



AUGA group, AB
Report on the Strategy
Implementation 2022

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

- (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 innovation.

Efficiency agenda

The operating environment in 2022 remained volatile. While high inflation put pressure on production cost and continued disruption of supply chains had adverse effects, increases in wholesale prices especially for crop and dairy helped profitability.

The Company has continued to invest in the efficiency of its existing business segments. In 2022, the Company initiated an organisational transformation designed to remove some of the complexity of the business structures that came as a result of the historic development of the Group's companies and their depth of integration. The transformation is being implemented in several stages, commencing with the separation of dairy farming from crop growing activities and the setup of dedicated entities to deal with cross segment initiatives such as the separated AUGA Tech arm (see innovation agenda).

The dairy segment was focused on improving standards in both animal welfare and calf rearing and 2022 showed a marked decrease in calf mortality rates. The Group's main operational targets for 2022 were to increase milk yield, improve digestibility and reduce methane emissions through better quality of feed. A switch to leguminous crops for protein feed drawn from the most recent season (2021/2022) delivered promising early results. Profitability of the dairy segment improved notably in the year, mostly due to the favourable increases in average milk price (28%), outpacing well contained production cost increases of 13%.

Crop growing recovered in the year. Better yields and favourable pricing resulted in a pronounced recovery of results from a challenging 2021. The segment continues to move to an ever more regenerative crop rotation expanding the rotation with grass and leguminous crops. Close to 1500 tonnes of self-grown winter cereal seeds were prepared and sown during the season, another top priority in the crop growing efficiency initiatives.

Mushroom growing was hit hard by increases in energy prices and staff shortages. It is a business with high fixed cost and slim margins so producing at maximum capacity is key to hitting acceptable average cost per kilo. Lower production and increases in energy cost could not be offset by negotiated price increases and pushed the segment into loss in 2022. On a positive note, price increases look set to stay, energy cost is coming down and staff shortages look to have been sorted by the end of 2022, so the segment looks to benefit from a year of tight cost control, price negotiation and process improvements in the year to come.

The overarching goal of the FMCG segment has been to expand market share and reach a wider spectrum of sustainability-driven consumers. After a slow start in 2022, the FMCG segment rallied later in the year and delivered 31% increase in revenue and a 7% increase in EBITDA. Continued product innovation, a wider portfolio and stronger growth in the US business in H2 helped full year results.

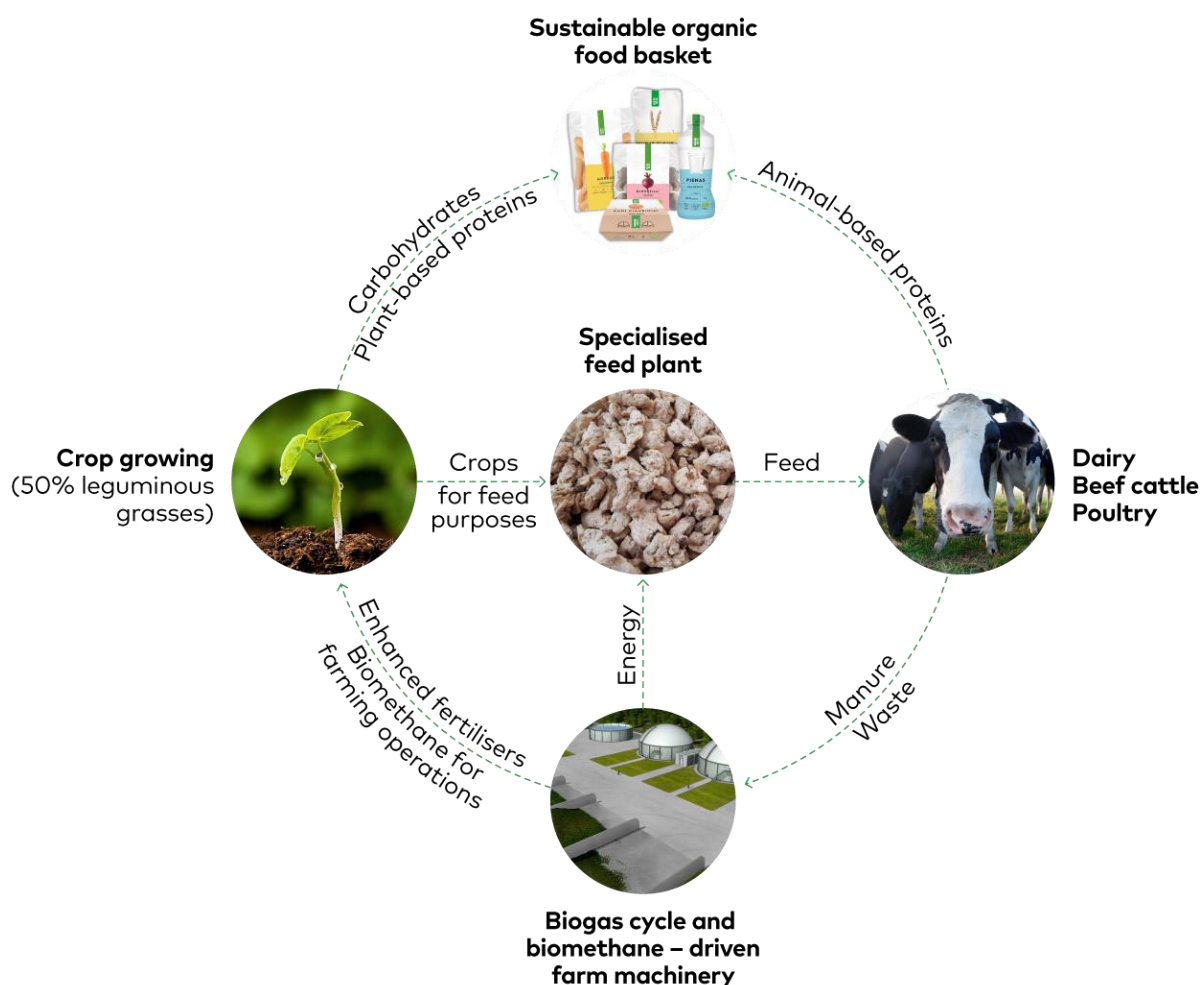


Innovation agenda

After yet another year of unpredictable events, a war in next door Ukraine, strong and sustained inflation, unpredictable developments in the energy markets and price and cost volatility, the Board of AUGA group emphasises the continued importance of implementing the Sustainable Organic Food Architecture (SOFA) model for the viability and competitiveness of business. The planned architecture is a way to ensure resilience in the face of supply chain issues and soaring energy prices whilst delivering organic and sustainable food.

The stagnation of organic consumption continues to encourage the Company's management to drive the implementation of a more current and long overdue Sustainability Standard, which would incorporate additional value provided by sustainable conduct of business; where "organic" is no longer a compelling enough reason to drive the consumer demand without the additional value of "no cost to nature".

AUGA SOFA model:



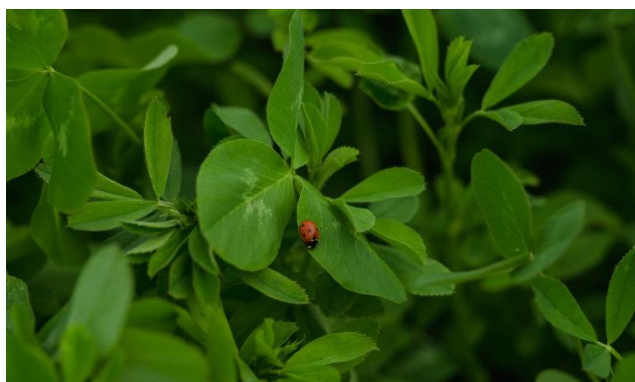
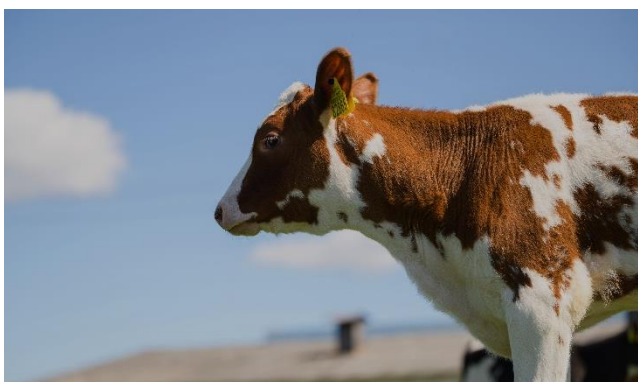
One of the most significant organisational changes in 2022 was the expansion of engineering capabilities within the in-house R&D branch and the transition of the team from AUGA group to a self-standing AUGA Tech unit.

Sustained investment and newfound focus on a consolidated R&D division showed dividends in 2022. The Group completed the first production model of the AUGA M1 series – the hybrid biomethane-electric tractor for professional use. During 2022, the engineering team found ways to optimise the design, further reduce energy losses, boost efficiency of the electric drive and lighten the overall tractor construction, resulting in lower energy consumption as well as lesser pressure of the vehicle on the soil. On 8 February 2023, the model was presented to the public in the home market of Lithuania. Three tractors will operate on AUGA farms as of Q2 2023.



Another component of the SOFA model set to advance the Company's strategic goals of resilience and sustainability has been the development of biomethane production. In 2022, the Group made all efforts for the launch of the first biomethane plant in Lithuania. It will allow for primary outputs of dairy farms (such as manure) and crop growing waste to be returned to the cycle through its conversion to renewable biofuels. The plant will provide biomethane for sustainable agricultural machinery (i.e. AUGA M1) and will also be connected to the grid later in 2023.

In addition, the SOFA model envisions specialised feed use in the dairy farms to improve yield and reduce methane emissions. 2022 witnessed continued testing efforts with defined cow populations and showed some promising early results but these are still too early and too narrow to reach wide-ranging conclusions.



With the elaborate groundwork carried out in 2022 in the technology development area, the Board is confident in the Group's plans for 2023 to come to fulfilment, which include:

- launching three biomethane product facilities in Lithuania and connecting the first facility to the national grid,
- testing three AUGA M1 factory models in AUGA fields, getting all necessary approvals for mass production and developing plans for manufacture and use of AUGA M1,
- continuing the development of specialised feed technology,
- continuing established practices of minimum tilling and expanding and optimising regenerative crop rotation,
- advancing the innovation process of other sustainable agricultural technologies,
- setting-up a technology sharing model.

The Board is confident that 2023 will become the year when sustained investment and continuous improvements will translate into tangible advancement towards the implementation of the Company's strategic goals.

