



**REPORT ON STRATEGY
IMPLEMENTATION
2021**

AUGA group, AB (hereinafter the Company) published its five-year business strategy in April 2020. The main goals of the Company's strategy remain:

- to improve efficiency in all business segments;
- to create a new model of sustainable organic food production — sustainable organic food architecture (SOFA) and reduce greenhouse gas emissions through innovation.

Efficiency agenda

The Company and its subsidiaries (hereinafter the Group or AUGA group) has continued to invest in the efficiency of its existing business segments in 2021. Mushroom growing has seen dedicated efforts to improve the quality of compost through raw material management such as peat and straw as well as to explore new market opportunities in Central Europe for organic mushroom output. Crop growing introduced improvements in the organisation of operations that led to maintaining cost structures for the main cash crops in line with 2020-levels.

This has not fed through to financial results (EUR 15.6 million net loss, EUR 9.1 million EBITDA) as long-standing COVID-19 pressures on the labour force and an extreme heatwave in the summer of 2021 severely impacted the Group's most profitable business segments, crop growing and mushroom growing.

Crop growing suffered significant declines in both, quality and yield due to adverse weather conditions. This led to a major miss of our key goal of the efficiency agenda for the segment, that of aligning organic and conventional wheat cost levels.

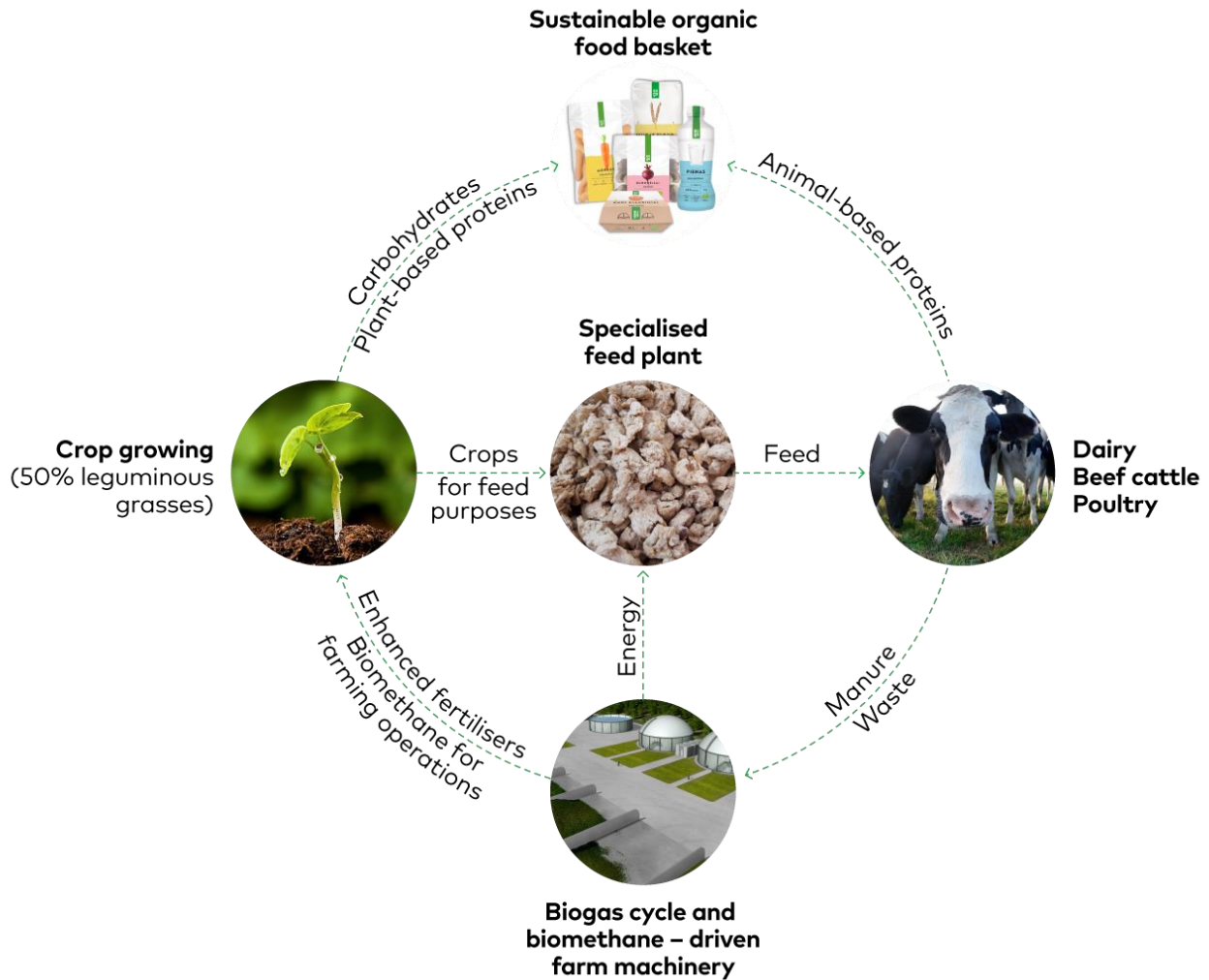
Mushroom growing had to contend with challenges in mushroom production related to high temperatures irregular to the season and the above-mentioned workforce disruption due to the pandemic. This directly impaired the ability to increase the share of organic mushrooms in the Company's sales structure, a top priority since April 2020.

The overall impact of this was a reduction of EBITDA for the Group by 11.8 M EUR, from Y2020 to Y2021.

The shortfall in EBITDA also impacted the Company's capacity to invest in innovation. To balance financial necessity with the funding required for the continued pursuit of the Company's strategy, the Company's strategic priorities have been carefully reviewed in terms of the economic/CO₂e effect ratio. Every effort has been made by Management to ensure minimum needs of investment to drive the progress in the Efficiency and Innovation agendas. Namely, the financing agreements with UAB Medicinos Bankas and UAB State Investment Management Agency helped secure EUR 10 million for dedicated purposes. Such an approach gained additional significance in the environment where food and energy security take unprecedented importance.

Innovation agenda

Considering the economic situation in 2021, affected by both long-standing pressures of the COVID-19 pandemic and more recent developments in the energy market, the Company's Independent Board (hereinafter, the Board) would like to emphasise the continued importance of the Sustainable Organic Food Architecture (SOFA) for the viability and competitiveness of business. The planned architecture is a way to ensure business resilience in the face of supply chain issues and soaring energy prices.



Given that the model lays the foundation for self-sufficient farming operations that do not only contribute to CO₂ e footprint neutralisation but are also powered by renewable energy sources derived from group-wide generated waste, it is of key importance that the Group dedicate every effort to reach full-scope of operational capacity in this technological area. The pace of technological development is the key element in contributing to consolidating AUGA group farming operations as a resilient and self-sustainable business and making it significantly less susceptible to external factors.



The year 2021 has marked significant headway in the in-house tractor technology achievements reached by AUGA group's R&D team. In September 2021, the Company presented the world's first zero-emissions biomethane and electric tractor for professional farm use – AUGA M1, able to drive in the fields for 12 hours. The announcement generated global reverberance in media and farming communities from more than 25 countries. The company's presented technology has also been recognised as a winner in the green innovation category at the Baltic Sustainability Awards 2021.

Together with the biomethane production infrastructure planned for 2022, the AUGA M1 will be able to close the full biomethane technology cycle and impactfully address one of the three major sources of pollution, stemming from AUGA group's farming operations.

Therefore, the Board commends the Group's plans to:

- start operations of 3 biomethane production facilities in Q4 2022;
- test up to 10 biomethane-driven tractors in the fields in Q4 2022;
- complete testing of specialised feed technology in 2022.

The future commercialization of the sustainable farming technologies is likely to be delivered through a communities-based sharing principle. This way of cooperation will ensure wider access to AUGA developed technologies for farmers outside AUGA group's immediate communities. Technology sharing as a service could become a new way of producing sustainable organic food that gains an additional quality of resilience when produced in a circular economy manner with a sustainably perpetuated nutrient cycle.

The sustainable farming technologies and their progressive effect on the CO₂e neutralisation in the environment substantiate the key premise for a Sustainable Food basket to be delivered to environmentally conscious consumers. As a result, The Company's Board dedicates a lot of focus to the processes and technologies that underpin the business concept and will seek that the new category of food will claim space on retail shelves in the nearest future.

Not the least, AUGA group together with the tremendous support of the Board dedicates a lot of focus to external party engagement for:

- building on the long-standing rapport with shareholders so that they can feel the pulse of innovation and AUGA groups' interim achievements on the journey to delivering food with no cost to nature;
- involving Group-related and external communities as well as consumers to be able to deliver the Sustainable Food Basket corresponding to insights and needs from within and outside.

The Group was awarded for its fair and transparent activities at the National Socially Responsible Business Awards in 2021. The award was presented in recognition of the AUGA group's development of investor relations, accountability to its stakeholders through Sustainability Reports, and the implementation of good corporate governance practices.