12-2015	Balance at 31-12-2014
Bank loan	1)	EUR	1,820	0	579
Bank loan	2)	EUR	1,002	0	376
Bank loan	3)	EUR	1,830	0	231
Bank loan	4)	EUR	900	0	349
Bank loan	5)	EUR	3,650	0	1,691
Bank loan	6)	EUR	3,120	0	1,627
Bank loan	7)	EUR	1,700	0	1,209
Bank credit line	8)	EUR	1,000	0	328
Bank loan	9)	EUR	2,000	0	1,857
Bank loan	10)	EUR	4,996	3,753	0
Bank loan	11)	EUR	1,878	1,428	0
Bank loan	12)	EUR	3,900	3,900	0
Bank loan	13)	EUR	1,000	1,000	0
Overdraft	14)	EUR	900	0	0
Bank loan	15)	EUR	1,825	99	336
Bank loan	16)	EUR	1,039	298	537
Overdraft	17)	EUR	2,870	2,861	1,006
Bank loan	18)	EUR	2,666	110	1,715
Overdraft	19)	EUR	869	613	782
Bank loan	20)	EUR	1,740	103	512
Bank loan	21)	EUR	860	253	455
Bank loan	22)	EUR	1,900	1,533	1,809
Bank loan	23)	EUR	4,802	4,802	0
Loan*	24)	EUR	250	250	0
Factoring	25)	EUR	1,650	1,012	462
Finance lease liabilities	26)	EUR		200	320
Total liabilities				22,215	16,181
Less: current portion				-9,123	-8,965
Payable after one year				13,092	7,216

*note 25

1-9) On 19 June 2015, AB VILKYŠKIŲ PIENINĖ signed an amendment to the credit agreement, where non-current loans were integrated into one joint business credit, transferring all repaid and outstanding credit balances. The credit was secured by pledging buildings and machinery , equipment, inventories, trademarks, the right to land lease by primary pledge, securities, current and future bank account balances. The credit was joined into one business credit amounting to 10,774 thousand EUR and was deemed granted in the following portions:

- 10) A business credit of 4,996 thousand EUR, part of which (2,736 thousand EUR) has been granted. The remaining part (2,260 thousand EUR) was used to re-finance the liabilities and investments. The repayment of the credit, as to schedule, started on 20 July 2015 and shall be finished by 20 October 2018. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

- 11) A business credit of 1,878 thousand EUR, part of which (633 thousand EUR) has been granted. The remaining part was meant for re-financing of liabilities. The repayment of the credit, as to schedule, started on 10 August 2015 and shall be finished by 20 June 2017. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

- 12) A business credit of 3,900 thousand EUR. The repayment will start as of 20 November 2018 and will be carried out in equal instalments on a monthly basis. The repayment deadline is 21 June 2020. The determined interest rate on the credit is related to 6 months EURIBOR + margin.

13) AB VILKYŠKIŲ PIENINĖ was granted a credit facility of 1,000 thousand EUR for working capital needs. The repayment deadline is 21 June 2016. The determined interest rate on the credit is related to 3 months EURIBOR + margin.

14) AB VILKYŠKIŲ PIENINĖ was granted an overdraft of 900 thousand EUR for working capital needs. An overdraft term is 30 days. The repayment deadline is 21 June 2016. The determined interest rate is 1 night EURIBOR + margin.

15) On 28 April 2008, AB VILKYŠKIŲ PIENINĖ received a loan of 1,825 thousand EUR for acquisition of AB Kelmės Pieninė. Repayment started on 30 June 2008, and is performed in equal quarterly instalments, the final settlement term being 31 May 2016. The loan is secured by pledged inventories, equipment and 50 per cent of the shareholding of AB Kelmės Pieninė. The determined interest rate is related to 6 months EURIBOR + margin.

16) On 23 February 2012, AB VILKYŠKIŲ PIENINĖ was granted a loan (1,039 thousand EUR) for re-financing of the loan from the AB bank Snoras. The repayment started from 28 February 2013 and will end on 23 February 2017 making monthly instalments. The loan is secured by pledged equipment and current and future cash inflows in all currencies. The determined interest rate is 1 month EURIBOR + margin.

17) On 17 April 2012, AB VILKYŠKIŲ PIENINĖ received an overdraft (1,868 thousand EUR) for working capital needs. Based on the amendment to the agreement, dated 23 April 2015, the overdraft limit was increased up to 2,870 thousand EUR to satisfy the working capital needs. The repayment deadline is 31 March 2016. The credit is secured by pledging amounts receivable, current and future account inflows in all currencies, the inventories and equipment. The determined interest rate is 1 week EURIBOR + margin.

18) In August 2012, AB Kelmės Pienine was granted a loan of 1,160 thousand EUR for financing of investments for 2012-2013. In 2013, the loan was increased up to 2,666 thousand EUR. The repayment started as of February 2013. On 30 December 2015, the repayment term of the loan was extended until 31 January 2016. The loan is secured by pledged buildings, equipment and inventories. The determined interest rate is 1 month EURIBOR + margin.

19) On 8 June 2012, AB Kelmės Pienine was granted an overdraft of 869 thousand EUR for working capital needs. On 30 December 2015, the repayment term of the loan was extended until 9 July 2016. The credit facility is secured by pledging buildings, equipment and inventories. The determined interest rate is 3 month EURIBOR + margin.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

20) On 20 January 2011, AB Modest received a loan (1,740 thousand EUR) for working capital needs. The repayment started from 20 January 2012 and will end on 20 January 2016. The loan is being repaid making equal quarterly instalments. The loan is secured by pledged buildings, the right to lease the land as well as current and future cash inflows in bank accounts. The determined interest rate is 1 month EURIBOR + margin.

21) On 23 February 2012, AB Modest was granted a loan (860 thousand EUR) to re-finance the loan of AB bank Snoras. The repayment started as of February 2013 making equal quarterly instalments until 23 February 2017. The loan is secured by pledging equipment, current and future cash inflows in bank accounts in all currencies. The determined interest rate is 1 month EURIBOR + margin.

22) On 14 May 2014, AB Modest was granted a long term loan (1,900 thousand EUR) to finance acquisition of equipment for the whey processing workshop. According to the schedule, the repayment will be performed in equal quarterly instalments from June 2015 and will end by 21 March 2019. The loan is secured by pledged buildings, the right to rent the land, equipment, inventories, and/or special vehicles and current and future cash inflows in bank accounts. The determined interest rate is 1 month EURIBOR + margin.

23) On 8 June 2015, AB Modest received a loan (4,802 thousand EUR) for acquisition of equipment and specialized vehicles. The repayment is expected to start on 31 May 2017 and end on 30 April 2022. Payments will be made in equal monthly instalments. The loan is secured by pledging buildings, plant, the right to lease the land, current and future cash inflows in bank accounts. The determined interest rate is 1 month EURIBOR + margin.

24) On 16 November 2015, AB VILKYŠKIŲ PIENINĖ signed a loan agreement with a main shareholder for a loan of 250 thousand EUR and fixed annual interest. The loan repayment is expected to start as of 15 November 2016.

25) On 2 July 2015, AB VILKYŠKIŲ PIENINĖ was granted a factoring limit of 1,650 thousand EUR. The determined interest rate is 1 week EURIBOR + margin.

26) The financial lease agreements are signed with financial leasing companies. The last repayment term is December 2018.

According to loan agreements signed with banks, the Company is committed to maintain certain ratios of financial debt and EBITDA, loan coverage, equity and other financial ratios. The mentioned ratios are calculated based on the data presented in consolidated financial statements.

As at 31 December 2015, the Company did not comply with the financial debt, EBITDA ratio and credit coverage ratio. The Company received a waivers from the banks, stating that the banks were informed about non-compliance before 31 December 2015 and that no sanctions will be imposed nor early repayment of the loan will be required for the mentioned violation.

As at 31 December 2015, the Company complied with other loan covenants.

Notes to the consolidated financial statements

18 Interest bearing loans and finance lease liabilities (cont'd)

Loan repayment schedules, except for finance lease liabilities:

Thousand EUR	2015	2014
Within one year	9,021	8,845
From 1 to 5 years	12,994	7,016
After 5 years	-	-
	22,015	15,861

The effective interest applied on the loans and finance lease liabilities in 2015 was 2.5 per cent (2014: 3.8 per cent).

Finance lease liabilities

The finance lease is paid as follows:

Within 1 year	102	120
From 1 to 5 years	98	200
	200	320

The financial lease agreements do not anticipate any contingent lease payments.

Interest rate on leasing liabilities is variable and relates to EURIBOR (6 or 12 months) + margin.

19 Government grants

Thousand EUR	31-12-2015	31-12-2014
Carrying amount at the beginning of the period	3,119	3,244
Grants received	462	261
Amortization and write down of grants recognized in the income statement	-447	-386
Carrying amount at the end of the period	3,134	3,119

The Group has received support from the EU Structural funds under the Lithuanian Rural Development Programme for 2007-2014 from the National Settlement Agency under the Ministry of Agriculture. The support was received for acquisition of property, plant and equipment. The support is amortised in proportion to depreciation of the assets concerned.

From 2012 to 2015, AB Modest was realizing the project "Modernization of a milk processing company". During the project, the company modernized the mold cheese production workshop by new mold cheese production equipment.

Furthermore, the company acquired technological equipment for whey processing, whey analysers and specialized vehicles for transportation of dairy products to serve the mentioned equipment. The total amount of the subsidy under the mentioned project amounts to 417.5 thousand EUR.

Notes to the consolidated financial statements

20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate as at 31 December 2015 (31 December 2014: 15%), are attributed to the following items:

	Assets		**Liabilities**		**Net value**	
Thousand EUR	31-12-2015	31-12-2014	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Property, plant and equipment		-	1,694	1,555	1,694	1,555
Vacation reserve	-59	-68	-	-	-59	-68
Inventories	-	-92	-	-	-	-92
Government grants	-190	-173	-	-	-190	-173
Tax losses to be carried forward	-1,057	-200	-	-	-1,057	-200
Deferred tax (asset) / liabilities	-1,306	-533	1,694	1,555	388	1,022

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carry forward is lost if the Company changes its activities due to which these losses were incurred, except for cases, when activities are terminated due to reasons which do not depend on the Company itself. The Law on Corporate Income Tax, article 30, part 4 prescribes that when calculating the income tax for 2014 and subsequent taxable periods, the Company could cover up to 70% of current year taxable profit with the accumulated tax losses.

A decrease in the deferred tax liability of 634 thousand EUR was recognized in the income statement.

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

Thousand EUR	01-01-2015	Recognised in profit loss	Recognised in equity	31-12-2015
Property, plant and equipment	1,555	139		1,694
Vacation reserve	-68	9		-59
Inventories	-92	92		-
Government grants	-173	-17		-190
Tax losses to be carried forward	-200	-857		-1,057
Deferred tax (asset) / liabilities	1,022	-634		388

Thousand EUR	01-01-2014	Recognised in profit loss	Recognised in equity	31-12-2014
Property, plant and equipment	1,209	257	89	1,555
Vacation reserve	-60	-8		-68
Inventories	-1	-91		-92
Government grants	-149	-24		-173
Tax losses to be carried forward	-113	-87		-200
Deferred tax (asset) / liabilities	886	47	89	1,022

Difference between the tax basis and the carrying amount of property, plant and equipment in the financial statements has occurred mainly due to revaluation of buildings.

Notes to the consolidated financial statements

21 Trade and other payable amounts

Thousand EUR	Note	31-12-2015	31-12-2014
Financial instruments			
Trade payables	26	9,160	9,719
Trade payables to related parties	25	-	7
Other payable amounts		187	102
		9,347	9,828
Non-financial instruments			
Employment related liabilities		1,392	1,411
Prepayments received		21	101
Payable dividends		131	182
Accrued expenses		33	21
		1,577	1,715
		10,924	11,543

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 26.

22 Derivative financial instruments

Thousand EUR	**31-12-2015**	**31-12-2014**
Interest rate swap transaction to hedge against cash flow fluctuations (non-current part)	239	375
Interest rate swap transaction to hedge against cash flow fluctuations (current part)	125	109
	364	**484**

Derivatives are stated at fair value. The Group as at31 December 2015 had three interest rate swap transactions with a bank relating to loans which initially amounted to 1,830 thousand EUR, 3,900 thousand EUR and 2,317 thousand EUR. The loans are subject to variable interest rates related to 3 or 6 months EURIBOR+ margin. The Company expects some volatility of cash flows related to future interest payments, based on 3 and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with a bank where fixed interest on loans has been swapped for the variable interest:

- The Company pays fixed interest on the loan of 1,830 thousand EUR and receives a variable interest rate equal to 3 months EURIBOR.
- The Company pays fixed interest on the loan of 3,900 thousand EUR and receives a variable interest rate equal to 6 months EURIBOR.
- The Company pays fixed interest on the loan of 2,317 thousand EUR and receives a variable interest rate of 3 months EURIBOR.

The above hedging instruments were evaluated as being effective.

The liquidity risk related to derivative financial instruments is disclosed in note 26.

Notes to the consolidated financial statements

23 Contingencies and commitments

Material contractual liabilities as at 31 December 2015 were as follows:

Thousand EUR	2015	2014
Acquisition of property, plant and equipment	10,621	486
Purchase of raw materials	4,041	3,932
	14,662	4,418

Assets pledged as at 31 December 2015 to secure the bank loans (note 18) are as follows:

- Current and future cash inflows in the accounts at different banks;
- Building with the carrying amount of 4,068 thousand EUR, as agreed by the parties;
- Building, machinery and equipment with the carrying amount of 11,236 thousand EUR;
- Inventories with the carrying amount of up to 6,220 thousand EUR.
- Trade receivables from one of the retail chain.
- Sub-lease right of the state land.
- Owned trademarks;
- 50,00 percent shareholding of AB Kelmės Pieninė
- Surety for the loan of the agricultural cooperative at an amount of 1,000 thousand EUR.

The tax authorities have not performed a full scope tax review of the Group for the period from 2010 to 2015. Pursuant to the prevailing tax legislation, the tax authorities have the right at any time to check the accounting registers of the Group for a period of 5 years before the current taxable period and may charge additional taxes and penalties. The Group‘s management is not aware of any circumstances, which could result in additional material tax liabilities.

24 Staff costs

Thousand EUR	2015	2014
Staff costs are included in the following items:		
Cost of sales/inventories	7,412	6,741
Administrative expenses	1,171	1,203
Distribution expenses	604	607
	9,187	8,551

Cost of inventories is accounted for in the cost of sales when inventories are sold.

Staff costs include social security tax 30.98% calculated from the nominal salaries, paid by the Group.

Staff costs include remuneration to the Group’s management of 426 thousand EUR, including social security contributions (2014: 436 thousand EUR).

Notes to the consolidated financial statements

25 Transactions with related parties

Thousand EUR	Note	2015	2014
Amounts payable			
Loans			
Loan payable to main shareholder		250	-
Trade payables			
ŪKB Šilgaliai		-	7
		250	7
Prepayments			
ŪKB Šilgaliai (non-current assets)	12	214	214
ŪKB Šilgaliai (current assets)	15	170	134
		384	348
Loans granted, including interest and administration fee			
ŪKB Šilgaliai	12, 14	204	243
		204	243
		588	**591**
Interest income			
ŪKB Šilgaliai		6	7
		6	**7**
Interest expenses			
Management		51	-
		51	-
Sale of raw materials, goods and services			
ŪKB Šilgaliai		12	18
		12	**18**
Purchase of raw materials, goods and services			
ŪKB Šilgaliai		636	728
		636	**728**

ŪKB Šilgaliai is a supplier of raw milk. The main shareholder and persons related to him have ownership rights in ŪKB Šilgaliai.

Notes to the consolidated financial statements

26 Financial instruments and risk management

Credit risk

The carrying amounts of financial assets show the maximum credit risk, which at the reporting date was as follows:

Thousand EUR		Carrying amount	
	Note	**31-12-2015**	**31-12-2014**
Long term receivable amounts	12	405	406
Trade and other receivables (excl. taxes)	14	5,190	5,846
Cash and cash equivalents	16	154	115
		5,749	**6,367**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

Thousand EUR	Carrying amount	
	31-12-2015	**31-12-2014**
Lithuania	2,293	2,446
Israel	510	-
Poland	454	495
Latvia	406	320
Saudi Arabia	259	386
Korea	193	-
Portugal	156	103
Estonia	152	641
Albania	128	47
Jordan	126	-
Germany	80	1,047
Russia	-	1
Other	331	219
	5,088	**5,705**

As at 31 December 2015, a significant credit risk concentration is related to four customers, the receivables from which accounted for 43% of all trade receivables (as at 31 December 2014: 34%).

Impairment losses

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Ageing of trade and other receivables, prepayments and long term receivables as at the reporting date can be specified as follows:

Thousand EUR	Gross 31 December 2015	Impairment 31 December 2015	Gross 31 December 2014	Impairment 31 December 2014
Related parties:				
Not past due	506	-	453	-
Past due 0-30 days	1	-	1	-
Past due 31-60 days	1	-	1	-
More than 60 days	96	-	136	-
	604	-	591	-
Other parties:				
Not past due	5,295	-	5,435	-
Past due 0-30 days	579	-	1,550	-
Past due 31-60 days	152	-	52	-
More than 60 days	339	-114	126	-114
	6,365	-114	7,163	-114
	6,969	**-114**	**7,754**	**-114**

The impairment losses in relation to trade and other receivable amounts as at 31 December 2015 amount to 114 thousand EUR (2014: 114 thousand EUR).

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Thousand EUR	Carrying amount 2015	Carrying amount 2014
Balance as at 1 January	-114	-81
Impairment loss recognized	-	-64
Write down of doubtful receivable	-	8
Recovered impairment losses	-	23
Balance as at 31 December	-114	-114

Based on payment history and extensive analysis of customers' solvency, the Management of the Group believes that the amounts which past due more than 30 days are not impaired.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Liquidity risk

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

31 December 2015

Thousand EUR	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank loans	21,003	(21,758)	(5,850)	(2,495)	(8,361)	(5,052)
Finance lease liabilities	200	(208)	(57)	(48)	(78)	(25)
Factoring	1,012	(1,025)	(1,025)	-	-	-
Derivatives	364	(364)	(63)	(63)	(238)	-
Trade payables	9,160	(9,160)	(9,160)	-	-	-
	31,739	(32,515)	(16,155)	(2,606)	(8,677)	(5,077)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. In 2016, the Group is planning to negotiate with the banks on extension of overdrafts. The Company also expects to earn a sufficient cash flow from ordinary activity to cover the current liabilities.

31 December 2014

Thousand E	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Financial liabilities						
Bank loans	15,399	(16,584)	(5,529)	(3,335)	(3,345)	(4,375)
Finance lease liabilities	320	(341)	(68)	(61)	(107)	(105)
Factoring	462	(476)	(476)	-	-	
Derivatives	484	(484)	(70)	(70)	(245)	(99)
Trade payables	9,726	(9,726)	(9,726)	-	-	-
	26,391	(27,611)	(15,869)	(3,466)	(3,697)	(4,579)

The following interest rates were applied to discount the estimated cash flows:

	2015	**2014**
Loans and finance lease liabilities	1.8% - 2.5%	1.7% - 3.5%

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Currency risk

The Company's currency risk (in thousand EUR), applying the exchange rates as at 31 December 2015, was as follows:

	31 December 2015		
	USD	PLN	DKK
Long-term receivables	-	-	-
Trade and other receivables (excl. taxes)	126	160	-
Cash and cash equivalents	-	1	-
Loans and finance lease liabilities	-	-	-
Derivative financial instrument	-	-	-
Trade payables	-	(22)	(5)
Net exposure	126	139	(5)

As at 31 December 2014, there are significant financial assets and liabilities denominated in other currencies than EUR.

During the year the following exchange rates against EUR were applied:

	Average	
	2015	2014
USD	1.106	-
PLN	4.1834	-

The following exchange rates were applied as at 31 December:

	2015	2014
USD	1.0926	2.8387*
PLN	4.2400	0.80454*

*The rate for the year 2014 is presented based on an exchange rate of Litas against foreign currencies.

Sensitivity analysis

The functional currency of the Company is Euro (EUR). The Group faces foreign currency risk on purchases and sales that are denominated in currencies other than EUR. The main part of the Company's transactions in 2015 year was denominated in EUR; therefore, the Company did not expose to significant foreign currency exchange risk.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Interest rate risk

The Group's borrowings bear variable interest rates related to EURIBOR + margin.

The Group has entered into three interest rate swap agreements with a bank, by which it partially hedges its exposure to interest rate fluctuations. The fair value of the interest rate swap agreements, amounting to 364 thousand EUR (2014: 484 thousand EUR) is included in derivative financial instruments.

As at 31 December the interest rate profile of the Group's interest-bearing financial instruments was as follows:

Thousand EUR	Carrying amount	
	31-12-2015	**31-12-2014**
Fixed rate financial instruments		
Non-current part of loans granted	103	102
Current part of loans granted	6	-
Loan from management	(250)	-
	(141)	**102**

Thousand EUR	Carrying amount	
	31-12-2015	**31-12-2014**
Variable rate financial instruments		
Bank loans	20,753	(15,399)
Factoring	(1,012)	(462)
Financial lease liabilities	(200)	(320)
	(21,965)	(16,181)
	(22,106)	**(16,079)**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2014.

Effect in thousand EUR	Profit (loss)	
	100 bp increase	100 bp decrease
31 December 2015		
Variable rate instruments	(221)	221
31 December 2014		
Variable rate instruments	(161)	161

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. Data directly observed in the market reflect the market information gathered from external sources; the data not directly observed in the market reflect the market valuation by the Group‘s management. These two types of data determine the following fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level of valuation is used for listed equity securities quoted on stock exchange (e.g. National Stock Exchange, Stock Exchange of London, Stock Exchange of Frankfurt).
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Lever 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group valuates its assets and liabilities based on the fair value hierarchy principles prescribed in Level 3, where the expected discounted cash flow is determined. The effective discount rate is based on financing costs of investments into these companies.

As at 31 December 2015
Thousand EUR

	Level 1	Level 2	Level 3	Total
Long term receivables	-	-	405	405
Trade and other receivables	-	-	6,002	6,002
Cash and cash equivalents	154	-	-	154
Loans and financial lease liabilities	-	-	(22,215)	(22,215)
Derivative financial instruments		(364)	-	(364)
Trade and other payables	-	-	(9,347)	(9,347)
	154	(364)	(25,155)	(25,365)

As at 31 December 2014
Thousand EUR

	Level 1	Level 2	Level 3	Total
Long term receivables	-	-	406	406
Trade and other receivables	-	-	6,756	6,756
Cash and cash equivalents	115	-	-	115
Loans and financial lease liabilities	-	-	(16,181)	(16,181)
Derivative financial instruments	-	(484)	-	(484)
Trade and other payables	-	-	(9,828)	(9,828)
	115	(484)	(18,847)	(19,216)

Price risk

Prices of milk and dairy products vary depending on a situation in the market. The Group seeks to minimize an impact of such price fluctuations by diversifying production and striving for scale economy.

Notes to the consolidated financial statements

26 Financial instruments and risk management (cont'd)

Capital management

The Board's policy is to maintain a strong capital base, in comparison with the borrowed means, so as to maintain investor, creditor and market confidence to sustain future development of the business and to comply with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2015.

The Group is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

The Group is obligated to keep capital requirements set externally by banks. The requirement is that the ratio (equity– revaluation reserve) / (total assets) is not lower than 30 per cent. The management controls that the Group complies with the requirements.

27 Fair value of financial instruments

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

When determining the fair value of the financial instruments, the Group uses the following methods and assumptions:

Cash

Cash are funds that are valued at fair value.

Receivable amounts and term deposits

The fair value of trade and other receivables and term deposits is estimated at the present value of future cash flows, discounted at the market interest rate at the reporting date. Fair value of trade and other receivables of a shorter than six months duration with no stated interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant. Fair value is determined for disclosure purposes.

Financial liabilities

Fair value, determined for disclosure purposes, is calculated based on the present value of the future principal and interest rate cash flows, discounted applying the market interest rate at the reporting date. The market interest rate on financial loan is determined based on the similar loan agreements.

Notes to the consolidated financial statements

27 Fair value of financial instruments(cont'd)

Financial liabilities (cont'd)

Fair value of financial liabilities with shorter duration and no determined interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant.

Fair value is allocated according to hierarchy, which reveals materiality of initial valuation data. The hierarchy levels are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Lever 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has no financial assets and financial liabilities accounted at fair value.

Financial instruments not stated at fair value

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

Financial instruments stated at fair value

Financial instruments stated at fair value as at 31 December 2015 include derivative financial instruments

28 Subsequent events

On 17 April 2012, AB VILKYŠKIŲ PIENINĖ received an overdraft (1,868 thousand EUR) for working capital needs. Based on the amendment to the agreement, dated 23 April 2015, the overdraft limit was increased up to 2,870 thousand EUR to satisfy the working capital needs. The repayment term is 31 March 2016. As at the reporting date, the Company has an agreement with the Bank on extension of the repayment deadline until 31 March 2017. The agreement on extension was signed on 30 March 2016.

AB VILKYŠKIŲ PIENINĖ is planning to implement the whey processing project in Tauragė, which will allow the Company to follow one of the main strategic directions, i.e., to achieve a more "deeper" processing of a product and to produce a higher value-added cart of products.

It is expected that realization of the project will strengthen the Company's competitive position and will have significant influence on financial indicators.

Investments under the project will amount to 26 million EUR. It will be financed both, by the Company's and by borrowed funds.

According to plans, the project will be started in February 2016 and will end in the 1st quarter of 2017.

There have been no other significant events subsequent to the end of the reporting period that could materially affect the consolidated financial statements as at and for the year ended 31 December 2015.

Consolidated report of AB VILKYŠKIŲ PIENINĖ for 2015

Letter of G. Bertašius, the General Director of AB Vilkyškių Pieninė, to the Investors

For Vilkyškių pieninė, 2015 was not an easy year. However, one can also find many good things in every period that abounds in challenges. Work is easy with the business cycle at its peak, but a downward cycle requires each team member to demonstrate his or her greatest creative abilities. Therefore I see the previous year as a period for revealing one's abilities.

Overproduction in the world dairy industry is a big challenge to us. We consider the new markets discovered over that year very important, especially with account of the domestic market situation. We have launched exports to South Korea and have a vision of how to gain a foothold with success in China and Arab countries.

Finding partners with long-term partnership opportunities and establishing contacts with them is a process that takes more than one year. Here I mean trust and business culture. It is for the purpose of starting close relationships that some seven years ago we decided to take an active part in the world's largest trade fairs. Each year, we present our products at fairs in Germany and France, and always attend the fair in Dubai. The geography of our events has expanded significantly this year as we took part in a fair in Pekin, China. In the spring of 2016, we will attend an exposition in Shanghai. We are confident that this will enlarge the range of our partners even more.

There is something we can delight in on the domestic market as well. One of the happiest events of the year was the "Lithuanian Trademark of the Year" award to Vilkyškiai for the second time already. We received the first award in 2013. This is a very honourable award because as many as 34 trademarks were selected for the finals of the "Trademark of the Year" competition. Our ability to compete and win customer affection is a great motivation for us to continue our endeavours and justify this status with our results in the future.

Moreover, we have shown particular growth in the category of dessert products on the Lithuanian market over this year. At present, Vilkyškių pieninė has about 13 pct. of the glazed curd snacks market, while in the yogurt drink market we are almost in the leader position with more than 30 pct. of the market.

We have entered the year 2016 with ambitious plans and launched the implementation of a whey processing project in Tauragė. Investments in this project will amount to EUR 26 mln. and create new jobs. Implementation of this project will lead to the successful processing of dairies and their export even to the most distant countries.

Yours Sincerely,

Gintaras Bertašius

I. ISSUER OVERVIEW

1. Reporting Period for this Consolidated Report

This Consolidated Report is for 2015.

2. Issuer Information and Contact Details

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

3. Subsidiary Company Data and Contact Details:

AB Modest

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

AB Kelmės pieninė

Name of subsidiary	AB Kelmės pieninė (hereinafter – AB Kelmės pieninė)
Legal form	Public limited company
Date of registration	3 August 1993, Šiauliai Division of VĮ Registrų centras
Date of re-registration	4 July 2007 (issue of new registration certificate)
Head office	Raseinių str. 2, LT-86160 Kelmė
Registration No.	110109
Company register code	162403450
Head office	Raseinių str. 2, LT-86160 Kelmė
Telephone	+370 427 61246
Fax	+370 427 61235
E-mail	kelmespienine@vilkyskiu.lt
Website	http://www.vilkyskiu.lt

AB Pieno logistika

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

4. Main Types of Activity

The main business activity of the *AB Vilkyškių pieninė* group of companies is production and sale of dairy products.

Dairy operation and cheese production (EVRK 10.51).

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

Subsidiary company *AB Modest* makes fermented mozzarella cheese, blue cheese and other cheese products.

Subsidiary company *AB Kelmės pieninė* makes fresh dairy products: milk, kefir, yogurts, cottage cheese, chocolate-glazed cottage cheese bars and butter.

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

5. Agreements with Brokerages for Public Issue

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

6. Trading in the Issuer's Securities on Regulated Exchanges

The name of securities: *AB Vilkyškių pieninė* common registered shares. The number of securities issued: 11,943,000 units. Share face value: EUR 0,29 per share.

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

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

The securities of the subsidiary companies are not publicly traded.

II. Overview of Operations

AB Vilkyškių pieninė produces a wide range of delicious dairy products made to original recipes, many of them winning accolades at various international trade fairs. We are proudly continuing the long-standing traditions of cheese production that originated in the picturesque valleys of western Lithuania. The lush flood-meadows of the Nemunas River inspire us to create and share what nature has so generously bestowed on us.

Our mission is to make gourmet dairy products for people to enjoy.

Our Values:

Quality – we make high-quality dairy products and keep to the highest standards.

Innovation – we constantly strive to surprise our customers with new products by introducing original tastes and flavours. We keep investing in new technologies and are expanding our range of products. We find joy in the creative process and in sharing what we create — that is how new traditions are born.

Competence – in the hands of our dairy masters, ordinary dairy products turn into exceptional and original ones, setting the standard for the rest.

Honesty – we are open and trustworthy. We cherish the confidence and respect of our customers. Time-tested relationships with our partners and the professionalism of our people make the foundation of our business.

7. Issuer's Jurisdiction

In its operations, *AB Vilkyškių pieninė* follows the Lithuanian law, government resolutions and legal acts on companies, in particular the Lithuanian law on the securities market, as well as the Company's own Articles of Association.

8. Brief History of Issuer

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

Initially, there was no other owners' equity apart from the privatized buildings, and bank loans were taken to provide the much needed turnover capital.

Key Events in Issuer's History

1993 – 1995: the dairy's water tower, boiler house and milk separation unit were renovated, and milk separation was launched. The cheese production department started making low-fat fermented cheese *Peptatas*. A butter production unit was also launched.

After these initial investments, the Company's growth gathered momentum. In early 1997, the cheese production department started making the *Tilsit*-type cheese, also launching production of *Gouda*-type fermented cheese a year later.

1997: EUR 0.8m was invested in the company, approximately EUR 0.1m of which was used for renovation works. A power substation was renovated, the Company was fully computerized, a boiler house by the Danish company BWE was built and a Dutch-made cold store with a capacity for 400 tonnes of products was installed.

1998: Almost EUR 0.4m was invested in vehicles, buildings, milk refrigerators, production equipment, a new cheese production unit and other major facilities.

1999- 2000: EUR 1.1m was invested in the construction of new production departments, vehicles and a major overhaul. EUR 2.5m was invested in a new o *TetraPakTebel* cheese production facility. As a result, new fully computerised and automated cheese production line was installed, enabling the company to make EU-compliant products.

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

2001: The Company acquired the Tauragė dairy facility of the Mažeikiai branch of *AB Pieno žvaigždės*. It was built in 1965 as a cheese production facility and was fully operational as such. Since 2007, it houses the head office of *AB Modest*, a subsidiary of *AB Vilkyškių pieninė*.

2003: The Company adopted the Navision accounting and business solution.

2003 – 2004: Additional investments were made into milk processing infrastructure, expanding the network of milk collection points and upgrading the fleet of milk tank trucks. In 2003, the refrigeration chamber was reconstructed, and renovation work was performed on the roof and buildings in 2004.

2004: An EU-compliant wastewater treatment facility, made by the Dutch company *NewWaterTechnology*, was installed, and investments were made into cheese packaging equipment in the same year.

2005: The boiler room of the Tauragė production facility was renovated, switching to a more ecological type of fuel.

2006: *AB Vilkyškių pieninė* was allocated EUR 1m from EU structural funds, which was used to upgrade production facilities and achieve full compliance with EU requirements.

The first phase of the project involved the upgrading of production technologies and was completed in 2006. As part of the modernisation, the Company's main dairy production facility was expanded significantly, adding two new cheese evaporators, three new cheese press machines and a buffer tank, as well as a new wash station for the cheese production line. In addition, the cheese brining shop and cheese loading processes were fully automated. After completing the modernization, the dairy's maximum cheese production capacity increased from 10,000 to 14,000 tonnes per year.

The second phase of implementation began in June 2007, when a new modern whey processing facility was launched. The total value of the whey processing facility was more than EUR 2.3m. The investment increased the Company's productivity, improved quality controls and reduced waste considerably. The Company had no whey processing until then. The new whey processing unit is almost completely automated and is manned by just two staff.

17 May 2006: A total of 9,353,000 common registered shares of AB Vilkyškių pieninė were listed on the Current List of the NASDAQ Vilnius exchange and then uprated to the blue-chip Official List on 1 January 2008.

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

2007: *AB Modest*, controlled by *AB Vilkyškių pieninė*, was allocated EUR 0.6m in support from EU structural funds. *AB Modest* used the funds to upgrade its fleet of refrigerated vans for product transportation and to modernise its production processes. It installed new milk processing technologies and a packaging line for its main product, Mozzarella cheese. The EU support accounted for 44 percent of project value.

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

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

2010: *AB Vilkyškių pieninė* set up new marketing and quality departments.

Investments were mainly made into refrigeration equipment, a cheese cutting and packaging line. The installation of the *Equinox* warehouse management system was also started.

2011: EUR 0.5m was invested into new cold store equipment, and another EUR 0.2m was invested to expand the existing wastewater treatment and equipment washing capacities.

2012: a new cheese production line was assembled (EUR 4.6m in value), increasing output by 30 percent, in addition to the launch of a EUR 2.7m packaging and plastic-coating line. This enabled the launch of the production of the *Prussia* brand of plastic-coated cheese, made using the latest technologies.

The 2007-2013 investment project "Improving the competitiveness of dairy processing" was completed. The project was worth EUR 9.5m, with EUR 1.9m coming from the EU structural funds. In 2010, the Company was allocated EUR 0.2m in EU support. Another EUR 1.6m was received in 2012.

2013: EUR 1m was invested in auxiliary facilities: a tank truck washer, a garage, a utility room, a mechanical workshop with utility premises, administrative offices, utility services, landings and a truck entry point. Another EUR 1.5m was invested to expand the whey processing unit's daily capacity to 600 tonnes. By the end of the year, the whey ultrafiltration project was also completed — it is a new technology that breaks whey proteins into their basic components, which results in new profitable products.

In 2013, *AB Kelmės pieninė* signed an agreement with the National Paying Agency on EUR 116,000 in EU support toward investments into dairy processing operations. The funds have been used to acquire a yogurt packaging line.

AB Kelmės pieninė installed a new *TetraTop* packaging line for liquid dairy products. This innovative environment-friendly packaging provides great protection for the product and is very convenient.

In addition, *AB Modest* has completed the modernisation of its blue cheese production facility, increasing its output by 30 percent.

2014: *AB Vilkyškių pieninė* has launched a new cheese-slicing line, expanding its range of products.

AB Vilkyškių pieninė has completed a modernisation project (EUR 0.6m), acquiring new storage tanks for milk products and new cheese slicing equipment. The project drew EUR 0.12m in support from EU funds.

AB Kelmės pieninė has renovated its compressor station.

AB Modest has rebuilt its boiler house and launched a whey denaturation facility.

2015: AB Vilkyškių pieninė has signed a contract on connection to a gas distribution system with AB Lietuvos dujos. Gas supply to the dairy farm is expected from Q4 2016.

In late June, the National Commission for Energy Control and Prices has approved the project on investment into gas supply to Tauragė and authorised construction of a distribution pipeline to Tauragė. The distribution pipeline will run almost 6 km and connect the gas distribution station to AB Vilkyškių pieninė, situated in the town of Tauragė.

9. Main Investments During Reporting Period

With a view to improving treatment efficiency, in 2015 Vilkyškių pieninė AB completed the modernisation of its wastewater treatment plant that is compliant with the main national strategies and laws on wastewater management. The results of this project will have an impact on the water quality of the Jūra River in the first place, and will also contribute to the improvement of the water quality in the Nemunas, the Curonian Lagoon and the Baltic Sea.

Under the project, a new aerotank with accessories, a pumping station and a control system have been installed. The extended industrial wastewater treatment plant will allow reducing the post-treatment concentrations of pollutants in wastewater to the permissible thresholds. The installed second reservoir has not only improved the quality of wastewater treatment but it has also considerably reduced the risk of paralysing the operation of the plant completely as the second reservoir can continue working successfully in case the first one goes out of order. The new aerotank has enabled the distribution of industrial wastewater between the existing and the new facilities. To distribute the amount of wastewater and ensure the parameters of the treatment process, a control system has been set up that keeps track of the whole industrial wastewater treatment process. Following the implementation of this project, the concentrations of polluting substances in wastewater discharges will not exceed the maximum allowable levels of pollution defined in the

Wastewater Management Regulation. Annual emissions from the company operations are expected to decline by 755 kg of total nitrogen and 60 kg of total phosphorus.

The equipment and its installation have cost Vilkyškių pieninė AB more than EUR 190 000, of which EUR 112 140 were allocated for the project by the Lithuanian Environmental Investment Fund (LEIF).

In December 2015, Kelmės pieninė AB prepared an investment project "Increasing the competitiveness of the company's productive activities" which was submitted to the National Paying Agency in order to obtain EU support. The requested amount of support constitutes EUR 4 mln. The project implementation period is 2016–2017. The key aim of the project is to increase the competitiveness of the company through the modernisation and enlargement of the production base and the introduction of innovative technologies and solutions.

10. Patents & Licenses

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

On 14 October 2004, the Company was issued with a certificate of compliance for exports to the Russian market.

Production audits have been carried out at the Vilkyškiai dairy for compliance with the Russian Federation Technical Regulation N88-ФЗ.

In 2013, *AB Vilkyškių pieninė's* management system was certified in accordance with the ISO 9001:2008 and ISO 22000:2005 standards. Following recertification, compliance under those standards has been extended for another three years.

The Group is wholly committed to the quality of its products, customer satisfaction and compliance with food safety regulations. *AB Vilkyškių pieninė* has obtained certification of its Quality Management and Food Safety systems under the international standards ISO 9001:2008 and ISO 22000:2005. These standards set a number of rules that ensure stable and safe production processes. The system covers every process from raw material supplies to customer satisfaction surveys, all performed in line with the organisation's policies. At the last ISO 22000:2005 standard follow-up audit, Vilkyškių pieninė AB received a very favourable evaluation, stressing its good preparedness for the installation of the higher-level certification scheme.

The Quality Management and Food Safety systems are subject to continuous monitoring, review and improvements with a view to maintaining the high quality of the Company's products. The continual search for improvements and adherence to the top food safety standards has enabled the Company to start preparation in 2014 for certification under ISO 22000:2005/FSSC 22000, a stricter version of the same standard. This certification scheme is part of the Global Food Safety Initiative (GFSI) and is equivalent to such internationally recognised standards as BRC and IFS.

In 2015, the production of Modest AB was certified in accordance with the ISO 22000:2005/FSSC 22000 certification scheme for the development, production and sale of dairies (bulk pasteurised cream, semi-hard (Mozzarella, mould-ripened) and soft cheese, processed smoked cheese and smoked cheese).

Having operated in accordance with ISO 22000:2005/FSSC 22000 standards since 2013, Kelmės pieninė AB has also enlarged the scope of certification to include the handling and processing of all products.

The laboratory operating at the company Modest AB owned by Vilkyškių pieninė AB has been supplied with modern equipment FOOS FoodScan LAB Dairy this year. The equipment includes a near infrared analyser that helps to perform analysis of the required parameters more accurately and quickly, which allows improving product quality and yield and optimising costs. The modern laboratory equipment also offers new information management and analysis opportunities. This has enabled the laboratory of Vilkyškių pieninė AB to launch a project on document digitisation and transfer to the electronic environment this year. This project is very important for the activities of both the laboratory as a corporate structural unit and the whole group of Vilkyškių pieninė AB. The project has improved the procedure of product traceability and ensured quality control of laboratory test results.

For the purpose of entering Islamic markets and having our products appreciated by buyers, the production process of AB Vilkyškių Pieninė and AB Modest has been certified according to the requirements of the Halal rules. A Halal certificate was issued on 30 January 2015. Halal products are associated with product safety, healthiness, quality and ecology. Therefore, these products are frequently consumed by people of other confessions as well.

11. Human Resources

AB Vilkyškių pieninė Group's human resources policy is focused on promoting team welfare and professional advancement. In order to maintain its collaborative and highly motivated workforce, the Group implements regular trainings, occupational safety and health measures, as well as promoting a favourable work environment.

In early 2010, using EU financial support, *AB Vilkyškių pieninė* set up a day care service, which was completely free of charge for the parents. After public funding ended in 2013, *AB Vilkyškių pieninė* took over the financial burden and retains the free day care service for its employees. Since many employees travel to work from neighbouring towns and districts (Pagėgiai, Jurbarkas, Tauragė), the Company offers them free transport to work and back home.

In order to promote the team spirit, the Group has adopted a number of traditions, such as company anniversaries, excursions abroad, profession days and Christmas events. Staff take regular professional trainings and courses funded by the Group.

Occupational safety and health is another key priority for the Group. Every year, employees are offered free health checkups and flu vaccination. The Company plans to open a canteen and a company boarding house for employees visiting from other towns.

AB Kelmės pieninė has the status of a social enterprise. Approximately 40 percent of its staff are people with disabilities. One of the key priorities for the company is to ensure integration and social skill development for people with disabilities. The company aims to create conditions for each employee to maximise their vocational potential and participate in various social projects, including discussion groups, lectures, excursions, festivals, etc.

AB Vilkyškių pieninė takes an active part in the public project "The creation and development of career development and monitoring models as part of the general education and professional training". The aim of the project was to help students explore various occupations, professions and career paths, build early work experience, develop professional motivation and plan their careers – so they can find work in Lithuania rather than abroad. As part of the project, *AB Vilkyškių pieninė* holds monthly professional information and consultation meetings with students, in addition to organising field visits so young people can gain first-hand insights about work, careers and professions at the Company.

In summer 2015, AB Vilkyškių Pieninė carried out film project "Movies on your doorstep" and provided fellow-countrymen with the opportunity to watch quality non-commercial movies in three towns – Vilkyškiai, Tauragė and Kelmė. During the whole summer, residents Tauragė region had the opportunity to watch movies that won awards in international festivals and competitions. The repertoire included movies that the festival audience liked most of all.

We seek to be an active member of the community, to contribute to more active social life in our county and to strengthen mutual relationship and communication. There is a shortage of cultural and educational events in regions; therefore, we do our best to promote the dissemination of culture in our region, and first of all we take care of people living close to us.

12. Environmental Protection

Based on the European Parliament and Council IPPC Directive 2008/1/EC, *AB Vilkyškių pieninė* is attributable to the Annex I installations and is required to have an IPPC permit. The Company obtained its first IPPC permit from the Klaipėda Regional Environmental Protection Department on 10 August 2004, which was renewed on 28 December 2012. The first IPPC permit was issued to *AB Kelmės pieninė* on 28 December 2005 by the Šiauliai Regional Environmental Protection Department. The permit has been extended seven times, with the last extension on 10 April 2013. *AB Modest's* IPPC permin was last updated on 17 February 2011. The Company has implemented the best available techniques (BAT), and its running costs and emissions are in line with the prescribed EU levels.

AB Vilkyškių pieninė Group has an environmental protection policy aimed at reducing the environmental impact of its operations, ensuring integrated pollution prevention measures, minimising the use of resources and waste generation, so that its operations do not affect air, water and soil. *AB Vilkyškių pieninė* performs regular environmental impact assessments.

Based on the existing legal requirements, programmes have been put in place to monitor the impact of the Company's water source and fuel storage on underground waters and to monitor air emissions and wastewaters.

Production wastewater is treated at the Company's own combined biomechanical treatment facility. In 2015, *AB Vilkyškių pieninė* treated 431017 m3 of wastewaters. The resulting sludge is given to local waste managers and is used as fertiliser in agriculture. Wastewater treatment efficacy has been estimated to be in the till 99 percent range. *AB Kelmės pieninė* and *AB Modest* do not have their own wastewater treatment facilities and deliver their waste to Kelmė and Tauragė municipal treatment plants.

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

13. Group Results of Operations

Key financial consolidated indicators of *AB Vilkyškių pieninė Group*:

	2011	2012	2013	2014	2015
Revenue (EUR tho)	84,028	85,658	105,547	109,660	84,445
EBITDA (EUR tho)	5,377	4,661	6,978	6,218	3,876
EBITDA margin, pct	6.4	5.4	6.6	5.7	4.6
Operating profit (EUR tho)	3,581	2,669	4,723	3,766	1,137
Operating profit margin, pct	4.3	3.1	4.5	3.4	1.3
Profit before tax (EUR tho)	2,996	1,999	4,115	3,171	545
Profit before tax margin, pct	3.6	2.3	3.9	2.9	0.6
Net profit	3,082	2,223	3,768	3,207	1,168
Profit margin, pct	3.7	2.6	3.6	2.9	1.4
Earnings per share (EUR)	0.26	0.19	0.32	0.27	0.10
Number of shares (units, tho)	11.943	11.943	11.943	11.943	11.943

In 2015, **sales** came to EUR 84.4m, down 23 percent from EUR 109.7m in 2014.

In 2015, **EBITDA** was EUR 3.9m, down 1.6 times from EUR 6.2m the year before. EBITDA margin was 4.6 percent in 2015 (compared with 5.7 percent in 2014).

Operating profit (EBIT) was EUR 1.1m in 2015, with 1.3 percent margin, down from EUR 3.8m in 2014, when EBIT margin reached 3.4 percent.

In 2015, **net profit** reached EUR 1.2m, a drop form EUR 3.2m the year before. The decrease in profit was caused by a slump in dairy product prices on export markets, falling demand and the Russian embargo on dairy imports.

Key financial ratios of *AB Vilkyškių pieninė Group*:

	2011	2012	2013	2014	2015
Return on equity (ROE), pct	19.0	12.8	18.3	13.4	4.8
Return on assets (ROA), pct	7.5	4.7	7.2	5.7	1.9
Debt ratio	0.61	0.63	0.61	0.58	0.60
Deb/equity ratio	1.54	1.70	1.55	1.36	1.52
Quick liquidity ratio	0.88	0.85	0.88	0.86	0.92
Asset turnover ratio	2.04	1.82	2.01	1.95	1.38
Capital-to-assets ratio	0.39	0.37	0.39	0.42	0.40

In 2015, **assets totaled** EUR 61.4 m, 9 percent more than in 2014.

In 2015, **property, plant and equipment** grew by 13 pct due to acquisition of real estate, equipment and installations and totaled EUR 35.2m.

In 2015, **equity** was EUR 24.3m, up 2 percent from the previous year (EUR 23.9m).

On 31 December 2015, total value of **loans** was EUR 22.2m, increased 37 percent year-on-year.

***AB Vilkyškių pieninė* Group production output, tonnes:**

	2011	2012	2013	2014	2015
Fermented cheese	12,747	12,857	13,796	17,436	16,875
Cream	10,794	9,595	12,514	15,384	13,454
Whey products	41,476	39,376	45,446	43,713	47,391
Cream	3,905	4,546	3,928	3,090	2,766
Yogurt products	1,899	3,259	5,416	5,565	4,979
Cottage cheese products	3,848	4,697	4,360	4,009	3,741

In 2015, a total of 16,875 tonnes of cheese was produced, 3 percent less than in 2014. Cream production also went down by 14 percent against the previous year.

Raw milk purchases by *AB Vilkyškių pieninė* Group:

	2011	2012	2013	2014	2015
Raw milk, tonnes	197,536	204,898	208,380	253,947	237,065
Cost of raw milk, EUR tho	50,405	47,733	59,876	63,254	44,449
Raw milk price, EUR/t	255,2	233,0	287,3	249,1	187,5

In 2015, a total of 237 tho tonnes of milk was purchased, a decrease by 7 percent as compared with 2014. Meanwhile, the price of raw milk went down 25 percent from the previous year.

14. Sales and Marketing

Core product sales

	2011	2012	2013	2014	2015
Fermented cheese	39,614	41,714	49,809	52,262	40,244
Cream	19,923	12,505	22,956	21,099	16,944
Whey products	3,802	3,965	5,481	6,563	3,666
Cream	5,023	5,839	5,233	4,230	3,528
Yogurt products	1,058	2,830	5,300	5,409	4,786
Cottage cheese products	8,291	10,666	10,551	10,737	9,506
Other sales	6,317	8,139	6,217	9,360	5,771
Total revenue	**84,028**	**85,658**	**105,547**	**109,660**	**84,443**

In 2015, income from sales dropped by 23% year-on-year. Income from sales in the domestic market contracted by 9%, and exports went down by 29%.

The year 2015 has provided proof once again of dairy exports being an activity far beyond a stable and predictable one. In 2015, all dairy producers and processors down to the smallest ones felt price instability, market stagnation and constant competition. The end of milk quotas in the European Union and the Russian embargo were the key reasons that forced the company to review the existing market map and look for new opportunities. We have achieved success as we have launched new projects in Arab countries, South Korea and Southern Europe, and the brand Vilvi has become even more conspicuous on the shelves of retail chains in Poland.

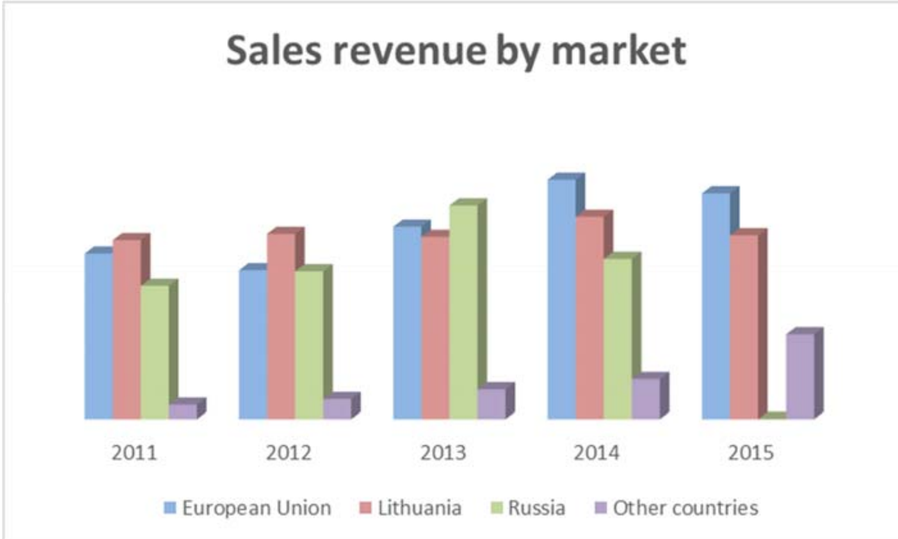
Exports in 2015 accounted for 63% of the total sales of Vilkyškių pieninė AB, down by 5% from 2014. However, in terms of quantity, the product amount sold in foreign countries stayed the same and was only redistributed among other markets.

Sales in European Union states were the largest and increased from 37% to 46% as the volumes grew in Germany and Italy and an opportunity emerged for sales in Bulgaria and Spain. The increase from 6% to 17% in other countries was driven by the establishment of cooperation with South Korea, United Arab Emirates, Jordan and Libya.

Similarly to the previous years, the exports were dominated by cream, whey product and cheese sales.

Sales revenue by market, EUR thousand:

	2011	2012	2013	2014	2015
European Union	28,265	25,409	32,870	40,933	38,593
Lithuania	30,563	31,644	31,118	34,574	31,391
Russia	22,762	25,213	36,514	27,350	0
Other countries	2,438	3,392	5,045	6,803	14,461
Total revenue	**84,028**	**85,658**	**105,547**	**109,660**	**84,445**



In 2010, a new marketing department was set up within the Group to develop new products and implement branding and marketing strategies. The first priority was to strengthen its domestic presence, so investments were made into brand identity and unique value propositions to Lithuanian consumers. The Group achieved quick sales growth and acceptance on the local market by consistently expanding its range of fresh dairy products, high quality, original product flavours and unique packaging.

Vilkyškių pieninė Group’s strategy to invest in innovative exclusive products has enabled the Company to deliver on its brand promise and continue surprising consumers with wider choices, new products, new taste sensations and new ways to enjoy dairy products, at the same time contributing to the brand‘s positions on the market .

The Company‘s branded and originally packaged products with great value propositions also have strong potential on export markets, which the Company is targeting with its *Vilvi* trademark.

15. Exhibitions and Awards

2010: Blue cheese *Memel Blue* was awarded the Gold Medal at the AgroBalt international exhibition.

2011: Two *Vilkyškių pieninė* **cheese products –** *Žalgiris* and *Legenda* – were awarded at the ProdExpo international trade fair in Moscow, in the *Russian Supermarket Choice* category

2011: Hard cheese *Žalgiris* won Gold at World Food Moscow trade fair in the *Product of the Year* category.

2011: *Prussia* cheese was awarded Gold in the ProdExpo international exhibition in Moscow, in the *Best Product* category.

2011: Blue cheese *Memel Blue* won the Bronze Medal at the international trade fair World Food Moscow in the *Product of the Year* category.

2011: *Vilkyškių* light whipping cream (30 pct fat) was awarded the Bronze Medal at the international trade fair World Food Moscow in the *Product of the Year* category.

2012: Semi-hard Dutch cheese *Maasdam* won Gold at the ProdExpo international trade fair in Moscow in the *Best Product* category.

2012: *AB Vilkyškių pieninė* was named among global innovation leaders at the SIAL international exhibition in Paris, with the *Vilkyškių* gooseberry yogurt and chocolate-glazed cottage cheese bars winning the *SIAL Innovation* award.

2012: At the 21st international food trade fair World Food Moscow 2012, a connoisseur jury awarded the Silver Medal to the *Vilkyškių* apple- and oat-enriched functional yogurt from among more than 600 products. The yogurt was also recently introduced to the Lithuanian market.

2012: A connoisseur jury at World Food Moscow 2012 awarded Silver to the *Vilkyškių* cottage cheese spread with sea salt.

2012: At the international trade fair ProdExpo in Moscow, the spicy *Basilis* cheese and *Vilkyškių* cottage cheese with sea buckthorn were awarded in the *Russian Supermarket Choice* category.

2013: *Vilkyškių Original* cheese claimed Gold in the *Best Product* category at the ProdExpo trade fair in Moscow.

2013: The *Innovative Product* award at ProdExpo in Moscow was given to *Vilkyškių* processed blue cheese with Bruschetta spices.

2013: Processed cheese *Memel Blue* with sun-dried tomatoes won the Gold Medal in the *Best Product* category at the ProdExpo international exhibition in Moscow.

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

2014: *Vilkyškių* pieninė‘s hard cheese *Jubiliejinis 1934* was awarded the Gold Medal at the ProdExpo 2014 international exhibition in Moscow for innovative technology and packaging.

In 2015, Vilkyškių Pieninė introduced a unique new dairy additive, viz. crispy roasted buckwheat, and was recognised by World Dairy Innovation Awards, which took place in Amsterdam as part of the ninth Global Dairy Congress, as one the best in the category "Best dairy ingredient", i.e. it became one of the three finalists. The judging panel considered as many as 220 entries from 30 countries in 18 categories. In each category the winner and three finalists have been announced.

In October 2015, Vilkyškių pieninė AB took part in one of Europe's leading international food fairs, ANUGA, in Cologne, Germany. The spacious stand featured presentations of fresh products, cheese and ingredients (concentrate of whey proteins) used in the food industry.

In November 2015, the trade fair Food Ingredients Beijing 2015 took place in China. Our participation in this trade fair coincided with an important event of Lithuania and China signing a protocol that permits the export of dairy products. With account of the needs of this market, appropriate ingredients (concentrate of whey proteins) were presented at the fair.

In December 2015, with a view to finding new contacts for the whey products (concentrate and permeate of proteins) made by Vilkyškių pieninė AB, the company took part in the fair Food Ingredients Paris 2015 that brings together many representatives of food industry producers and wholesalers.

16. Risk Factors Associated with Issuer‘s Business

Key risks in the business of *AB Vilkyškių pieninė* Group:

The Group operates in the business of dairy processing (production of fermented cheese). The main factors that may pose business risks for the Company are possible changes on the raw material and product markets, competition, as well as changes in the legal, political, technological and social environment. These may affect – whether directly or indirectly – the Group‘s cash flows and results.

The Company specialises in cheese production, with most of its revenue coming from the sale of matured cheese and cheese products. Consequently, the Company‘s sales, profit and overall financial standing may be affected by negative changes in the cheese market demand or pricing (market risks). Meanwhile, price pressure may originate from competition on the international and local cheese markets.

The production of matured cheese is a lengthy process that may last between one and three months. As a result, the Company may be unable to respond quickly to market changes, which may tell upon its cash flows and bottom line.

The Group‘s credit risks are associated with accounts receivable. The risk of breach of contract by business partners is subject to certain control procedures. In 2014, for 2 years, the Company obtained credit insurance for its overseas customers with the insurer *Euler Hermes*. The risk of each client is assessed individually.

Credit risk associated with cash in banks is limited, as the Company works only with Lithuania‘s largest banks (mainly AB SEB Bankas). On 31 December 2015, the Company‘s debt-to-assets ratio was 0.60. The balance of outstanding loans on 31 December 2015 was EUR 22.2m. All loans are denominated in euro and are being repaid under the established schedule, without any delays. The interest on all largest loans is linked to the EUR LIBOR rate. In 2011, interest rate swaps for the amount of EUR 8m were concluded for a period of five years.

17. Competition

AB Vilkyškių pieninės estimates that it has a 17-percent share of the Lithuanian market for cheese, i.e. it is in fourth place behind competitors *AB Rokiškio sūris*, *AB Pieno žvaigždės* and *AB Žemaitijos pienas*.

On foreign markets, *AB Vilkyškių pieninė* has to compete against local manufacturers, who have the advantage of lower transportation costs. However, *AB Vilkyškių pieninė* is trying to compensate for this disadvantage by offering a range of higher value-added cheese products.

18. Key Events After Fiscal Year-End

AB Vilkyskiu Pienine group is to build a new whey processing facility in the town of Taurage at Gaures Str. 23. The project will enable the company to implement one of its strategic goals to achieve a more “downstream” processing level and start making a basket of products with higher added value. This is expected to boost the dairy processor’s competitiveness and improve its bottom line.

The project is estimated at EUR 26m, with both self-financing and borrowed capital to be used as sources of funding.

The project is scheduled to start in February 2016, with completion date set for Q1 2017.

There have been no other significant events after 31 December 2015.

19. Business Plans and Forecasts

In 2016, *AB Vilkyškių pieninė* Group will continue focusing its efforts on food safety and quality. We will continue expanding our range of products and searching for new sales markets, which will be targeted actively once identified. Further investments are planned into whey processing in order to make this line of business even more profitable.

III. OTHER INFORMATION ABOUT ISSUER

20. Structure of Issuer‘s Share Capital

AB Vilkyškių pieninė Group’s Share Capital:

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

21. Information on Treasury Stock

The Company does not hold its own shares.

22. Rights of Shareholders

Shareholders have these non-proprietary rights:

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

Shareholders have the following proprietary rights:

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

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

23. Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

24. Information About Shareholders

The total number of shareholders of **AB Vilkyškių pieninė** on 31 December 2015 was 955. The following are the major shareholders, who own more than 5 percent of the Issuer's stock:

Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
Gintaras Bertašius	6,067,206	51%	51%
Multi Asset Selection Fund	2,035,729	17%	17%
Minority shareholders	3,840,065	32%	32%
Total stock	**11,943,000**	**100%**	**100%**

AB Kelmės pieninė shareholders

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

AB Modest shareholders

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

AB Pieno logistika shareholders

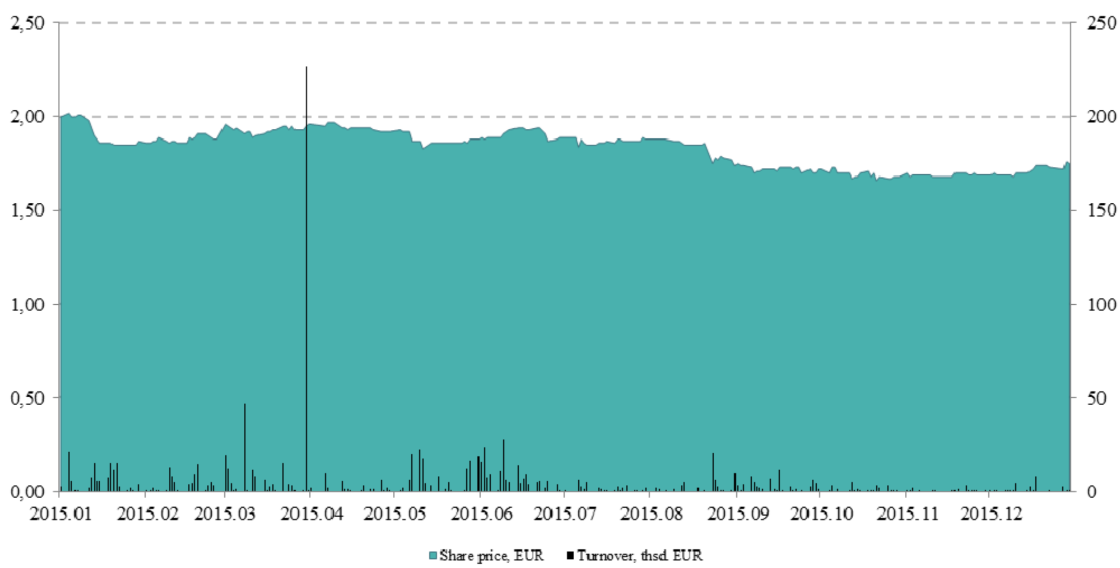
Shareholder	Number of shares held, units	Percent of share capital, pct	Share of votes at shareholder meetings, pct
AB Vilkyškių pieninė	208,458	56.1%	56.1%
Minority shareholders	162,875	43.9%	43.9%
Total stock	**371,333**	**100%**	**100%**

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

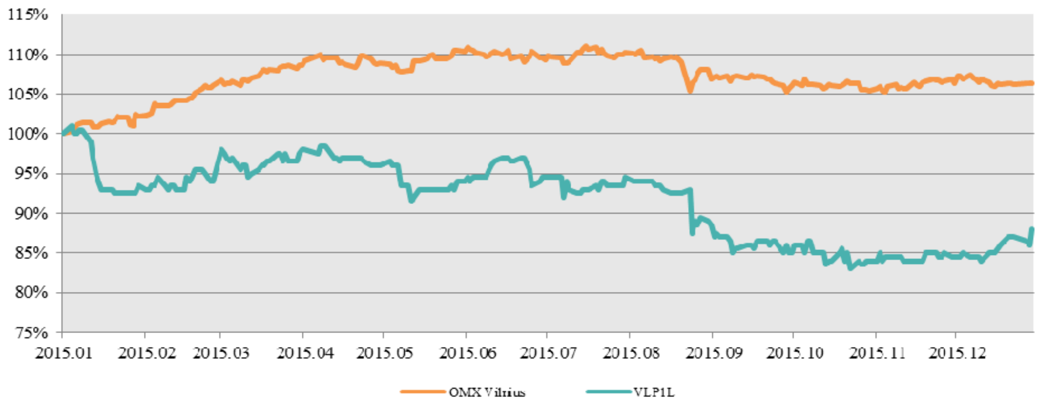
The Company is not aware of any direct agreements between shareholders that might result in restrictions on the transfer of securities and/or on voting rights.

26. Trading in Issuer‘s Securities on Regulated Markets

The change of price of *AB Vilkyškių pieninė* shares and trade volume in 2015.



Comparison of *AB Vilkyškių pieninė* share price and OMX Vilnius Index, 2015.



27. Dividend

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

Dividend and amount of dividend

1. The Law on Public Companies of the Republic of Lithuania stipulates that the dividend constitutes a share of profit payable to a shareholder in proportion to the face value of the stock held by the shareholder.

2. The Company‘s shareholders cannot vote to pay a dividend at a general meeting of shareholders, if 1) the Company is insolvent 2) the distributed result for the fiscal year ended is negative 3) the Company‘s equity is smaller than the sum of its authorised capital and reserves, or in cases where it would become smaller following a dividend payout.

3. The Company‘s board shall submit to the General Meeting of Shareholders an amount of dividend based on the audited net profit result for the fiscal year ended.

4. If the Company has been profitable, the Company‘s board shall allocate a certain part of revenue for dividend as set out in Clause 2.6, reinvesting the rest of the revenue so as to increase the Company‘s capitalisation.

5. The Company shall pay dividend in cash.

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

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

AB Vilkyškių pieninė‘s dividend payments in the past 5 years:

Dividend	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)
Dividend (EUR)	830,144	864,733	726,376	1,037,680	836.010
Dividend per share (EUR)	0.07	0.07	0.06	0.09	0.07
Number of shares	11,943,000	11,943,000	11,943,000	11,943,000	11,943,000

AB Kelmės pieninė's dividend payments in the past 5 years:

Dividend	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)
Dividend (EUR)	3,764,466	2,890,185	4,269,700	2,419,497	3,489,039
Dividend per share (EUR)	1,51	1.16	1.74	0.98	1.42
Number of shares	2,494,808	2,494,808	2,457,070	2,457,070	2,457,070

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

28. Employees

On 31 December 2015, there were 975 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	10	7	3			2,886
Specialists	232	116	74	42		799
Workers	733	38	262	407	26	539
	975	**161**	**339**	**449**	**26**	**648**

On 31 December 2014, there were 966 employees working at *AB Vilkyškių pieninė Group*.

Employee category	Number of employees	Education				Average monthly salary (EUR)
		higher	vocational	secondary	secondary incomplete	
Managers	10	7	3			2,959
Specialists	223	106	71	46		825
Workers	733	29	261	397	46	505
	966	**142**	**335**	**443**	**46**	**610**

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

29. Authorisations to Issuer's Governing Bodies to Issue or Repurchase the Issuer's Stock

The general meeting of shareholders has authorised the Company's Board to conduct acquisition of the Company's own shares. The Board was authorised to purchase up to 10 percent of own stock, organise the purchasing process, establish the procedure, timing, numbers and prices for the purchase and sale of own shares, and to conduct all the necessary actions in compliance with the Law on Public Companies.

30. AB Vilkyškių pieninė's Group Governing Bodies

According to the Articles of Association of *AB Vilkyškių pieninė,* the Company's governing bodies are the General Meeting of Shareholders, the Board and the Chief Executive Officer. No supervisory council is set up. The Board of the Company represents the shareholders and performs oversight and control functions. The decisions taken by the General Meeting of Shareholders, where they concern issues falling within the remit of the General Meeting of Shareholders as specified in the Articles of Association, are binding to all shareholders, the Board, the CEO and other employees of the Company.

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

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

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

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

31. Procedure of Amendments to Company Articles

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

32. Activities of the Board

In the course of 2015, a total of 13 Board meetings were held, with the required quorum present at each of them. The Board approved the 12-month financial accounts for 2014, the 2015 three-month, six-month and nine-month interim financial statements, the 2014 annual financial statements and annual report; it also called an ordinary meeting of shareholders, offered the distribution of the 2014 profit for an ordinary meeting of shareholders, and proposed the procedure of treasury stock purchase.

AB Kelmės pieninė and *AB Modest* hold their board meetings regularly to discuss issues within the remit of the board of directors.

33. Board & Administration Members

AB Vilkyškių pieninė Board Members

Gintaras Bertašius (born 1964) – a Board Chairman since 30 January 2006, re-elected for a four-year term on 25 April 2014, CEO of *AB Vilkyškių pieninė*. Has a higher education diploma in mechanical engineering. Membership in other companies' governing bodies: a shareholder of ŪKB Šilgaliai, board chairman of *AB Modest*, board chairman of *AB Kelmės pieninė*. On 31 December 2015, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Sigitas Trijonis (bornv1964) – a Board Member since 30 January 2006, re-elected for a four-year term on 25 April 2014, Chief Technology Officer of AB Vilkyškių pieninė. Has a higher education degree in mechanical engineering. As of 31 December 2015, he held 425,607 shares of *AB Vilkyškių pieninė*, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies

Rimantas Jancevičius (born 1962) – a Board Member since 30 January 2006, re-elected for a four-year term on 25 April 2014, Chief Purchasing Officer at *AB Vilkyškių pieninė*. Has a college diploma as livestock engineer. As of 31 December 2015, he held 277,023 shares of *AB Vilkyškių pieninė*, 2.3 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vilija Milaševičiutė (born 1965) – a Board Member since 30 April 2009, re-elected for a four-year term on 25 April 2014. Has higher education in finance and credit. Chief Economics and Financial Officer of *AB Vilkyškių pieninė*. Membership in other companies' governing bodies: A board member of *AB Modest*. As of 31 December 2015,she held 7,813 shares of AB Vilkyškių pieninė, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Linas Strėlis (born 1968) – a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has higher education. CEO of *UAB LS Capital*, Director of *UAB Biglis*, , council chairman of Association of Social Enterprises (*Socialinių imonių asociacija*), board member of *AB Agrowill*. As of 31 December 2015, did not have any shares in *AB Vilkyškių pieninė*.

Andrej Cyba (born 1983) **–** a Board Member since 7 March 2008, re-elected for a four-year term on 25 April 2014. Has a university degree in business administration and management. CEO of *UAB GPI*, CEO of *UAB GP2*, CEO of *UAB Piola*. As of 31 December 2015, did not have any shares in *AB Vilkyškių pieninė*.

AB Vilkyškių pieninės Members of Administration

Gintaras Bertašius (born 1964) – CEO and Chairman of the Board. Works at the Company since 1993. Has a higher education diploma as mechanical engineer. Membership in other companies' governing bodies: a shareholder of *ŪKB Šilgaliai*, board chairman of *AB Modest*, board chairman of *AB Kelmės pieninė*. On 31 December 2015, he held 6,067,206 shares of *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights

Vilija Milaševičiutė (born 1965) – Chief Financial Officer, a Board Member, working at the Company since 2000. Has higher education in finance and credit. A board member of *AB Modest*. As of 31 December 2015, she held 7,813 shares of *AB Vilkyškių pieninė*, 0.07 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Vaidotas Juškys (born 1969) – Executive Officer, working at the Company since 2010. Has a degree in IT. As of 31 December 2015,he held 250 shares of *AB Vilkyškių pieninė*, 0.002 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Sigitas Trijonis (born1964) – Chief Technology Officer, a Board Member, working at the Company since 1993. Has higher education as mechanical engineer. As of 31 December 2015, held 425,607 shares of *AB Vilkyškių pieninė*, 3.6 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Rimantas Jancevičius (born 1962) – Chief Purchasing Officer and a Board Member, working at the Company since 1996. Has a college diploma as livetock engineer. As of 31 December 2015, held 277,023 shares of *AB Vilkyškių pieninė*, 2.3 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

Arvydas Zaranka (born 1966) – Chief Production Officer, working at the Company since 1995. Has a college degree in dairy technology. Membership in other companies' governing bodies: a board member of AB Modest, a board member of AB Kelmės pieninė. As of 31 December 2015, held 1,933 shares of *AB Vilkyškių pieninė*, 0.016 percent of the stock and voting rights. Has no seats in other companies' governing bodies.

A total of EUR 212,000 in bonuses were paid out to *AB Vilkyškių pieninė* board members in 2015, on average EUR 35,300 per member. The bonuses to the CEO and CFO totaled EUR 112,500, or EUR 56,000 per person on average. In 2015, the Company did not issue any loans, guarantees or letters of credit to members of its governing bodies. In 2015, the Company did not pay its board members or employees any salaries, bonuses or other payments from the profits of the Company's subsidiaries.

Members of *AB Kelmės pieninė* board and administration

Gintaras Bertašius (born 1964) – Chairman of the Board, last re-elected for a four-year term on 26 April 2012. Participation in the governing bodies of other companies: board chairman and CEO of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2015, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Arvydas Zaranka (born 1966) – a member of the board, re-elected for a four-year term on 26 April 2012. Participation in the governing bodies of other companies: Chief Production Officer of AB *Vilkyškių pieninė*, board member of *AB Modest*. Has a college degree in dairy technology. As of 31 December. 2015, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

Algirdas Žukauskas (born 1958) – a member of the board, re-elected for a four-year term on 26 April 2012, CEO of *Kelmės pieninė*. Working at the company since 2008. Has a degree in livestock engineering. Holds no positions in other companies. .

In 2015, *AB Kelmės pieninė* did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

Members of AB Modest board and administration

Gintaras Bertašius (born 1964) – Chairman of the Board, last re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: board chairman and CEO of *AB Vilkyškių pieninė*, shareholder of *ŪKB Šilgaliai* (1 share), board chairman at *AB Modest*. Holds a higher education degree in mechanical engineering. As of 31 December 2015, had 6,067,206 shares in *AB Vilkyškių pieninė*, 50.8 percent of the stock and voting rights.

Arvydas Zaranka (born 1966) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Chief Production Officer of AB *Vilkyškių pieninė*, board member of *AB Kelmės pieninė*. Has a college degree in dairy technology. As of 31 December 2015, held 1,933 shares in *AB Vilkyškių pieninė*, i.e. 0.016 percent of share capital and voting rights.

Vilija Milaševičiutė (born 1965) – a member of the board, re-elected for a four-year term on 10 December 2013. Participation in the governing bodies of other companies: Chief Financial Officer of and board member *AB Vilkyškių pieninė*, a member of *AB Kelmės pieninė* board. Holds a university degree in finance and credit. As of 31 December 2015, held 7,813 shares in *AB Vilkyškių pieninė,* i.e. 0.07 percent of the stock and voting rights.

Kęstutis Keršys (born 1957) – CEO of *AB Modest*, working at the company since 2010. Holds a higher education degree in economics, has no shares or seats in other companies.

In 2015, AB Modest did not allocate any bonuses, loans, guarantees or letters of credit to members of its governing bodies.

34. Committees

Members of the Audit Committee: Vanda Krivonosovienė (an independent member, employee of Tauragė District Municipality), Ligita Pudžiuvelytė (*AB Vilkyškių pieninė* employee) and Milana Buivydienė (*AB Vilkyškių pieninė* employee). None of the Committee members hold senior positions in the Company's administration or have shares in the Company.

During 2015, three meetings of the Audit Committee were held. They discussed and approved the following: the Company's 2014 financial statements, the draft 2014 annual report, the draft 2014 profit distribution report, the 2015 internal audit plan and the 2016 budget. Each meeting was attended by all members of the Committee.

No committees are formed in subsidiary companies.

35. Agreements Enacted by Change of Control, Where Issuer is a Party

There are no agreements, to which the Issuer is a party, that would take effect if control of the Issuer changed.

36. Information about Agreements Between the Issuer and its Governing Members or Employees on Compensation Payouts in Case of Their Resignation, Unfair Dismissal or Discharge Upon Change in the Control of the Issuer

The Board Rules of Procedure do not provide for any compensation or payouts if a member of the Board resigns before the Board's term has expired. All employees are employed and dismissed in conformity with the provisions of the Lithuanian Labour Code.

37. Information About the Company's Transactions With Related Parties

Information about transactions with parties that are related to the Company has been included in the *AB Vilkyškių pieninė* financial statements for the year ended 31 December 2015, in Chapter 25.

38. Information About Detrimental Acts Concluded by the Issuer that Could Affect Issuer's Operations

The Issuer has not concluded any detrimental transactions that had or could in the future have any negative impact on the Issuer's operations or results. Nor has the Issuer concluded any transactions involving conflict of interest on behalf of the Issuer's top management, major shareholders or other related parties.

IV. INFORMATION ABOUT COMPLIANCE TO MANAGEMENT CODE

The Company has prepared a Disclosure on Compliance with the Management Code Principles, which is attached as an Annex to this Consolidated Report.

V. INFORMATION ON DISCLOSURES

On the 10th day of each month, sales figures for the preceding months are published. A report has been published on an ordinary meeting of shareholders, as well as reports on the annual and interim results and the following report regarding the announcement of interim financial information:

Amended Securities Act in force since 4 December 2015 foresees that issuers can decide whether to prepare interim financial information (3, 9 and 12 months interim financial statements) or not. Vilkyskiu pienine, AB announces that instead of interim financial statements the company will publish key performance indicators review. Interim financial statements for 12 months of 2015 will be published on February 29, 2016, later will be published key performance indicators review.

Annex

Announcement of Vilkyskiu pienine AB Group concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2015

The public company *Vilkyskiu Pienine* following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the NASDAQ Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company constantly presents information related with the development strategy and with the optimization of shareholder value via the information system of the Stock Exchange, on its website (www.vilkyskiu.lt/investuotojams/).
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the company act in furtherance of the declared strategic objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The company has set up the Management Board (with the exception of AB Pieno logistika) which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the AB Vilkyskiu pienine.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer. AB Pieno logistika's governing bodies are a General Meeting and the head of company. No Management Board is set up in thsi Company. The company does not set up a supervisory board as a collegial management body. The Management Board is responsible for the supervision of company's activity and management (except for AB Pieno logistika).

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions that are indicated in this recommendation are implemented by the Management Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The company does not follow this recommendation, where a company chooses to form only one collegial body, as Management Board is the one collegial body. The company does not follow the Recommendation 2.3 of the Governance Code – at present the only collegial body of the company is a management body, not a supervisory one. The management body of the company implements the supervisory functions as well.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	These principles are applied to the Management Board as long as they do not contradict the essense and purpose of the Board.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	At present, in accordance with the Articles of Association, the Management Board of AB Vilkyškių Pieninė is composed of 6 members who are appointed for the period of four years. The Management Board of AB Modest is composed of 3 members. The Management Board of AB Kelmės Pieninė is composed of 3 members. No Management Biard is set up at AB Pieno logistika. The number of members of the collegial body is sufficient to dominate decision-making.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	In accordance with the Articles of Association, the members of the Management Board are appointed for the period of four years without limiting the number of their terms of office. The Articles of Association provides the company with the possibility to withdraw the whole Management Board or any of its members. The withdrawal of a member of the Management Board should be based on the legislation.

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

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

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	No Yes	AB Vilkyškių Pieninė does not follow the Recommendation 2.7 because the chairman of the Management Board is Director General of the Company. The independence of supervision is guaranteed by other five members of the Management Board. AB Modest and AB Kelmės Pieninė follow the recommendation.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[3]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. The company follows all provisions that are indicated in this recommendation, moreover, the company could additionally mention the document (such as the operating regulation of that body), if any, which determines the specific order of data exchange among the member of that collegial body.	Yes	While electing the collegial body of the company, the shareholders may take the cognizance of comprehensive information about the candidates early enough before the meeting of the shareholders and during it as well.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. The company could comprehensively comment the implemented practice (for instance, prior to the announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year).	Yes	The company accumulates and discloses the entire information about the members of collegial body, their professional education, qualification and conflicts of interest, following the order set out in these recommendations. The Company does not have any regulation on the Management Board's activity.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's	Yes	During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education,

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

particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.		professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly. The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit. No audit committee has been formed AB Modest and AB Kelmės Pieninė. and AB „Pieno logistika"
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the Management Board and the members of Audit Committee of AB Vilkyškių Pieninė constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a	No	The Company has not defined independence criteria for Management Board members. However, AB ‚Vilkyškių pieninė has two Board members who meet the independence criteria specified herein.

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

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

member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above		

items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the Management Board of AB Vilkyškių Pieninė are paid tantjems for their service on the Management Board. not remunerated for their service on the Management Board. Members of the Management Boards of AB Modest and AB Kelmės Pieninė are not paid for their service on the Management Board.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting. The Board also submits recommendations and suggestions to the

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

[7] See Footnote 3.

management bodies and monitor and control the company's management performance.[8]		head of administration.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Based on the company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	In the year 2015, the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the	Yes	The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.

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

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

independent members of the collegial body voted for such a decision.		
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees (if formed) are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion. Remuneration committee of AB Vilkyškių Pieninė ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.
4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	*Vilkyskiu pienine* AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee. The committees are not formed in AB Modest, AB Kelmės Pieninė. and AB „Pieno logistika“
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial	Yes	The key objective of the Nomination and Remuneration Committee of AB Vilkyškių Pieninė is to provide the bodies of

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

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

body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee of AB Vilkyškių Pieninė exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Each committee of AB Vilkyškių Pieninė is composed of 3 members.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.

maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.		
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.	Yes	The functions of Nomination committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors	Yes	The functions of Remuneration committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function,	Yes	AB Vilkyškių Pieninė substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control. The Audit Committee ensures effectiveness of internal audit function as well.

among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all		

relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The chairperson of the Management Board heads up the meetings of the Management Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the	Yes	Meetings of the Board are organised in accordance with the approved time schedule and upon need.

company's board should meet at least once a month[12].		
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Each member of the management body may take the cognizance of the issues on the agenda of the meeting before the day of the meeting. Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and which may include specialists who are not the employees of the company.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary registered shares that grant the same personal property and not-property right to all holders of company's shares.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders	Yes	Important transactions are approved following the order set in the Articles of Association.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.
[13] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their

should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ Vilnius in Lithuanian and English languages: 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings	No	Company has not applied the means of modern technologies.

own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

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

statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.		the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to	No	

the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	

8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.13. Shares should not vest for at least three years after their award.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered	Not applicable	According to the Company's Articles of Association, the salaries of management fixed by the Management Board (except for AB Pieno logistika, where the salary for the company head is fixed

use of their votes regarding directors' remuneration.		by the General Meeting.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article	Not applicable	

8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company and they have access to relevant information.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	Stakeholders, who own the shares of the company, have a right to participate in the meetings of the company, to take interest in activities of the company and its results. If the company works profitably, dividends are paid to the shareholders.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5. Material foreseeable risk factors; 6. Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum	Yes, except salary information set out in point 4	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company.

recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. When disclosing information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes Yes Not applicable	When disclosing the information set in item 1 of Recommendation 10.1, a company, which is the parent of other companies, discloses the information regarding the consolidated results of the whole group to which the company belongs. Except for salary information.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The company presents the information via the information disclosure system applied by NASDAQ Vilnius simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavours to announce the information before or after a trading session on NASDAQ Vilnius and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have an impact on the price of its issued stocks and does not disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The company publicly announces all the essential information (in Lithuanian and English languages) on the website of the company, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The company follows this recommendation and places all the essential information on the company's website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		

11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Management Board nominates the candidate firm of auditors to the General Meeting (except for AB ,Pieno logistika, where the nomination is done by the copmpany head), and the General Meeting is responsible for appointing the audit firm.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any not-audit services and it has not received from the company any remuneration for not-audit services.