

Strategy implementation report

AUGA group, AB (hereinafter the **Company**) published its new five-year business strategy in April 2020. The main goals of the Company's strategy are (i) to improve efficiency in all business segments, (ii) to create a new model of sustainable organic food production (SOFA—sustainable organic food architecture) and reduce greenhouse gas emission through innovations.

Efficiency Agenda

The Company dedicated its focus to the efficiency agenda of its key business segments—crop growing, dairy, mushroom growing and fast-moving consumer goods (FMCG).

The key strategic initiatives for efficiency include the following:

- 1) **Crop growing** set a goal to bring wheat and pulse yield levels to the corresponding conventional ones and foresees the introduction of regenerative crop rotation and a higher level of grass cultivation and processing efficiency.
- 2) **Dairy** also aims to bring the cost structure of milk in line with national conventional structure and to increase animal welfare via a customised animal care programme.
- 3) **Mushroom growing** seeks to revisit the entire cycle of mushroom cultivation with the introduction of technology in key labour-intensive areas, such as picking and packaging.
- 4) **FMCG** has undertaken a mission to consolidate its market positions with AUGA and private label brands, not only in established, but also new markets.

In 2020, the Company achieved significantly better results in the crop growing segment compared to the previous year. This was due to improved production technologies and somewhat favourable weather conditions. The yields for 8 out of 13 other cash crops have increased compared to the previous year. In 2020, the average yields of legumes was close to the average yields achieved by non-organic farms in Lithuania. While the yield of wheat was lower than the yield of conventional wheat, due to specific fertilisation and weather conditions in 2020, the Company is constantly improving its technology and agricultural practices and in the long-term aims to achieve organic crop yields that are as close as possible to the country's average conventional crop yields.

In 2020, the primary focus of the AUGA group was to increase the efficiency of its dairy segment, and the Company can already see that this strategy is yielding its first positive impact on results. In terms of yield per cow per day it increased from 19.91 kg in 2019 to 21.09 kg in 2020.

The successful development of the mushroom segment is related to automatization solutions, and so the Company's subsidiary Baltic Champs, UAB with an external partner is implementing the project "Development of prototype of innovative champignon robotics technology" co-financed by EU structural funds. The Company is using artificial intelligence and robotic systems for research and technological development to reduce the risk of infections and diseases in mushrooms, and to increase the yield and quality of the mushrooms.

The FMCG segment continued to experience significant growth in 2020, mainly driven by development in its export operations, in particular to the U.S. market. Annual sales increased by 74% and AUGA group sells its products to 31 countries already.

Innovation Agenda

In line with its innovation agenda, the Company is looking to adapt three levels of technology into its Sustainable Organic Food Architecture (SOFA) model. This would create a new standard of sustainable farming upon the existing base of AUGA farms:

- 1) **Biogas cycle infrastructure** will enable farm operations to run without fossil fuels. Manure in the cycle will, in its secondary role, be utilised both for fertilisation and as a source to produce biofuel. 50% less emissions from fossil fuel use on farms will be achieved.
- 2) **Specialised feed technology** will reduce methane emissions from ruminants. 50% less emissions per one tonne of cow's milk will be achieved.

- 3) **Regenerative crop-rotation** will see a share of cereal cultures substituted for leguminous grasses that have carbon sequestration and nitrogen fixation capabilities. 30% less emissions from agricultural dry matter yield per tonne will be achieved.

These goals will be pursued through a new business model, the Sustainable Organic Food Architecture (SOFA), which will help address the most pressing technological challenges in the food industry while maintaining the momentum of scale, quality and yield growth.

Together with experienced partners and science and business institutions, the Company is implementing a project aiming to develop efficient biogas purification technology. With this project, the goal is to create a cheaper alternative to current biogas cleaning technology. The project is financed by the European Regional Development Fund.

In 2020, the Company focused on the production of a prototype of a biomethane-driven tractor. It is being developed in cooperation with technological universities from Lithuania and European technological solution suppliers and is fully financed by Company funds. It is planned to introduce the first tractor prototype for testing in farming operation in 2021.

In 2020, the Company made progress in the development of a specialised feed technology with the aim of reducing methane emissions from bovine enteric fermentation. Given that dairy farming is an integral component of the Group's closed-loop business model and methane (CH₄) contributes to the global greenhouse effect 28 times more than CO₂, it is essential for AUGA to address this issue.

An initiative of regenerative crop rotation resulted in an increased land area of leguminous grasses and pulses in 2020. It will have a long-term effect in the reduction of green-house gas emissions due to nitrogen fixation in the soil and a resulting lower amount of fertiliser (manure) used.

Summary

According to its short-term strategy the Company aims to reach EUR 45 million EBITDA by 2023. This plan remains unchanged, given there are no significant market disruptions, changes in prices, subsidies, and other external factors that we cannot forecast.

Our long-term strategy aims to establish the SOFA model and reach CO₂ emission reduction goals. The progress of current projects on the Company's efficiency and innovation agenda is in line with the plan, and the management of the Company believes that it will be able to deliver the desired results and to reach the goals.

The Group achieved one strategic goal in 2020—refinancing of financial liabilities to banks. Longer credit maturities and additional financing limits provide AUGA group with additional resources and opportunities to focus on implementation of the Strategy.

The external and political environment in the EU is favourable to the implementation of the Company's strategy. It is expected that EU support for the development of organic agriculture, green projects and sustainability innovations will continue.