



SOCIAL RESPONSIBILITY REPORT 2020

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The financial year 2020 was a year of both challenges and achievements for Vilniaus Baldai. These included efforts to sustain our work processes in the face of the coronavirus pandemic, as well as the start of our production operations at a new factory in Trakai District.

In August, the first stage of the new Vilniaus Baldai factory project was successfully completed in the Trakai District of Guopstos Village – the building was constructed and fully equipped, new production lines were installed, a team of professionals was assembled and the manufacturing of furniture has now begun. With a total investment of EUR 55 million, modern automation, robotics and technological solutions have been implemented in the factory that will allow the company to double its production capacity. This will also enable to company to supplement its product range with new items in response to the needs of our main customer – IKEA. The move to the new factory is planned to be completed by the end of 2022.

In order to manage the impact of the coronavirus pandemic, the company has implemented new work organisation methods and risk management tools, as well as deepening our knowledge of crisis management practices. During the first quarantine in the spring, one of our most important achievements was saving the jobs of all our employees, as our production lines were forced to stop before resuming operations. We are proud to have provided our employees with better payment conditions than those guaranteed by the state during this downtime. We also maintained good relationships with our suppliers, continued the implementation of our planned projects and updated our range of manufactured furniture, according to the customer requirements.

The company has declared 2020 as the Year of Vilniaus Baldai team. As a result, initiatives to promote communication, involvement and improvements have been implemented, which resulted in a significant reduction of the employee turnover rate. In order to achieve further advancements, the company will dedicate 2021 to the promotion of professional initiatives.

We will continue paying a great deal of attention to protecting the environment through a responsible use of resources and continuous process improvements, to ensure that our customers receive sustainably manufactured, high-quality and ecological furniture.

AB Vilniaus Baldai



KEY PERFORMANCE INDICATORS



A NEW FACTORY

In the financial year 2020, the public limited company Vilniaus Baldai completed the first stage of constructing a new factory in Trakai District, Guopstos Village. The factory building has been built and equipped, new production lines are installed and the production of furniture is gradually starting. The second phase, consisting of the company's relocation, is expected to be completed by the end of 2022.

The Vilniaus Baldai factory project is based on a long-term agreement with the company's main customer, in order to meet its future needs. EUR 55 million has been invested in the construction of a 73 thousand sq. metre factory that is being built on an 18 ha plot, located 5 km from Vilnius. It will allow the company to significantly improve its working conditions, as well as to increase its production capacity and supplement its range with new products.

Jobs for local people

The new factory has already started part of its production operations, while the work in its warehouses for raw materials and finished products is also underway. These work processes are currently the responsibility of about 150 employees, but this number will grow as the production volumes increase. Members of the Vilniaus Baldai team travel to the new factory on company buses that run on different routes. The bus travel times are tailored to meet both the shift schedules and the demands of public transport.

The new factory will be equipped with comfortable changing rooms and modern lounges for its workers. Areas with computers will also be provided, where it will be possible to find the company's news and read the magazine published for employees. The factory in Trakai District also has a canteen, where part of the meal costs are reimbursed by the company.

Solutions based on good practice

The A++ energy class Vilniaus Baldai factory has been built in accordance with the highest sustainability requirements, as enshrined in the IKEA IWAY standard, and was designed based on examples of good practice. It will enable the company to reduce its energy consumption, carbon dioxide emissions and waste generation.

The new factory will also create an opportunity for the employees to work more efficiently. As well as being equipped with new, modern equipment, the equipment previously owned by the company will be improved during the relocation. This will result in higher-skilled and better-paying jobs. Those who are interested in being hired will first have an opportunity to deepen their knowledge and improve their skills at special training sessions organised for this purpose.



RESPONSIBLE USE OF RESOURCES

In order to use natural resources responsibly, Vilniaus Baldai has continually invested in energy-saving equipment and is implementing other technological innovations.

Production technology

More than half of the furniture manufactured by the company is made using hollow frame BoF technology, in which solid wood is replaced with recycled paper honeycomb. This reduces the consumption of wood, as a raw material, by up to five times.

Raw materials certified by the FSC and sourced from responsibly managed forests are also used in the production lines. The FSC chain-of-production certificate confirms that the materials used in the production are clearly identified as FSC-certified, or are separated from non-certified and uncontrolled materials throughout the production chain.

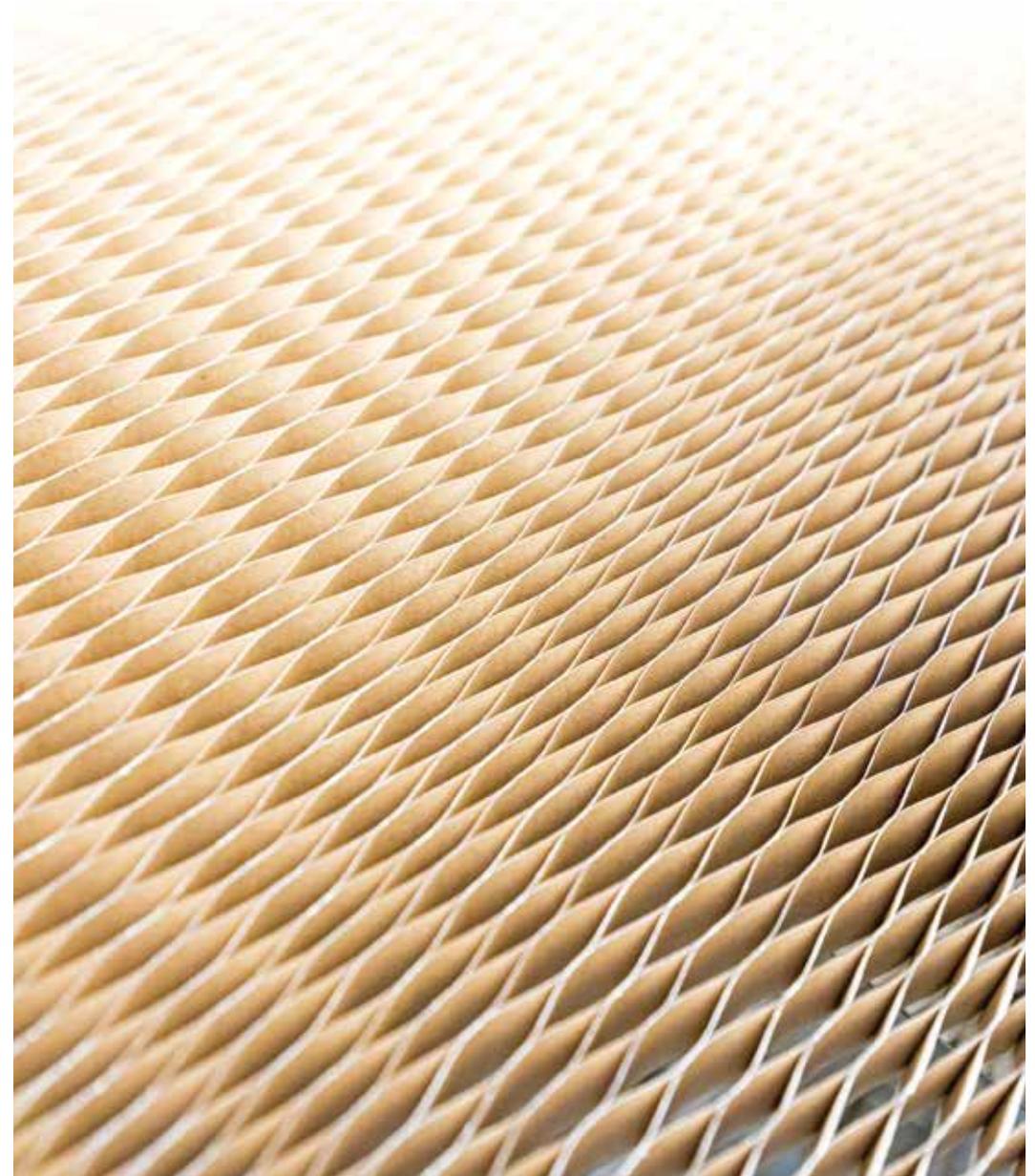
Use of FSC-certified wood raw materials in the company's products



Investments in equipment

Through continuous technological testing and investments in energy saving equipment, such as LED lamps for the UV coating line, the company has found ways to apply less materials and achieve a better product quality. In addition, investing in the modern and efficient SHELLING cutting line has created an opportunity to achieve the optimal use of raw materials.

When adding new items to the range of furniture manufactured by the company, we strive to select the lightest possible materials with the lowest density, which are strong enough to withstand the mechanical requirements when put together. At the same time, we look for the most economical and the safest product packaging solutions, to the product to reach its end customer intact and in the best condition. All of these steps have allowed us to work together with our main customer to achieve our common goal – producing sustainable and high-quality products that are affordable to as many people as possible.



ENVIRONMENTAL PROTECTION AND QUALITY

Every piece of furniture produced by Vilniaus Baldai must meet our high quality, functional standards. It must also have a unique shape and be created in a sustainable environment, according to the goals set for the company by our main customer. In other words, we pay special attention to both the quality of our furniture and to environmentally-friendly solutions. This ensures that the end user will receive high quality and eco-friendly furniture.

Quality assurance

The company has implemented the Quality, Environmental Protection and FSC Production Management System, which is periodically certified in accordance with the ISO 9001, ISO 14001 and FSC-STD-40-004 standards. By listening to our customer's environmental, social and working condition requirements, we have established strict requirements when purchasing products, raw materials and services, as well as in our own operations.

The company implements the LEAN system, which allows the whole team to improve and to perfect our ongoing management processes. One part of the continuous improvement of our processes is KAIZEN. Contributions to this approach are made by four specialist teams, as well as by other proactive team members. In this way, we have implemented approximately 30 process improvements each year, leading to consistently improved work efficiency and a better product quality.

Environmentally-friendly solutions

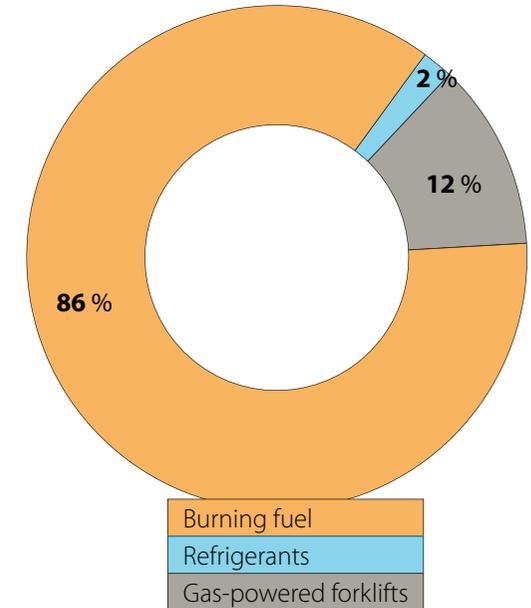
Every year, the company sets our environmental goals that will help us protect the environment more efficiently. These goals include the economical use of energy resources and raw materials, waste sorting and recycling, and constant improvements to our working environment.

There are containers for sorting waste in all the company's production and administrative premises, which help to constantly strengthen the responsible attitude prevalent within the company.

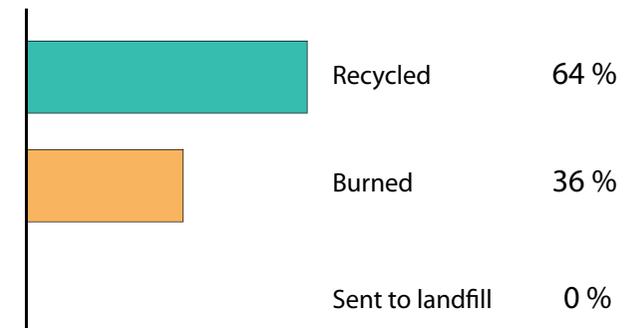
In addition, we aim to reduce our CO₂ emissions. By 2023, we plan to abandon the use of gas-powered forklifts and will switch to lithium-ion battery-powered electric forklifts. We are planning to transform all our refrigerants into environmentally-friendly options by 2028, while continuing to use clean electricity produced from renewable sources.

We are contributing to IKEA's 2030 goal of using only materials that can be recycled and that are produced using renewable resources. Currently, 64 percent of our materials are recycled and 36 percent of them are burned, so that 0 percent of the company's waste goes to landfill sites.

Sources of CO₂ emissions in the company



Waste management in the company



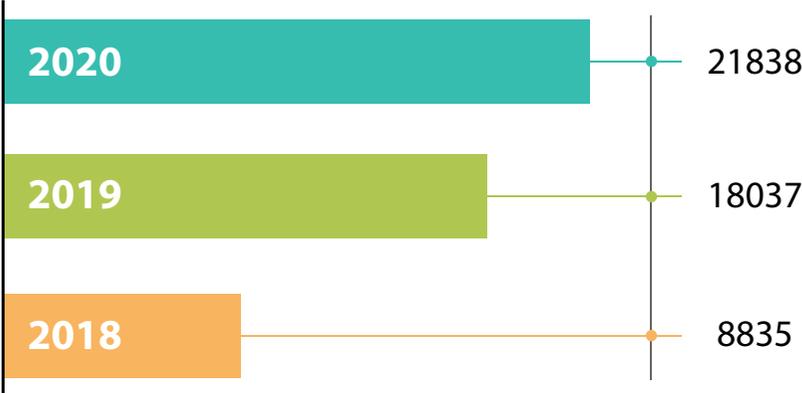
HEAT PRODUCTION FROM RENEWABLE ENERGY SOURCES

The private limited company Vilniaus Baldai became an independent heat producer in 2018. This means that the company produces heat energy from renewable resources and supplies this energy to the district heating networks of Vilnius.

A new UNICONFORT 4.5 MW biofuel boiler with an economiser and an efficient smoke cleaning system was installed in the company's boiler house. The main fuel for this boiler is a by-product of the production process – sawdust. In total, Vilniaus Baldai has invested over EUR 1.5 million in this heat energy production and supply project.

In the financial year 2020, the company sold heat to the city of Vilnius at a 13% cheaper rate compared to the heat production costs declared by Vilniaus šilumos tinklai.

Amount of heat sold (MWh)



EMPLOYEES

Vilnius Baldai pays a great deal of attention to ensuring the continuous improvement of working conditions within the company, by investing in the training and professional development of employees. As a result, the average gross salary at the company was 29 percent higher than the average monthly salary in Lithuania in the second quarter of 2020.

Due to the circumstances resulting from the Covid-19 pandemic, special attention is being paid to employee education and safety to ensure the best possible health of our team members. Personal protective equipment is distributed for both work and non-work use, while the latest information on the situation in Lithuania and throughout the world is periodically shared in the workplace. Special working conditions are created for our employees in high-risk groups, where they are preferred. In the spring, during the first wave of Covid-19 that led to a closure of many of our customer stores throughout the world, and the consequent need to halt our production processes, our workers were provided with payment terms during the downtime that were better than the state-guaranteed rates.

Average monthly salaries (EUR)

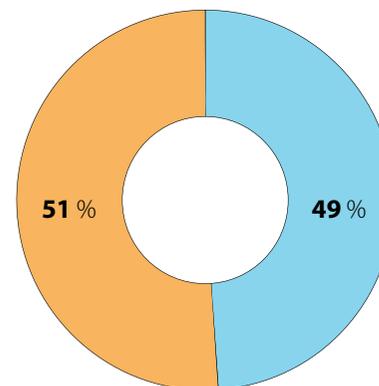
	2018	2019	2020
Management staff	6.355	6.573	5.765
Specialists	1.569	2.146	2.534
Workers	1.091	1.550	1.690
Total:	1.172	1.643	1.800

* Due to the tax reform that came into effect on 01/01/2019, the calculation method for the salaries has changed. The distribution between the salaries (excluding employee taxes) and the social security contributions has resulted in the largest impact.

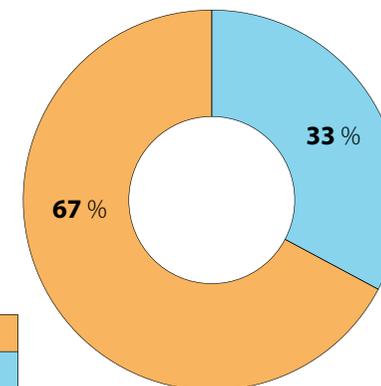
** Source: <https://osp.stat.gov.lt/informacini-ai-pranesimai?articleId=7938671> The average monthly salary (excluding employee taxes) in the national economy (excluding individual enterprises) in the second quarter of 2020 amounted to EUR 1398.5, representing an increase of 1.3 percent compared to the first quarter of 2020.



Administration



Production



WORK ENVIRONMENT

When organising our job selection processes, we strictly follow the requirements of the legal acts and follow the examples of good practice. Our aim is to ensure a comfortable, safe and development-friendly working environment.

Ensuring equal opportunities

We ensure equal opportunities for our existing and potential employees at all stages of the employment process – from the announcement of vacancies and the selection of candidates, to the employment conditions, education, work environment, etc.

The company has a zero tolerance policy with regard to discrimination on any grounds: race, religion, gender identity, ethnicity, marital or family status, age, political affiliation, nationality, physical ability, sexual orientation or any other aspect of a person's identity.

Respect for human rights

We guarantee that our employees can enjoy all basic human rights, alongside respectful behaviour, and the protection of honour and dignity. They are free to participate in public and political life, as well as to express their opinions, while ensuring that their public statements are understood as a personal opinion and not as the position of the company. We respect the right of our employees to choose to become members of a trade union.

Working environment zero tolerance for harassment

The company will not tolerate harassment in any form.

Protecting the interests of children

We do not use child labour – the company does not employ anyone who is younger than the statutory minimum age of employment and strictly prohibits all forms of forced labour.

Occupational health and safety

We strive to ensure a safe work environment and are constantly working to improving our safety measures. As a result, an electronic incident registration module has been developed by the company. This means that anyone can register sites where there is a potential risk of injury or another disaster, and can subsequently see when the hazard will be removed and who is responsible for this action. In addition, we insure all employees against accidents at work, as well as providing them with personal protective equipment, special clothing and shoes. We also provide medicines and vaccines, while monitoring and checking the health of our employees.

The necessary information on safety and health issues is provided to our personnel, including (but not limited to) fire safety areas, the proper handling of chemicals and equipment, emergency preparedness and first aid. We carry out internal training and delegate specialists to participate in external training. Thus, we are constantly helping our employees to improve and raise their level of awareness, so that everyone personally protects themselves and their team members, and can take all necessary measures in case of danger.

Toxic substance abuse is prohibited

The work processes in the company require clear thinking and quick reactions. We depend on our workers for the quality of our production, as well as the safety of the employees and other team members. The use of alcohol, drugs and other psychotropic substances is strictly prohibited in the company, as is arriving at work under the influence of such substances.



VALUE SYSTEM BASED ON EMPLOYEE INSIGHTS

The core values at Vilniaus Baldai are responsibility, team and professionalism. Together with the entire team of company employees, we have refined these values as the basis of our daily activities, communication and cooperation.

Taking into account the interests expressed by the employees themselves, the financial year 2020 was declared Year of the Vilniaus Baldai Team. The essential elements of this programme were better communication, involvement and improvement.

In order to achieve these goals, we started to publish the quarterly Vilniaus Baldai magazine for our employees, in which the company's news is shared along with practical, useful and interesting content. We also organised quarterly meetings of the employee and manager teams, where we discussed the latest information and topical issues. In addition, we installed Suggestions and Comments boxes that have allowed the employees to share ideas or ask questions, and we are currently testing several rest areas with access to computers.

These initiatives and other efforts are aimed at providing comprehensive care for our employees. They have led to positive changes in the employee turnover rate, which in the financial year 2020 was 12 percent lower than the previous rate.

In order to further actions meet the expectations of the company's team and to provide as many opportunities as possible to share insights for improvement, 2021 will be dedicated to the values of professionalism and initiative.



FAIR AND TRANSPARENT BUSINESS PRACTICES

Vilniaus Baldai's Code of Ethics is based on the values of trust, honour and honesty, which are cherished by the entire team. The code defines certain principles of conduct to ensure compliance with how we should work, establish and maintain the relationships with our colleagues, customers, business partners and other members of society. All members of the company's team are required to comply with the provisions set forth in the Code of Ethics.

Prevention of bribery and corruption

Our employees are prohibited from accepting cash gifts or cash equivalents (such as gift vouchers that can be transferred or exchanged for cash), as well as bank cheques, money transfers, investment securities, marketable securities, loans or shares. This includes giving or accepting gifts, as well as receiving benefits in exchange for favourable conditions intended to affect a business transaction or to gain business or a personal advantage.

Company suppliers, subcontractors and their business environment

We strive to ensure that the company's business partners, including the suppliers of services, goods or raw materials and their sub-suppliers, as well as the companies operating or performing work in the company's territory, comply with the provisions set out in the Code of Ethics. These provisions include the provision of equal opportunities for employees at work, respect for human rights, protection of the safety and health of employees, prevention of harassment, child or forced labour, and prohibitions on the use of drugs, alcohol, unallocated dangerous drugs or other psychotropic substances. Such provisions are also aimed at making the employees aware of our approach to support the prevention of corruption and bribery.



SOCIAL COMPANY

At Vilniaus Baldai's subsidiary, Ari-Lux, people are employed who have lost their capacity for professional and general work, including those who are economically inactive and unable to compete in the labour market on equal terms. In this way, we are helping these individuals return to the labour market and develop the necessary skills, while promoting integration and thus contributing to less social exclusion.

We have informally granted Ari-Lux the status of a non-profit company, and we will continue striving to meet the needs of the people who work at the company by adapting the jobs and creating conditions for them to work according to their capabilities.

In the financial year 2020, Ari-Lux had 64 employees.



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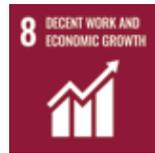
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