

Report on compliance with the taxonomy regulation for 2023.

The European Union's (EU) Taxonomy Regulation is one of the most important pieces of legislation aimed at implementing EU objectives in the areas of sustainability and climate change mitigation. This regulation is part of the EU's initiative to create a sustainable and competitive European economy based on the principles of low carbon emissions and sustainable development. The Taxonomy Regulation aims to establish a common and uniform classification system for sustainability, enabling investors to more easily identify and finance projects and financial products that meet sustainability criteria and contribute to long-term environmental protection, social welfare, and economic growth.

AB "Pieno žvaigždės" as a large public interest company with more than 500 employees falls within the scope of application of the EU Taxonomy. Although the company's main activity, milk processing and dairy product manufacturing, is currently not regulated as taxonomy-related activity, an analysis has been conducted within the company to identify the conformity of its other activities with taxonomy requirements, following the evaluation process outlined below:

- 1. Identification of Taxonomy-related Economic Activities.** According to Article 1(5) of Delegated Regulation (EU) 2021/2178, taxonomy-related economic activity is an economic activity described in delegated acts, regardless of whether the described economic activity meets any or all of the specified technical screening criteria. The company extensively analyses the descriptions of taxonomy-related activities provided in Delegated Regulations (EU) 2021/2139 and (EU) 2023/2178, based on which the company's taxonomy-related activities are identified.
- 2. Assessment of Compliance with Technical Screening Criteria.** The technical screening criteria for the identified taxonomy-related activities are analysed, and the processes carried out within the company are reviewed for their compliance with taxonomy requirements.
- 3. Verification of the Essential Safeguards.** The procedures implemented within the company are evaluated to ensure compliance with the UN's basic principles of business and human rights, as well as OECD recommendations for multinational enterprises.
- 4. Determination of Compliance Status.** After analysing the technical screening criteria and essential safeguards, it is determined whether the taxonomy-related activity meets the criteria. If the taxonomy-related activity does not meet any of the substantial contribution or do no significant harm criteria, it is identified as a taxonomy-related activity that does not meet the criteria.
- 5. Calculation of Key Performance Indicators (KPIs).** KPIs are calculated according to the requirements outlined in Annexes I and II of Delegated Regulation (EU) 2021/2178 for non-financial companies.

Identification and assessment of taxonomy-related economic activities

After examining the Delegated Regulations, it is concluded that Pieno žvaigždės engages in the taxonomy-related activities specified below, and compliance with the technical screening criteria is provided.

The activities specified in the delegated acts	Taxonomy code	Description of activities carried out by Pieno žvaigždės	Technical screening criteria	Essential safeguards	Compliance with criteria
District heating/cooling distribution	CCM 4.15 CCA 4.15	The company has installed centralized infrastructure in its production branches for heating, ventilation, and cooling of its own buildings.	Since a reliable climate-related risk and vulnerability assessment has not been conducted, the Company cannot claim to meet all the substantial contribution criteria and do no significant harm criteria identified.	The company conducts its operations while ensuring compliance with OECD recommendations for multinational enterprises and the United Nations' basic principles of	Compliance with the criteria is not met.



Collection and transportation of non-hazardous waste	CCM 5.5 CCA 5.5 CE 2.3	Separate collection and delivery of remaining whey and category 3 ABPs from dairy production processes to biogas plants for recycling.	Since a reliable climate-related risk and vulnerability assessment has not been conducted, the Company cannot claim to meet all the substantial contribution criteria and do-no-significant-harm criteria identified	business and human rights. The publicly disclosed Code of Ethics is based on the company's values, which form the foundation of its business and guide the company's employees in establishing and maintaining relationships with clients, suppliers, partners, government institutions, and other stakeholders.	Compliance with the criteria is not met.
Urban and suburban transport, road passenger transport	CCM 6.3 CCA 6.3	M2 vehicles owned by the company.	In 2023, zero-emission or low-emission vehicles were not operated, and a reliable climate-related risk assessment was not conducted. Therefore, the specified activity does not meet the substantial contribution criteria identified for environmental objectives.		Compliance with the criteria is not met.
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	M1 and N1 vehicles owned/leased by the company (meeting the criteria of Regulation (EU) 715/2007).	In 2023, zero-emission or low-emission vehicles were not utilized, and a reliable climate-related risk assessment was not conducted. Therefore, the specified activity does not meet the substantial contribution criteria identified for environmental objectives.		Compliance with the criteria is not met.
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	Premises and buildings owned by the company.	The premises and buildings owned and/or leased by the company do not meet the high energy efficiency class as per the specified substantial contribution criteria, and a reliable climate-related risk assessment was not conducted.		Compliance with the criteria is not met.
Manufacture of plastic packaging goods	CE 1.1	Production of high-density polyethylene (HDPE) bottles and containers used for packaging finished products.	The taxonomy-related activity does not meet all of the specified substantial contribution criteria. The packaging unit is designed to be practically and widely recyclable, but circular (secondary) raw materials are not used in packaging production.		Compliance with the criteria is not met.

Accounting policy

The company's accounting methodology for calculating KPIs is based on EU Commission Delegated Regulation (EU) 2178/2021 and the interpretations provided in currently applicable EU Commission communications and reports (hereinafter referred to as "guidelines"). Considering that the interpretive guidelines are limited, the company has made several assumptions to ensure proper disclosure of Taxonomy requirements. These assumptions will be adjusted accordingly upon the emergence of new official guidelines from the European Commission or additional information regarding the appropriate disclosure of taxonomy indicators.

In the company's annual set of financial statements for 2022, the required information under the Taxonomy Regulation was not disclosed. This situation has been corrected in the 2023 report, considering the amended and supplemented requirements of the Regulation and related Delegated Acts, and retroactively providing possible taxonomy-related indicators for 2022.

The KPI (Key Performance Indicators) for activities that do not meet taxonomy criteria were calculated by associating relevant activity expenses with specific taxonomy-related activities and assigning the corresponding taxonomy identification code to these expenses. OpEx and CapEx financial indicators for taxonomy-related activities were disaggregated and selected according to published EU Commission guidelines, so the provided numbers may not match the data declared in the financial report. In the accounting, KPI for taxonomy activity CCM 5.5 "Collection and transportation of non-hazardous waste" is not provided because the company lacks suitable tools to objectively assess the proportionate share of technical maintenance and repair required for taxonomy-related activity. The assets necessary for CCM 5.5 taxonomy activity



are used for both taxonomy and non-taxonomy activities. Additionally, KPI for taxonomy activities identified under Delegated Regulation (EU) 2023/2486 (CE 1.1 "Manufacturing of plastic packaging goods") were not provided for the accounting years because the KPIs for these identified taxonomy activities must be disclosed starting from the year 2024.

To avoid double counting, the company's accounting policy introduces an additional tagging system whereby each taxonomy-related KPI is assigned a corresponding taxonomy code. When taxonomy activity contributes to several environmental objectives, responsible individuals within the company assess which environmental objective has the greatest impact and allocate the incurred expenses accordingly to the chosen environmental objective.

Calculation of Turnover from taxonomy-related activities. In the accounting year, company did not have any revenue related to taxonomy-related activities. Therefore, company's net non-taxonomy revenue is provided, calculated according to Article 82(a) of the International Financial Reporting Standards (IFRS) 1. Compared to 2022, the portion of revenue not related to taxonomy-related activities decreased by 1.4%. The main factor contributing to this change was the decision by the company's management in 2022 to sell a portion of its long-term assets to streamline company's logistics operations.

Calculation of CapEx for taxonomy-related activities. According to Delegated Regulation (EU) 2178/2021, CapEx for the company's taxonomy-related activities is calculated as a portion of the total CapEx, which is related to tangible and intangible assets associated with taxonomy activities, and the company's overall CapEx proportion. The KPI related to capital expenditure is accounted for following point 1.1.2 of Annex I of the Delegated Regulation, identifying CapEx by linking it to identified taxonomy activities and inserting them into the CapEx numerator. To avoid double counting and in accordance with EU Commission guidelines, the company's CapEx related to taxonomy is calculated by excluding advance payments until the related capital expenditure elements are recognized according to applicable accounting standards.

In 2023, the CapEx for taxonomy-related activities amounted to 16.1% of the company's total capital expenditures, which was 11.8 percentage points lower than in 2022. Both in 2023 and 2022, the company's identified taxonomy activities did not meet the technical screening criteria. The main factor contributing to the decrease was the implementation of many planned projects in 2022, leading to the redirection of the company's investments into other areas of activity in 2023, which are currently not considered taxonomy-related.

Calculation of OpEx for taxonomy-related activities. According to Delegated Regulation (EU) 2178/2021, the OpEx for the company's taxonomy-related activities is calculated as a portion of the OpEx related to assets and processes associated with taxonomy activities, and the company's overall OpEx calculated according to taxonomy requirements. Since, according to the Delegated Act, activity expenses include only maintenance and repair costs, short-term rental expenses, etc., the OpEx denominator specified in the taxonomy report does not match the activity expenses indicated in the company's annual report. Additionally, it is noted that during the accounting year, expenses related to asset maintenance and technical maintenance performed by employees were not included in either the OpEx numerator or denominator. The company currently lacks suitable tools to objectively assess and proportionally allocate expenses related to employees since maintenance and repair work is performed on assets assigned to both taxonomy and non-taxonomy activities.

In 2023, the OpEx for taxonomy-related activities amounted to 22.4% of the company's total operating expenses calculated according to the requirements set out in the Taxonomy Regulation. Since in 2022, the company did not have identified taxonomy indicators distinguishing only direct non-capitalized necessary expenses, we currently do not have the ability to compare the two reporting periods.



Turnover according to the EU Taxonomy Regulation

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')						Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, 2022	Category enabling activity	Category transitional activity
	Code	Turnover	Proportion of Turnover, 2023	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular economy	Biodiversity			
<i>Text</i>		<i>Currency, thousand EUR</i>	<i>%</i>	<i>Y; N; N/EL</i>	<i>Y; N; N/EL</i>	<i>Y; N; N/EL</i>	<i>Y; N; N/EL</i>	<i>Y; N; N/EL</i>	<i>Y; N; N/EL</i>	<i>Y/N</i>	<i>Y/N</i>	<i>Y/N</i>	<i>Y/N</i>	<i>Y/N</i>	<i>Y/N</i>	<i>%</i>	<i>E</i>	<i>T</i>
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1. Environmentally sustainable activities (Taxonomy-aligned)																		
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which enabling		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	E	-
Of which transitional		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																		
				<i>EL; N/EL</i>	<i>EL; N/EL</i>	<i>EL; N/EL</i>	<i>EL; N/EL</i>	<i>EL; N/EL</i>	<i>EL; N/EL</i>	-	-	-	-	-	-	-	-	-
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	0,0	0,0	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	1,4	-	-
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0,0	0,0	0	-	-	-	-	-	-	-	-	-	-	-	1,4	-	-
A. Turnover of Taxonomy-eligible activities (A.1+A.2)		0,0	0,0	0	-	-	-	-	-	-	-	-	-	-	-	1,4	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																		
Turnover of Taxonomy-non-eligible activities		201 533,1	100%															
TOTAL		201 533,1	100%															



Capital expenditure according to the EU Taxonomy Regulation

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')						Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) CapEx, 2022	Category enabling activity	Category transitional activity
	Code	CapEx	Proportion of CapEx, 2023	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular economy	Biodiversity			
<i>Text</i>		<i>Currency, thousand EUR</i>	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	S	P
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1. Environmentally sustainable activities (Taxonomy-aligned)																		
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which enabling		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	E	-
Of which transitional		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																		
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	-	-	-	-	-	-	-	-	-
District heating/cooling distribution	CCM 4.15 CCA 4.15	37,2	1,0	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	2,7	-	-
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	375,9	10,5	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	16,3	-	-
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3 CCA 7.3	28,3	0,8	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	1,1	-	-
Acquisition and ownership of buildings	CCM 7.7 CCS 7.7	135,7	3,8	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	7,9	-	-



CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	577,1	16,1	16,1	-	-	-	-	-	-	-	-	-	-	-	-	27,9	-	-
A. CapEx of Taxonomy-eligible activities (A.1+A.2)	577,1	16,1	16,1	-	-	-	-	-	-	-	-	-	-	-	-	27,9	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																		
CapEx of Taxonomy-non-eligible activities	3 004,9	83,9																
TOTAL	3 582,0	100%																



Operating expenditure according to the EU Taxonomy Regulation

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')						Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) OpEx, 2022	Category enabling activity	Category transitional activity
	Code	OpEx	Proportion of OpEx, 2023	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular economy	Biodiversity			
<i>Text</i>		<i>Currency, thousand EUR</i>	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	S	P
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1. Environmentally sustainable activities (Taxonomy-aligned)																		
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which enabling		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which transitional		0	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																		
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	-	-	-	-	-	-	-	-	-
District heating/cooling distribution	CCM 4.15 CCA 4.15	241,5	8,6	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	-	-	-
Urban and suburban transport, road passenger transport	CCM 6.3 CCA 6.3	1,3	0,05	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	-	-	-
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.3	177,4	6,3	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	-	-	-
Acquisition and ownership of buildings	CCM 7.7 CCS 7.7	212,1	7,5	EL	EL	N/EL	N/EL	N/EL	N/EL	-	-	-	-	-	-	-	-	-



OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	632,2	22,4	22,4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A. OpEx of Taxonomy-eligible activities (A.1+A.2)	632,2	22,4	22,4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																	
OpEx of Taxonomy-non-eligible activities	2 187,8	77,6															
TOTAL	2 820,0	100%															

