
# Grigeo AB

## INDEPENDENT AUDITOR'S REPORT, CONSOLIDATED ANNUAL REPORT AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

***Translation note:***

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

## MAIN CONTENTS

# Independent auditor's report

To the shareholders of Grigeo AB

## Report on the audit of the consolidated and separate financial statements

### Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Grigeo AB (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Group's and the Company's consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 8 April 2021.

**What we have audited**

The Group's and the Company's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2020;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the consolidated and separate financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Company are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

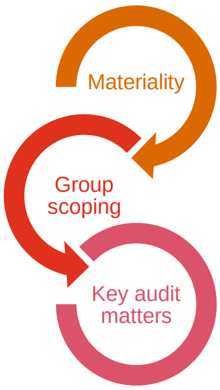
The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 20 to the financial statements.

## Emphasis of matter

We draw attention to Note 29 to these financial statements, which describes the uncertainties related to the outcome of the violation of the requirements of environmental protection causing damage to the environment and the civil claim of the Environmental Protection Department filed against the subsidiary of the Company. As a result of those uncertainties the management of the Group was unable to reliably estimate the liability and therefore it is disclosed as a contingent liability. Our opinion is not modified in respect of this matter.

## Our audit approach

**Overview**




- Overall Group and Company materiality: EUR 745 thousand and EUR 494 thousand respectively

- We conducted audit at 5 Group entities, all operating in Lithuania, covering 95% of the Group revenues and 97% of the Group's total assets.

- Contingent liability related to the civil claim of the Environmental Protection Department
- Impairment testing of goodwill.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together "the financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall Group materiality** | EUR 745 thousand |
| **Overall Company materiality** | EUR 494 thousand |
| **How we determined it** | 5% of the Group's and the Company's profit before tax |
| **Rationale for the materiality benchmark applied** | We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured by users, and it is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 35 thousand for the Group and EUR 21 thousand for the Company in the financial statements respectively, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Contingent liability related to the civil claim of the Environmental Protection Department<br><br>*Refer to accounting estimates and assessments on page 56, accounting policy on contingencies on page 70 and note 29 'Contingent liabilities' in the financial statements.*<br><br>As referred to in note 29, the Company's subsidiary Grigeo Klaipėda AB violated its operation of a wastewater treatment plant and has received a civil claim in the amount of EUR 48 million regarding the compensation for material damage caused to the environment from the Environmental Protection Department.<br><br>Non-recognition of the related liability in the 2019 financial statements was subject of the previous auditor's qualification of its audit opinion.<br><br>The management of the subsidiary is not denying its legal liability and is prepared to compensate for objectively calculated damage, however due to the reasons disclosed in note | We discussed the status and potential outcome of the legal proceedings with the Group's and subsidiary's Grigeo Klaipėda AB managements, the Audit Committee and Group's external legal advisors. We reviewed the report prepared by the experts in environmental area. We also discussed the matter with the previous auditor.<br><br>We read the disclosures in the financial statements regarding the civil claim and resulting contingent liability and assessed the adequacy of those disclosures.<br><br>We assessed management's reasoning and conclusion that the management could not reliably estimate the amount of provision. We considered whether the circumstances described justify non-recognition of the liability on the Group's statement of financial position as at 31 December 2020, we specifically considered whether this case can be classified as 'extremely rare' as described in IAS 37.<br><br>We have included an emphasis of matter paragraph in our auditor's report to highlight the importance of the information about the civil claim |

29 the management could not reliably estimate the amount of provision and the provision was not recognized in the financial statements, but instead is disclosed as a contingent liability.

IAS 37 Provisions, contingent liabilities and contingent assets requires measuring the provision in the amount of the best estimate of the expenditure required to settle the present obligation. Where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

We have considered the civil claim from the Environmental Protection Department to be a key audit matter given the potential impact on the financial position of the Group, magnitude of potential amounts involved and the uncertainty of the possible outcomes of the legal proceedings.

filed against the subsidiary to the users of the financial statements.

### Impairment testing of goodwill

*Refer to accounting policy on impairment testing on page 58, accounting estimates and assessments on page 56 and note 6 'Intangible assets' in the financial statements.*

The Group has goodwill balance of EUR 3,001 thousand on its consolidated statement of financial position as at 31 December 2020.

The goodwill is attributable to the cash generating unit of Grigeo Klaipėda AB.

Under the requirements of IAS 36 Impairment of assets goodwill has to be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs of disposal, requires judgment from management when identifying and valuing the relevant cash-generating units.

Recoverable amounts are based on management's view of internal and market conditions such as future prices and volume growth rate, the timing of future operating expenditure and the most appropriate discount and long-term growth rates. Based on the goodwill impairment test performed no impairment was recognized in the current year as the Group has concluded, that the recoverable amount of goodwill is higher than its carrying amount.

Our audit procedures included challenging management on the appropriateness of the impairment models and the reasonableness of the assumptions used by performing the following:

- assessing the reliability of the cash flow forecast by checking the actual past performance and comparing to previous forecasts and by inspecting internal documents, such as budget forecasts for 2021–2025;

- benchmarking market related assumptions like discount rate and long-term growth rate against external data. Where it was considered necessary, we involved our valuation experts;

- testing the mathematical accuracy of the model and assessing the sensitivity of the impairment test to key inputs.

We also reviewed the disclosures in the financial statements regarding impairment tests.

We focused on this area because of the significance of the goodwill balance and because the impairment assessment involved significant management's judgements about the future results and the discount rates applied to future cash flows forecasts.

**How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of parent and 9 subsidiaries. Based on our risk and materiality assessments, we determined which entities were required to be audited, by taking into account the relative significance of each entity to the Group as a whole and in relation to each material line item in the consolidated financial statements. We performed audits of parent entity Grigeo AB and subsidiaries Grigeo Baltwood UAB, Grigeo Recycling UAB, Grigeo Klaipėda UAB and Grigeo Packaging UAB. Our audits addressed 95% of the Group's revenues and 97% of the Group's total assets. The remaining components of the Group were assessed as insignificant.

## Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report and the remuneration report and the social responsibility report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Group presented the social responsibility report as a part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Appointment

We were first appointed as auditors of the Group and the Company on 30 November 2020 by the shareholder's resolution. We audit the financial statements for the first time.

The key audit partner on the audit resulting in this independent auditor's report is Rimvydas Jogėla.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
8 April 2021

The auditor's electronic signature is used herein to sign only the Independent Auditor's Report

## CONFIRMATION OF RESPONSIBLE PERSONS

In accordance with the Law on Securities of the Republic of Lithuania, and the Rules on the Disclosure of Information by the Bank of Lithuania, we, president Gintautas Pangonis and finance director Martynas Nenėnas hereby confirm that, to the best of our knowledge, consolidated financial statements of Grigeo AB for the year ended 31 December 2020, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of assets, liabilities, financial position, profit or loss and cash flows of Grigeo AB and the Group, and also that the consolidated annual report shows true and fair view of business environment as well as description of the company's and Group's performance.

| | |
|---|---|
| President of Grigeo AB | Gintautas Pangonis |
| Finance director of Grigeo AB | Martynas Nenėnas |

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## PRESIDENT'S WORD

Dear investors,

We present to you our report for the year 2020, which contains information about the key performance indicators of Grigeo Group and material events in finance, environmental protection, corporate social responsibility, and governance.

2020 was indeed an exceptional year, one that was filled with challenges. The environmental incident at Grigeo Klaipėda AB and a pre-trial investigation that Grigeo Group became aware of early in the year as well as the COVID-19 pandemic that broke out soon thereafter made us tighten our focus, review our business processes and make decisions that would help us manage these risks in real time and avoid them in the future.

In 2020, the Grigeo Group reached a consolidated sales figure of EUR 129.6 million, which was down by 7.6% compared to 2019. This change was largely affected by a number of factors such as the drop in the market prices of paper for packaging, the environmental incident at Grigeo Klaipėda AB, and the advent of the COVID-19 pandemic in spring. Despite all the challenges, I can say with a degree of certainty that the Group's performance has been among the best that we have seen over the past few years.

The Group's EBITDA stood at EUR 26.2 million in 2020, down by 8.3% from 2019, mainly due to the lower performance by Grigeo Klaipėda AB during the year 2020.

In the face of the challenges and aiming to pursue a sustainable development of the Group's business, we have implemented quite a few projects and changes in our business management models. Over the last year, we have invested in new hygiene paper production lines and, following the global trends with respect to reducing plastic packaging, we acquired two additional corrugated cardboard production lines. This allowed us to improve the output of packaging production by 23%.

We continue to make a contribution to Lithuanian circular economy by expanding our operations in collecting recycled waste paper in the Baltics through our subsidiaries in Lithuania and in Latvia, and then reusing it as a secondary raw material in our production.

We are pleased that Grigeo AB's hygiene paper products have been issued an IFS quality certification. It proves that our hygiene paper products are made in accordance with the top quality and safety standards.

After the incident at Grigeo Klaipėda AB, the international project development and consultancy company Pöyry Management Consulting Oy (trading as AFRY) carried out an environmental, occupational health and safety audit. Most of AFRY's recommendations for operational improvements have already been implemented.

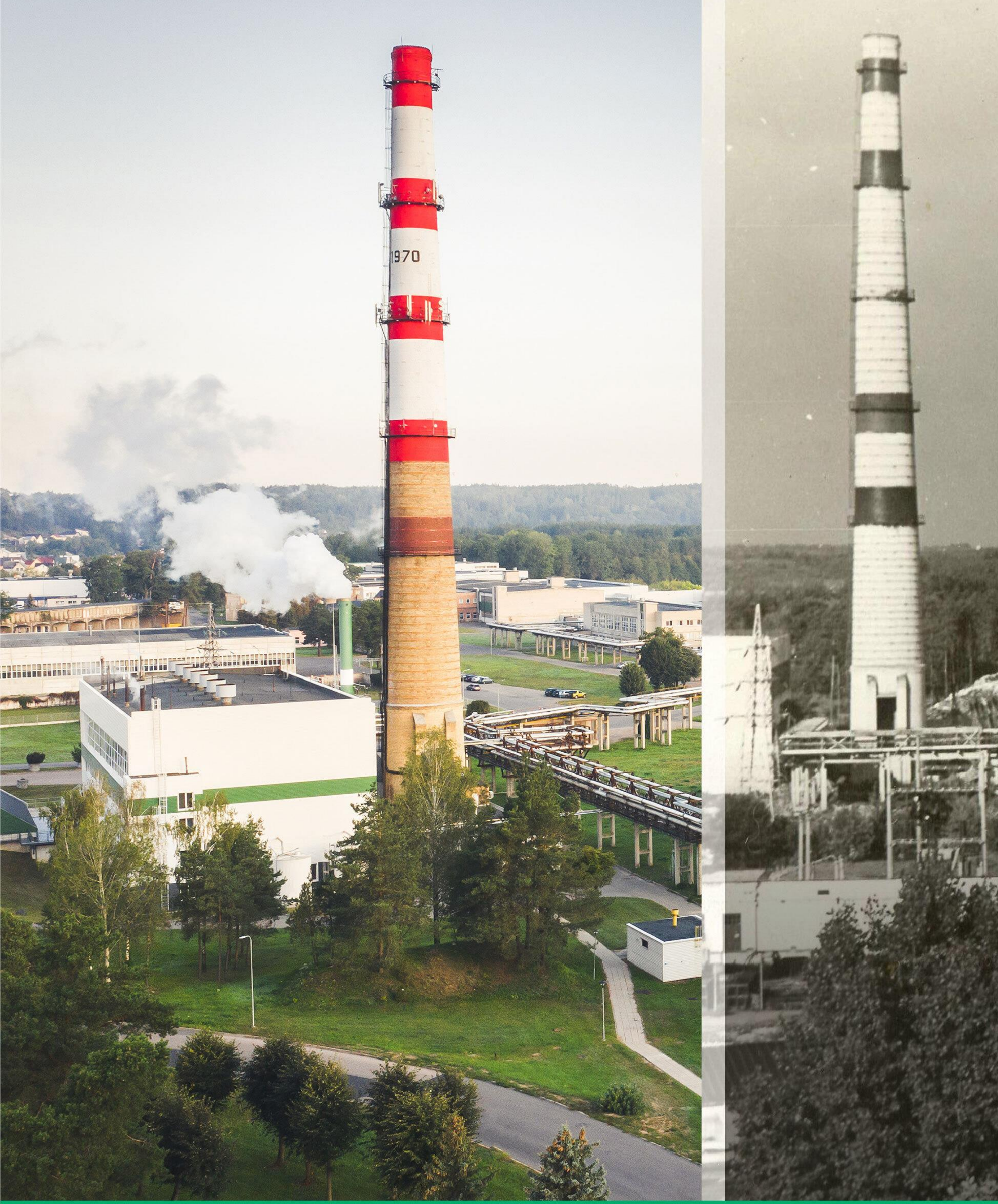
In order to achieve a sustainable development of Grigeo Group, this year we aim to establish the Group's course of action and long-term goals in the field of environmental protection and corporate social responsibility that are in line with the United Nations sustainable development standards and our organisational values.

In 2021, Grigeo Group companies intend to carry out operations focusing on promoting the efficiency of processes, consumption of raw materials and energy. For the year 2021, our plans include installing several new production lines or upgrades to improve our production output and raise the quality of our products which will allow to meet the high expectations of our clients and consistently boost our manufacturing and sales volumes.

I want to express my sincere gratitude to all our employees, partners, and investors who have contributed in every possible manner to the results that Grigeo Group has achieved.

President of Grigeo AB

Gintautas Pangonis




CONSOLIDATED ANNUAL REPORT

## SECTION CONTENTS

All amounts are in EUR thousands unless otherwise stated

## 1. Reporting period covered by information presented in the report

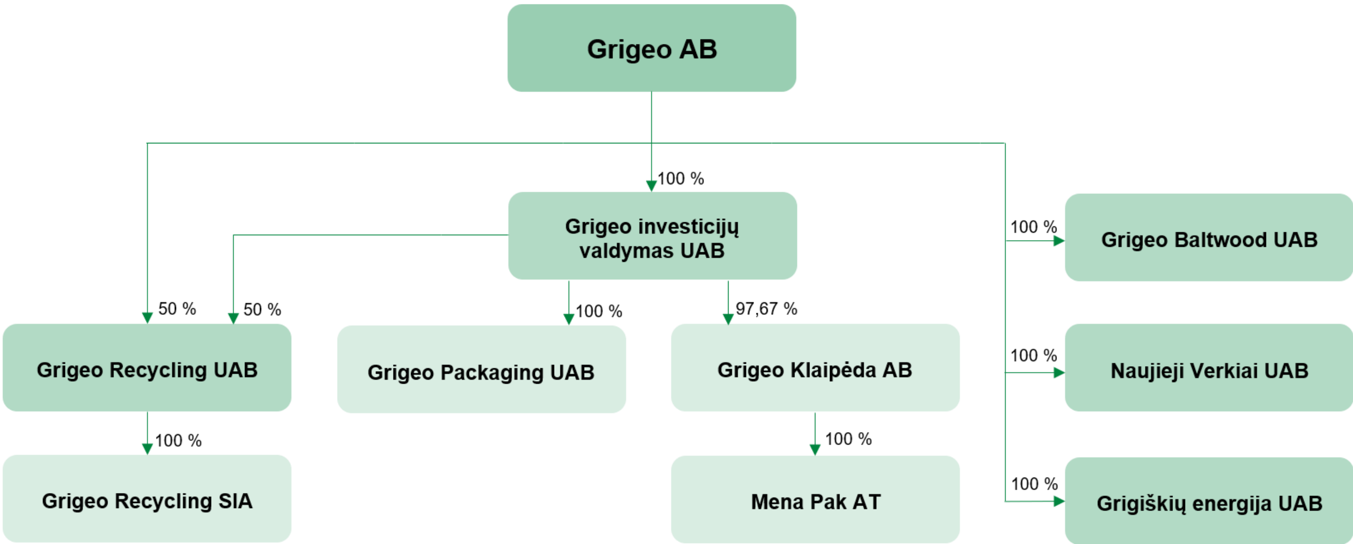
The financial statements of Grigeo AB (hereinafter referred to as the Company or the Issuer) are compiled for the year ended 31 December 2020.

## 2. Audit information

The Company's consolidated annual report for the year 2020 was compiled by the management. The compliance of the financial information presented in the consolidated annual report with the audited set of consolidated financial statements for the year ended 31 December 2020 was verified by an independent auditor.

## 3. Group companies and their contact details

As of 31 December 2020, the group comprised the Company and nine subsidiaries as specified below.




| Status | Parent company | Subsidiary | Subsidiary |
|---|---|---|---|
| Company name | **Grigeo** AB | **Grigeo Klaipėda** AB | **Grigeo Packaging** UAB |
| Code | 110012450 | 141011268 | 302329061 |
| Authorised capital | EUR 19,053,000 | EUR 11,890,549.55 | EUR 15,202,900 |
| Portion of shares directly/indirectly controlled by Grigeo AB | The Company has not acquired own shares | 97.67 %** | 100 %** |
| Address | Vilniaus str. 10, Grigiškės, Vilnius City Municipality | Nemuno str. 2, Klaipėda | Vilniaus str. 10, Grigiškės, Vilnius City Municipality |
| Telephone number | +370 5 243 5801 | +370 46 39 5601 | +370 5 243 5838 |
| Fax number | +370 5 243 5802 | +370 46 39 5600 | - |
| E-mail address | info@grigeo.lt | info.klaipeda@grigeo.lt | info.packaging@grigeo.lt |
| Website address | http://www.grigeo.lt/lt | http://www.grigeo.lt/lt | http://www.grigeo.lt/lt |
| Legal form | Public limited liability company | Public limited liability company | Private limited liability company |
| Date of registration | 23 May 1991 | 22 September 1994 | 10 April 2009 |
| Manager of the register | State enterprise Centre of Registers | State enterprise Centre of Registers | State enterprise Centre of Registers |

| Status | Subsidiary | Subsidiary | Subsidiary |
|---|---|---|---|
| Company name | **Grigeo Baltwood** UAB | **Grigeo Recycling** UAB | **Grigeo Recycling** SIA |
| Code | 126199731 | 302529158 | 40203001091 |
| Authorised capital | EUR 4,000,000 | EUR 2,960,000 | EUR 500,000 |
| Portion of shares directly/indirectly controlled by Grigeo AB | 100 %* | 100 %***** | 100 %**** |
| Address | Vilniaus str. 10, Grigiškės, Vilnius City Municipality | Vilniaus str. 10, Grigiškės, Vilnius City Municipality | Ēdoles str. 5, Riga, Latvia |
| Telephone number | +370 5 243 5900 | +370 5 243 3393 | +370 5 243 3393 |
| Fax number | +370 5 243 5910 | - | - |
| E-mail address | info.baltwood@grigeo.lt | info.recycling@grigeo.lt | info.recycling@grigeo.lt |
| Website | http://www.grigeo.lt/lt | http://www.grigeo.lt/lt | - |
| Corporate form | Private limited liability company | Private limited liability company | Private limited liability company |
| Date of registration | 10 April 2003 | 16 July 2010 | 16 June 2016 |
| Manager of the register | State enterprise Centre of Registers | State enterprise Centre of Registers | Register of Enterprises of the Republic of Latvia |

| Status | Subsidiary | Subsidiary | Subsidiary | Subsidiary |
|---|---|---|---|---|
| Company name | **Mena Pak** AT | **Grigeo Investicijų Valdymas** UAB | **Naujieji Verkiai** UAB | **Grigiškių Energija** UAB |
| Code | 00383260 | 302416687 | 300015674 | 302674488 |
| Authorised capital | UAH 4,011,470 | EUR 19,329,776 | EUR 28,962 | EUR 2,900 |
| Portion of shares directly/indirectly controlled by Grigeo AB | 100 %*** | 100 %* | 100 %* | 100 %* |
| Address | Koshovoho str. 6, Chernihiv region, Mena, Ukraine | Vilniaus str. 10, Grigiškės, Vilnius City Municipality | Popieriaus str. 15, Vilnius | Vilniaus str. 10, Grigiškės, Vilnius City Municipality |
| Telephone number | +380 4644 21341 | +370 698 87433 | +370 5 243 5933 | +370 5 243 5933 |
| Fax number | +380 4644 21084 | - | +370 5 243 5802 | +370 5 243 5802 |
| E-mail address | menapack@ukr.net | info.giv@grigeo.lt | info@grigeo.lt | vigmantas.kazukauskas@grigeo.lt |
| Website | www.menapack.com.ua | - | - | - |
| Legal form | Public limited liability company | Private limited liability company | Private limited liability company | Private limited liability company |
| Date of registration | 30 December 1993 | 10 July 2009 | 6 April 2004 | 7 October 2011 |
| Manager of the register | Chernihiv region, Mena distr. Public Administration | State enterprise Centre of Registers | State enterprise Centre of Registers | State enterprise Centre of Registers |

*Shares directly controlled by Grigeo AB.
**Shares directly controlled by Grigeo Investicijų Valdymas UAB.
***Shares directly controlled by Grigeo Klaipėda AB.
****Shares directly controlled by Grigeo Recycling UAB.
*****Shares directly controlled by Grigeo AB and Grigeo Investicijų valdymas UAB

## 4. Main activities of the group companies

The main business of Grigeo AB is manufacturing of tissue paper.

Grigeo Klaipėda AB manufactures raw materials for production of corrugated board – Testliner (base layer board) and Fluting (corrugated liner) as well as paper honeycomb used in furniture industry.

Grigeo Packaging UAB manufactures corrugated board and corrugated board products.

All amounts are in EUR thousands unless otherwise stated

Grigeo Baltwood UAB manufactures self-coloured and painted hardboard.

Grigeo Recycling UAB collects secondary raw materials and prepares for recycling.

Grigeo Recycling SIA collects secondary raw materials and prepares for recycling.

Mena Pak AT (in Ukranian – *акціонерне товариство „МЕНА ПАК“*) manufactures corrugated board and corrugated board products.

Grigeo Investicijų Valdymas UAB is engaged in investment management activities.

Naujieji Verkiai UAB is engaged in construction and development of real estate, the company was dormant in 2020.

The activities of Grigiškių Energija UAB are related to heat production and sale, the was dormant in 2020.

## 5. Contracts with intermediaries of public trading in securities

The Company has signed a contract with Šiaulių Bankas AB (telephone No 1813 (+370 37 301337 for calls from abroad), kc@sb.lt) on payment of dividends to the shareholders for the previous financial year.

The Company has signed a contract with Orion Securities UAB FMĮ (A. Tumėno str. 4, Vilnius, telephone No (8~5) 231 3833, fax No. (8~5) 231 3840, info@orion.lt) on the handling of securities issued by the Company and on Market Making.

## 6. Data about trade in the issuer's securities in regulated markets

The ordinary registered shares of Grigeo AB are on the Official Baltic List of Nasdaq Vilnius stock exchange (the Company's trading code is GRG1L).

a. *The main characteristics of the Company's shares*

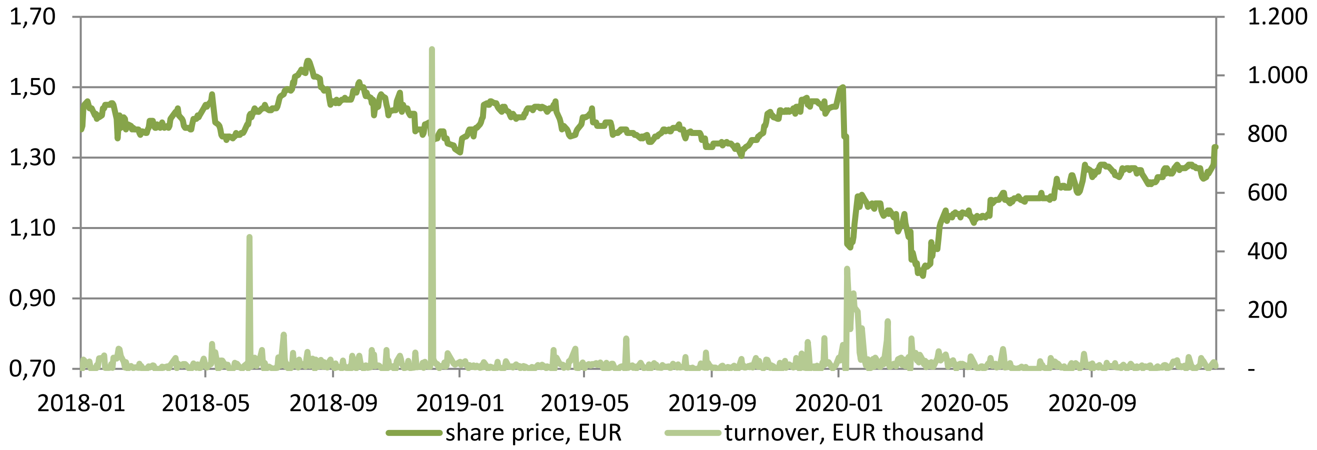
| Type of shares | VP ISIN code | Number of shares, units | Par value, EUR | Total par value, EUR |
|---|---|---|---|---|
| Ordinary registered shares | LT0000102030 | 65,700,000 | 0.29 | 19,053,000 |

b. *Trade in the Company's shares*

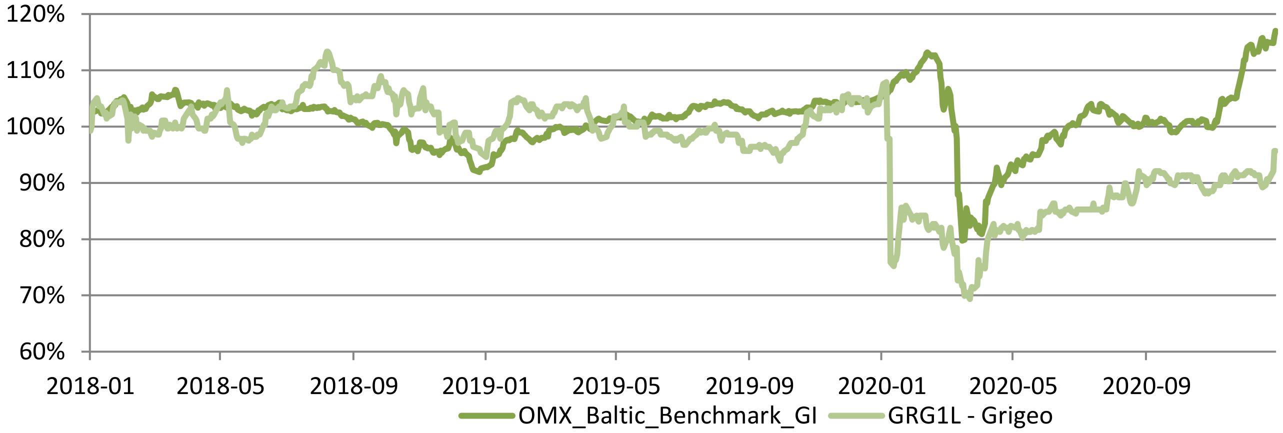
| Reporting period | Price, EUR | | | | Turnover, EUR | | | Total turnover | |
|---|---|---|---|---|---|---|---|---|---|
| | Max. | Min. | Last session | Average | Max. | Min. | Last session | units | EUR |
| **2017** | **1.490** | **1.080** | **1.390** | **1.257** | **251,837** | **-** | **3,636** | **3,196,666** | **4,018,748** |
| 2018, Q1 | 1.460 | 1.355 | 1.410 | 1.406 | 69,059 | - | 13,250 | 606,716 | 853,330 |
| 2018, Q2 | 1.480 | 1.350 | 1.440 | 1.411 | 449,125 | - | 288 | 975,739 | 1,376,401 |
| 2018, Q3 | 1.575 | 1.435 | 1.500 | 1.499 | 116,826 | - | 18,801 | 732,650 | 1,098,258 |
| 2018, Q4 | 1.500 | 1.325 | 1.325 | 1.377 | 1,089,964 | - | 14,277 | 1,452,506 | 1,999,768 |
| **2018** | **1.575** | **1.325** | **1.325** | **1.414** | **1,089,964** | **-** | **14,277** | **3,767,611** | **5,327,757** |
| 2019, Q1 | 1.460 | 1.315 | 1.440 | 1.406 | 26,314 | - | 5,517 | 360,604 | 507,184 |
| 2019, Q2 | 1.460 | 1.355 | 1.360 | 1.390 | 103,995 | - | 1,715 | 628,442 | 873,498 |
| 2019, Q3 | 1.395 | 1.305 | 1.305 | 1.353 | 55,746 | 266 | 33,354 | 377,514 | 510,790 |
| 2019, Q4 | 1.470 | 1.320 | 1.445 | 1.419 | 104,495 | 42 | 13,623 | 628,797 | 892,451 |
| **2019** | **1.470** | **1.305** | **1.445** | **1.395** | **104,495** | **-** | **13,623** | **1,995,357** | **2,783,923** |
| 2020, Q1 | 1.500 | 0.964 | 1.060 | 1.108 | 342,036 | 310 | 23,212 | 3,120,293 | 3,458,776 |
| 2020, Q2 | 1.200 | 1.020 | 1.185 | 1.135 | 67,608 | 11 | 6,651 | 815,180 | 925,039 |
| 2020, Q3 | 1.280 | 1.180 | 1.255 | 1.231 | 50,999 | 151 | 2,737 | 492,652 | 606,631 |
| 2020, Q4 | 1.330 | 1.225 | 1.330 | 1.260 | 40,416 | 9 | 9,670 | 486,596 | 613,338 |
| **2020** | **1.500** | **0.964** | **1.330** | **1.140** | **342,036** | **9** | **9,670** | **4,914,721** | **5,603,785** |

All amounts are in EUR thousands unless otherwise stated

Price and turnover of shares 01/01/2018 – 31/12/2020




Share price benchmarked against the Baltic market index




c. *Capitalisation of the Company's shares*

| Last session date | Capitalisation, EUR |
|---|---|
| **31/12/2017** | **91,323,000** |
| 31/03/2018 | 92,637,000 |
| 30/06/2018 | 94,608,000 |
| 30/09/2018 | 98,550,000 |
| **31/12/2018** | **87,052,500** |
| 31/03/2019 | 94,608,000 |
| 30/06/2019 | 89,352,000 |
| 30/09/2019 | 85,738,500 |
| **31/12/2019** | **94,936,500** |
| 31/03/2020 | 69,642,000 |
| 30/06/2020 | 77,854,500 |
| 30/09/2020 | 82,453,500 |
| **31/12/2020** | **87,381,000** |

## 7. Objective overview of the Company's and the Group's financial position, performance and development, description of its exposure to key risks and contingencies

Within the reporting period, the financial position of the Group did not significantly change year-on-year (see the ratios in section 8). In the context of the sector's companies during the COVID-19 pandemic, EBITDA profitability remained on a high level. In 2020, the liquidity ratios and capital structure improved even more compared to the respective values in 2019. This was mainly influenced by the consistent repayment of loans following the agreed schedules. The market value indicator remained on a similar level as in the previous year. The Price to Earnings Ratio (P/E) below 10 indicates the potential of the share price to grow in the future. The financial position of the Company in the background of COVID-19 was even more optimistic – all of the ratios from EBITDA and profitability to liquidity, capital structure, and market value indicators (excluding those related to the profit before taxes of 2019 resulting from the transfer of the corrugated cardboard production to the subsidiary company Grigeo Packaging UAB (more detailed information is provided in the notice on material event dated 03/01/2019)), the results of 2020 improved considerably as compared to the previous year.

Grigeo group has a full packaging production cycle in place: wastepaper collection, production of raw paper and then corrugating cardboard which is used to manufacture customised packaging. The full package manufacturing cycle allows to guarantee top quality, offer a stable supply, tracking (from the packaging to the paper that was used to produce that package), and competitive prices to the clients.

The management of the Group believes that in the existing circumstances they are taking all necessary measures to ensure sustainability of the Group's business. Although the continuing impact of the unstable business is currently hard to assess, the management believes that it will have no significant negative impact on the Group's results.

**Tissue paper products market.** In 2020, the sales of Grigeo AB tissue paper products remained on a similar level as in 2019.

The forecast for the year 2021 is that the tissue paper market will keep growing in the Baltic States, the highest growth is most likely to occur in the category of tissue towels. Also, the investments in brand awareness in the Latvian and Estonian markets are expected to contribute to increasing the market share of GRITE trademark.

Shopping centres are likely to increase shelf space for products of their brands. With the improving quality of private brands, they are going to impose a higher competition to the Company's trademarks.

The plans for the export markets are to enhance cooperation with the existing clients, expand the geographic reach and the client base by both offering the services of private brand production and by selling GRITE branded products.

A new business product manufacturing line and a new range of products will allow to gain competitive advantage in the business products segment both in the Baltic states and in the export markets.

**Corrugated paper packaging products market.** The year 2020 was ever the most successful to Grigeo Packaging UAB in terms of profitability, turnover, and sales. EBITDA went up by 8% as compared to the year 2019, while the sales turnover grew by 2.2% whereas the amounts sold – by 9%. The increase of positive results was influenced by the declining prices of raw materials in the market which lasted until September 2020, also a huge focus was put on the quality and added value to the customers through the implementation of new package projects.

Due to the global pandemic part of investments into new equipment and modernization processes moved to the year 2021 which will allow to further increase the sales volume and to ensure a high quality of products in the future. A special focus will be put on the optimisation of processes, improvement of productivity, and raising the employee's qualifications and competences.

In 2020, the main markets for sales of packaging were Lithuania, Latvia, Estonia, and Finland. Sales were also launched in Norway and Sweden. In 2021, it is expected not only to retain the position among the leading corrugated cardboard packaging manufacturers in Lithuania, but also to strengthen the market share in the overall Baltic region.

As the dominating sales currency in the main export markets is the euro, the currency risk is minimal, unlike the change in the prices for raw materials, which imposes the main risks for this business.

**Raw cardboard market.** In 2020, Grigeo Klaipėda AB generated EUR 31,100 thousand (respectively EUR 43,252 thousand in 2019) in revenue from operating activities. The sales budget realization ratios were lower by 12%. As compared to the previous year, the sales volume of the operating activities went down by EUR 12,152 thousand or by 28%.

The Company's sales in the Baltic region over 2020 accounted for 42% of the total sales (63% in 2019, respectively), the sales in the Western and Central Europe accounted for 34% of the total sales (32% in 2019, respectively), the sales in the CIS countries accounted for 11% of the total sales (5% in 2019, respectively), and the sales in other countries accounted for 13% of the total sales (0% in 2019, respectively).

In 2020, the Company's net result was a loss of EUR 649 thousand (respectively, a profit of EUR 4,564 thousand was generated in 2019).

The decrease in the Company's revenue in 2020 mostly resulted from the drop in sales prices for the products in the market compared to the previous year as well as temporary suspension of the manufacturing activities as Klaipėdos Vanduo AB stopped accepting wastewater.

**Wood products market.** In 2020, Grigeo Baltwood UAB sales revenue amounted to EUR 17.9 million. Sales in foreign markets accounted for 86%, while the domestic sales made up 14%. As compared to the year 2019, the sales revenue grew by 6% - in the export markets revenue went up by 9%, while a drop in the domestic market by 7% was noted. In 2020, due to the brand and product awareness, the Company's position remained strong in export markets: the United Kingdom, Sweden, Germany, Poland, and Benelux countries.

The main buyers of fibre board are manufacturers of cabinet furniture and soft furnishings, manufacturers and users of special packaging, DIY ("Do-It-Yourself") sector, and construction companies.

As the sales currency in the export markets is the euro, the exchange risk is minimal for the business.

The main risks for this business segment arise from potential growth of market prices for raw materials.

**Corrugated cardboard packaging market in Ukraine.** In 2020, Mena Pak AT generated EUR 5,426 thousand (respectively, EUR 6,573 thousand in 2019) from operating activities. The sales budget realization ratios were lower by 7%. As compared to the previous year, the sales volume of the operating activities went down by EUR 1,146 thousand or by 17%.

Mena Pak AT sales in Ukraine accounted for 84,7% of the total sales, and 15,1% in Belarus.

In 2020, the net profit generated by Mena Pak AT amounted to EUR 502 thousand (respectively, EUR 556 thousand in 2019).

**Main types of risks**

*Social risk factors*

The salary is paid within the terms provided in the collective agreement.

*Technical – technological risk factors*

To improve the technical level of production supply, the operating equipment and the buildings of the Company are being constantly modernised, new equipment is being purchased, and the process management is being automated.

*Ecology risk factors*

The Company follows the "integrated pollution prevention and control" principles for its economic activities. The Company rationally uses energy and natural resources with modern technologies of production, environment component treatment technologies applied, without worsening the quality of the products manufactured.

The Company pays charges for the utilised natural resources (water) and for the environmental pollution (air pollution from the boiler-room, technological equipment and mobile sources of pollution, pollution of waters from rainwater runoff).

The manufacturing wastewater is treated mechanically in the Company's treatment plants and is transferred to the biological treatment facilities of Vilnius City. In the case of Grigeo Klaipėda AB, the wastewater is transferred to the mechanical and biological treatment facilities of Klaipėda City.

The Company operates a biodegradable waste composting site which enables natural organic waste composting outdoors, by using sludge and shredded wood from manufacturing-household wastewater treatment for compost production. The produced compost is used for recultivation of quarries and for other purposes.

In 2012, the Company implemented the Environmental Management System under ISO 14001. In 2018, the recertification audit carried out by DNV GL Lietuva UAB confirmed that the Company's management systems comply with LST EN ISO 9001 and LST EN ISO 14001 standards.

In 2020, Grigeo AB was the first personal hygiene product manufacturer in Lithuania to receive an "IFS HPC" quality certificate. It accredits that hygienic paper products are manufactured in compliance with the highest quality and safety standards and the products supplied to the market are safe to be in contact with food.

All amounts are in EUR thousands unless otherwise stated

## 8. Financial and non-financial performance analysis, environment and staff related information

*a. Financial and operating performance of the Group and the Company*

| Group | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Revenue | 102,461 | 129,867 | 142,546 | 139,977 | 129,602 |
| Net profit | 4,484 | 9,302 | 14,347 | 13,625 | 13,269 |

| Indicator | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| EBITDA | 26,243 | 28,603 | 28,113 | 14,787 | 11,588 | 9,286 |
| EBIT | 15,136 | 17,225 | 14,757 | 10,017 | 10,267 | 1,727 |
| **Profitability ratios** | | | | | | |
| Gross margin | 25.8% | 23.8% | 20.9% | 27.2% | 20.2% | 12.6% |
| EBITDA profitability | 20.2% | 20.4% | 19.7% | 23.2% | 17.8% | 11.3% |
| EBIT profitability | 11.7% | 12.3% | 10.4% | 15.7% | 15.8% | 2.1% |
| Net margin | 10.3% | 9.6% | 9.9% | 14.1% | 26.4% | 3.4% |
| ROE profitability | 16.0% | 18.8% | 22.8% | 15.9% | 37.8% | 7.0% |
| ROA profitability | 11.1% | 11.7% | 12.2% | 12.0% | 24.3% | 3.9% |
| ROCE profitability | 15.8% | 19.9% | 18.2% | 15.6% | 17.7% | 3.9% |
| **Liquidity ratios** | | | | | | |
| Current ratio | 1.56 | 1.13 | 0.95 | 1.63 | 1.08 | 0.75 |
| Quick ratio | 1.23 | 0.80 | 0.61 | 1.33 | 0.76 | 0.51 |
| **Capital structure ratios** | | | | | | |
| Debt to equity ratio | 0.38 | 0.52 | 0.72 | 0.28 | 0.37 | 0.81 |
| Debt to total assets ratio | 0.27 | 0.34 | 0.42 | 0.22 | 0.27 | 0.45 |
| **Market value ratios** | | | | | | |
| P/E | 6.57 | 7.03 | 6.19 | 9.73 | 5.53 | 31.41 |
| Dividend pay-out ratio | - | 0.28 | 0.43 | - | 1.42 | 1.09 |
| Earnings per share, EUR | 0.202 | 0.206 | 0.214 | 0.137 | 0.262 | 0.042 |

The above indicators are calculated in accordance with the Nasdaq Vilnius recommended formulas:

EBITDA profitability = EBITDA / sales revenue. EBITDA to revenue ratio shows the overview of operational efficiency and cash flows.
Gross margin = Gross profit / sales revenue. Gross profit margin shows the ability to earn profit from operating activity, control the level of sales revenue and cost.
EBIT profitability = Profit from operations / sales revenue. Monetary value of the coefficient shows operating margin to 1 sales EUR. Higher ratio shows higher profitability.
Net margin = Net profit from operations / sales revenue. The ratio describes the profitability of the final total operational result.
ROE profitability = Net profit / average equity. This ratio estimates shareholders' return on investment.
ROA profitability = Net profit / average assets. Return on assets shows how effectively assets are used to generate profit.
ROCE profitability = EBIT / capital used. The used capital return shows income generated by each euro invested in the capital.
Current ratio = Current assets / current liabilities. The ratio shows the ability to cover current liabilities with current assets.
Quick ratio = (Current assets – Inventories)/ current liabilities. Liquidity describing the ability to fulfil current liabilities from quickly realisable current assets.
Debt to equity ratio = Liabilities / equity. The ratio estimates the combination of fund resources in the balance and compares funds from owners and those that were borrowed.
Debt ratio = Liabilities / assets. The ratio shows the asset share financed from borrowed funds. The lower the value, the more borrowings are covered with assets.
P/E = the market price of share / total of attributable profit. The ratio shows how much investors pay for one EUR of profit.
Dividend pay-out ratio = Dividends / basic earnings. The ratio shows the portion of earnings paid out as dividends.
Earnings per share = (Net profit – preferred stock dividends)/ weighted average number of ordinary shares in circulation. The calculated profit shows the earned net profit per share.

*b. Employees*

Over the year 2020, there were no significant changes in the number of employees. Natural staff turnover rates prevailed in Group companies for the reported period.

The average salary in the Company and in the Group increased for all categories of employees as compared to the year 2019. The growth of the average salary was mostly driven by the consistent salary increase policy and recruitment of workers with higher competences.

All amounts are in EUR thousands unless otherwise stated

Number of employees in the Group and in the Company

| | Group | | Company | |
|---|---|---|---|---|
| | 31/12/2020 | 31/12/2019 | 31/12/2020 | 31/12/2019 |
| Number of employees | 859 | 869 | 288 | 295 |

Average salary in the Group and in the Company*, in euros

| Employees | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Workpeople | 1,675 | 1,555 | 1,798 | 1,679 |
| Specialists | 1,988 | 1,921 | 2,061 | 1,974 |
| Managers | 4,365 | 4,383 | 5,097 | 4,710 |
| **Total** | **2,036** | **1,905** | **2,229** | **2,081** |

* - information on the average salary does not include Mena Pak AT data in order to show the precise group average salaries unaffected by fluctuations of Ukrainian Hryvnia currency.

More detailed information related to the human resources is provided in the “Social Responsibility Report” section.

*c. Environmental protection*

Detailed information on environmental protection is provided in the “Social Responsibility Report” section.

**9. Information about own shares**

The Company and the Group have not repurchased own shares over the reporting period and do not have any repurchased shares.

**10. Information about the Company’s offices and branches**

Group has sales representatives operating in Latvia and Estonia. No new offices or branches are planned to be opened in 2021.

**11. Information about material events that occurred after the end of the financial year**

Material post-reporting events are described under the “Post-reporting events” section in the note.

**12. Business plans and forecasts of the Group**

The Company plans investments in a new paper converting line which will amount to approximately EUR 3.8 million. The project will be implemented during 2021 and will be financed by the Company’s own funds and external borrowings. The fully automated line will be installed in the renovated building owned by the Company in Grigiškės and will convert approximately 6.5 thousand tons of paper towels annually which will improve the productivity by 2.7 times. The products manufactured by the said line will update and supplement the Company’s range of products, improving the quality, and ensuring the supply of paper towels in the markets.

**13. Information about research and development activities of the Group**

The Company and the Group make regular investments and search for ways to ensure a constant growth and improve business efficiency.

**14. Information about the Group’s objectives of the financial risk management, its hedging instruments for which hedge accounting is used, and the Group’s exposure to price risk, credit risk, liquidity risk and cash flow risk when the Group employs financial instruments and when it is important for the valuation of the Group’s assets, equity, liabilities, revenue and expenses**

The objectives of financial risk management are disclosed in the general information of the notes to the financial statements. The scope of credit risk, liquidity risk and cash flow risk is disclosed in Notes 3 and 12 on the financial statements. Price risk is not relevant as prices have no effect on the financial measures used. Information about derivative financial instruments used is disclosed in Note 12 on the financial statements.

All amounts are in EUR thousands unless otherwise stated

## 15. Participation of the members of the Supervisory Board, Board and administration in the activities of other enterprises, agencies and organisations

| Name, surname | Business participation | | Capital interest | |
|---|---|---|---|---|
| | Name of enterprise, agency and organisation | Position | Name of enterprise, agency and organisation | Capital share and votes, % |
| Norimantas Stankevičius | Grigeo AB | Chairman of the Supervisory Board, Member of the Audit Committee | Grigeo AB | 4.42 |
| | Didma UAB | Project Director | Didma UAB | 51.0 |
| | | | Statybų Namai UAB | 62.0 |
| | | | Technikos Namai UAB | 62.0 |
| Vilius Oškeliūnas | Grigeo AB | Independent Member of the Supervisory Board, Member of the Audit Committee | | |
| | Gerovės Valdymas UAB | Wealth Manager | | |
| | Atelier Investment Management UAB | Director, Board Member | | |
| | IM Investment UAB | Director | | |
| | Gerovės Partneriai KŪB | True Member | | |
| | Invalda Privatus Kapitalas AB | Board Member | | |
| | WB Invest UAB | Director | | |
| | ETA projektai UAB | Board Member | | |
| | Liv in LT UAB | Board Member | | |
| Romualdas Degutis | Grigeo AB | Member of the Supervisory Board | Grigeo AB | 0.03 |
| | InComSystems UAB | General Director | | |
| | Telesat Sprendimai UAB | Board Member | Telesat Sprendimai UAB | 50.0 |
| | Antena UAB | Chairman of the Board | Antena UAB | 35.0 |
| | InComSystems UAB | Chairman of the Board | InComSystems UAB | 60.0 |
| Normantas Paliokas | Elnorma UAB | Director | Elnorma UAB | 100.0 |
| | Grigeo AB | Member of the Supervisory Board | | |
| Daiva Duksienė | Grigeo AB | Independent Member of the Supervisory Board, Chairperson of the Audit Committee | | |
| | Autodina UAB | Chief Accountant | | |
| | Vilturas UAB | Chief Accountant | | |
| | Autovizija LT UAB | Chief Accountant | | |
| Gintautas Pangonis | Grigeo AB | President | | |
| | Ginvildos investicija UAB | Director | Ginvildos investicija UAB | 100.0 |
| | Grigeo AB | Chairman of the Board | | |
| | Grigeo Klaipėda AB | Board Member | | |
| | Naujieji Verkiai UAB | Chairman of the Board | | |
| | Grigeo Baltwood UAB | Chairman of the Board | | |
| | Grigeo Packaging UAB | Board Member | | |
| | Grigiškių Energija UAB | Chairman of the Board | | |
| | Grigeo Recycling UAB | Chairman of the Board | | |
| | Grigeo Investicijų Valdymas UAB | Chairman of the Board | | |
| | Mena Pak AT | Member of the Supervisory Board | | |
| | Grigeo Recycling SIA | Chairman of the Supervisory Board | | |

| Name, surname | Business participation | | Capital interest | |
|---|---|---|---|---|
| | **Name of enterprise, agency and organisation** | **Position** | **Name of enterprise, agency and organisation** | **Capital share and votes, %** |
| Vigmantas Kažukauskas | Grigeo AB | Vice President, Business Development | Grigeo AB | 0.85 |
| | Grigeo AB | Board Member | | |
| | Grigeo Klaipėda AB | Board Member | | |
| | Grigeo Baltwood UAB | Board Member | | |
| | Naujieji Verkiai UAB | Director | | |
| | Naujieji Verkiai UAB | Board Member | | |
| | Grigeo Packaging UAB | Board Member | | |
| | Grigiškių Energija UAB | Director | | |
| | Grigiškių Energija UAB | Board Member | | |
| | Grigeo Investicijų Valdymas UAB | Board Member | | |
| | Mena Pak AT | Member of the Supervisory Board | | |
| Algimantas Variakojis | Grigeo AB | Independent Board Member | | |
| | Verslo Angelų fondas I KŪB | Partner, True Member | Grain Services UAB | 40.0 |
| | Alro Kapitalas UAB | Director | Alro Kapitalas UAB | 100.0 |
| | Verslo Praktika UAB | Director | Mes Invest UAB | 33.0 |
| | Nailtex UAB | Board Member | | |
| | Volimeda UAB | Board Member | | |
| | Chipper Blades Center UAB | Board Member | | |
| | Mes Invest UAB | Chairman of the Board | | |
| Saulius Martinkevičius | Grigeo AB | Vice President, Procurement and Logistics | Grigeo AB | 0.12 |
| | Grigeo AB | Board Member | | |
| | Grigeo Baltwood UAB | Board Member | | |
| | Grigeo Packaging UAB | Board Member | | |
| | Grigeo Klaipėda AB | Board Member | | |
| | Naujieji Verkiai UAB | Board Member | | |
| | Grigiškių Energija UAB | Board Member | | |
| | Grigeo Investicijų Valdymas UAB | Board Member | | |
| Tomas Jozonis | Grigeo AB | Managing Director | | |
| | Grigeo AB | Board Member | | |
| | Grigeo Recycling UAB | Board Member | | |
| | Grigeo Recycling SIA | Member of the Supervisory Board | | |
| | Grigiškių Energija UAB | Board Member | | |

## 16. Management report

*a. Reference to the Corporate Governance Code and where it is publicly published, and reference to all of the public information necessary on the Company's management practices*

The Corporate Governance Code is applied and information on compliance with the Code is presented in the chapter "Report on Compliance with the Governance Code".

*b. Explanations of deviations from the Corporate Governance Code*

Explanations of deviations from the Corporate Governance Code are presented together with the provisions of the Corporate Governance Code in the chapter "Report on Compliance with the Governance Code".

All amounts are in EUR thousands unless otherwise stated

*c. Information about the extent of risk and its management – descriptions of the management of the risk related to the financial reporting, risk mitigation measures and the internal control system implemented in the Company*

The Company's financial accounting is performed, and financial statements are compiled in accordance with the requirements of International Financial Reporting Standards, as adopted by the European Union effective at 31 December 2020. Annual financial statements are audited by independent auditors elected by the General Shareholder's meeting. Independence of the auditors is assessed by the Company's Audit Committee. This procedure guarantees the relevance and transparency of the data presented in the Company's financial statements.

*d. Information about significant directly and indirectly controlled shares*

As of 31 December 2020, the number of shareholders of Grigeo AB is 3,412.

Shareholders holding more than 5% of the authorised capital of the Issuer as at 31 December 2020 and/or 31 December 2019:

| Shareholder's name (company's name, type, headquarters address, corporate ID number | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Number of ordinary registered shares owned by the shareholder | Portion of the authorised capital held, % | Votes granted by shares held by the right of ownership, % | Number of ordinary registered shares owned by the shareholder | Portion of the authorised capital held, % | Votes granted by shares held by the right of ownership, % |
| Ginvildos investicija UAB* Turniškių str. 10a-2, Vilnius, 125436533 | 28,582,407 | 43.50 | 43.50 | 28,582,407 | 43.50 | 43.50 |
| Irena Ona Mišeikienė | 8,584,171 | 13.07 | 13.07 | 8,584,171 | 13.07 | 13.07 |

* Gintautas Pangonis holds 100% shares of Ginvildos investicija UAB.

*e. Information about transactions with related parties*

All transactions with related parties were carried out at market prices in course of ordinary economic activities.

Grigeo Klaipėda AB – subsidiary of Grigeo AB.
Grigeo Baltwood UAB – subsidiary of Grigeo AB.
Mena Pak AT – subsidiary of Grigeo AB.
Grigeo Investicijų Valdymas UAB – subsidiary of Grigeo AB.
Ginvildos investicija UAB – main shareholder of Grigeo AB.
Statybų Namai UAB, Elnorma UAB – companies related to the members of the Supervisory Board.
Grigeo Packaging UAB – subsidiary of Grigeo AB.
Naujieji Verkiai UAB – subsidiary of the Group not subject to consolidation.
Grigeo Recycling UAB – subsidiary of Grigeo AB.
Grigeo Recycling SIA – subsidiary of Grigeo AB.
Grigiškių Energija UAB – subsidiary of the Group not subject to consolidation.

The Group's transactions with related parties during the year 2020 and respective balances of accounts receivable / payable as of 31 December 2020:

| | Sale of goods and services | Purchase of goods and services | Accounts receivable * | Accounts payable |
|---|---|---|---|---|
| Ginvildos investicija UAB | - | 15 | - | 3 |
| Statybų Namai UAB | 9 | - | - | - |
| Elnorma UAB | 3 | - | - | - |
| **Total** | **12** | **15** | **-** | **3** |

* Accounts receivable include prepayments for goods and services.

All amounts are in EUR thousands unless otherwise stated

The Company's transactions with related parties during the year 2020 and respective balances of accounts receivable/ payable as at 31 December 2020:

| | Sale of goods and services | Purchase of goods and services | Accounts receivable * | Accounts payable |
|---|---|---|---|---|
| Grigeo Baltwood UAB | 3,288 | 1,019 | 352 | 115 |
| Ginvildos investicija UAB | - | 15 | - | 3 |
| Grigeo Recycling UAB | 103 | 5,158 | 12 | 504 |
| Statybų Namai UAB | 9 | - | - | - |
| Elnorma UAB | 1 | - | - | - |
| Grigeo Klaipėda AB | 138 | 27 | 11 | - |
| Grigeo Packaging UAB | 507 | 415 | 50 | 41 |
| Grigeo Investicijų Valdymas UAB | 1 | - | - | - |
| **Total** | **4,046** | **6,635** | **425** | **664** |

* Accounts receivable include prepayments for goods and services.

*f. Information about shareholders holding special controlling rights, and description of such rights*

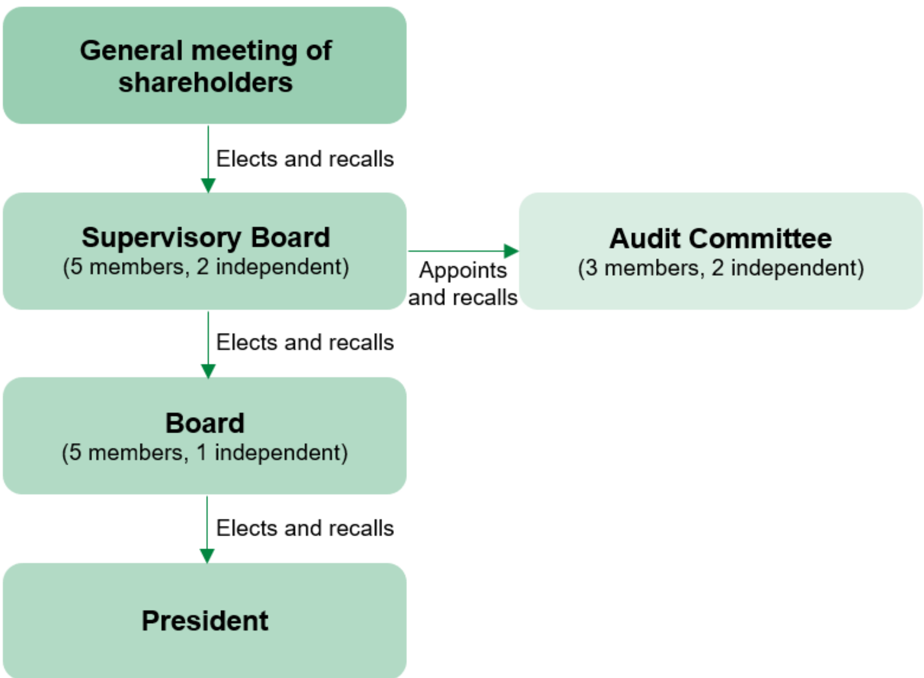
There are no shareholders holding special controlling rights in the Company.

*g. Information about all current limitations of voting rights, such as a specific voting procedure or limitations of voting rights for persons holding a certain percentage or number of votes, deadlines by which voting rights can be exercised or systems under which the property rights granted under securities are separated from the holder of securities*

The are no limitations of voting rights in the Company. Also, the Company is not aware of any agreements between shareholders under which a transfer of securities and / or voting rights could be limited.

*h. Information about the rules regulating the election and revocation of management and supervisory bodies, and amendments of the Articles of Association of the Company*

According to the Company's Articles of Association, the Company's bodies are the General Meeting of Shareholders, the collegial supervisory body is the Supervisory Board, the collegial management body is the Board, and the Company's Manager is the President. The Audit Committee is formed, which is the advisory body to the Company's Supervisory Board.



The Supervisory Board consists of 5 members. The members to the Supervisory Board are elected by the General Meeting of Shareholders for a period of 4 years as defined by the Articles of Association of the Company. The general meeting of shareholders may recall the entire Supervisory Board or its individual members before the end of the term of office of the Supervisory Board. In the election of the members to the Supervisory Board, each shareholder holds the number of votes equal to the number of votes conferred by the shares held thereby multiplied by the number of the Supervisory Board members to be elected. The shareholder distributes these votes at his own discretion – in favour of one or several candidates. The candidates who have collected most votes are elected. In case the number of candidates who collected equal votes exceeds the number of the vacancies in the Supervisory Board, a repeated voting is organised where each shareholder may vote only for one of the candidates who collected equal votes. The Supervisory Board performs its functions for a period defined by the Articles of Association or until a new Supervisory Board is elected but no longer than until the Ordinary General Meeting of Shareholders held in the year in which the Supervisory Board's term of office ends. The number of terms of office of a member of the Supervisory Board is unlimited.

More than half of the Supervisory Board members must be non-related to the Company through employment relations, at least 1/3 of the Supervisory Board members must be independent. The Supervisory Board or its members shall commence their activities after the close of the General Meeting of Shareholders which elected the Supervisory Board or its members. The Supervisory Board is managed by its chairman who is elected by the Supervisory Board from its members.

The Audit Committee is formed to consist 3 members. The Audit Committee is formed, and its composition is approved by the decision of the Supervisory Board for the period defined therein but no longer than 4 years. Only a private individual may be a member of the Audit Committee. The Audit Committee must include at least one Audit Committee member with knowledge of at least one of the following areas: finance, accounting, audit of financial reports, or the sector in which the company operates; at least one member of the Audit Committee must have at least 3 years' working experience in the area of accounting and (or) audit of financial reports. The Manager of the Company and a person who has held this position for the past 5 years may not be a member of the Audit Committee. More than half of the Audit Committee members must be independent members. The chairman of the Audit Committee is elected by the members of the Audit Committee. An independent member is elected to be the chairman of the Audit Committee.

The Company's Board consists of 5 members. The Board is elected for a period of 4 years as defined by the Articles of Association of the Company. The Board performs its functions for a period defined by the Articles of Association or until a new Board is elected and starts to perform its functions but no longer than until the Ordinary General Meeting of Shareholders held in the year in which the Board's term of office ends. The Board elects the chairman of the Board from its members. Only a private individual may be elected to be a member of the Board. The number of terms of office of a member of the Board is unlimited. The Board or its members shall commence their activities at the end of meeting of the Supervisory Board which elected the Board or its members. The Supervisory Board may recall the entire Board or its individual members before the end of their term of office.

The Company's Manager is elected, recalled, and dismissed by the Board of the Company. An employment contract is signed with the Manager of the Company. The Company's Manager starts to perform his duties from the election day, unless otherwise provided by the agreement signed thereby.

The General Meeting of Shareholders has the exclusive right to amend the Articles of Association of the Company subject to the exceptions provided by the Law in Companies of the Republic of Lithuania. The Articles of Association of the Company are amended following the procedure established by the Law in Companies of the Republic of Lithuania.

The Company does not apply a diversity policy for the election of the Manager, members of the management or supervisory bodies of the Company as the Company has no such policy in place. The main criterion for the election of a candidate to be a member of the supervisory or management bodies is the candidate's competence.

*i. Information about the competence of the General Shareholders' Meeting and shareholders' rights and their exercising in case such information is not provided by the laws of the Republic of Lithuania*

The competence of the General Shareholders' Meeting, the procedures for its convening and other issues related to the activities of the General Shareholders' Meeting and the decisions adopted thereby are regulated under the procedure established by the Law on Companies of the Republic of Lithuania.

All amounts are in EUR thousands unless otherwise stated

*j. Information about composition of the management and supervisory bodies and their committees, the area of activities of the aforementioned and of the Manager of the Company*

| Name, surname | Position | Education | Tenure | Capital share and votes, % |
|---|---|---|---|---|
| **SUPERVISORY BOARD** | | | | |
| Norimantas Stankevičius | Chairman | Vilnius University, Physicist | Since 26 April 2019 until the General Shareholders' Meeting, to be held in 2023 | 4.42 |
| Vilius Oškeliūnas | Independent Member | Vilnius University, BA and MA in Economics | | - |
| Romualdas Degutis | Member | Kaunas University of Technology, Telecommunications Engineer | | 0.03 |
| Normantas Paliokas | Member | Vilnius Gediminas Technical University, Architect | | - |
| Daiva Duksienė | Independent Member | Vilnius University, Economist | | - |
| **AUDIT COMMITTEE** | | | | |
| Daiva Duksienė | Chairwoman (independent member) | Vilnius University, Economist | Since 26 April 2019 until the General Shareholders' Meeting, to be held in 2023 | - |
| Norimantas Stankevičius | Member | Vilnius University, Physicist | | 4.42 |
| Vilius Oškeliūnas | Independent Member | Vilnius University, BA and MA in Economics | | - |
| **BOARD** | | | | |
| Gintautas Pangonis | Chairman | Kaunas University of Technology, Telecommunications Engineer | Since 26 April 2019 until the General Shareholders' Meeting, to be held in 2023 | Indirectly 43.5* |
| Algimantas Variakojis | Independent Member (since 13/07/2020) | Vilnius University, Economist | | - |
| Vigmantas Kažukauskas | Member | Kaunas University of Technology, Telecommunications Engineer | | 0.85 |
| Saulius Martinkevičius | Member | Vilnius University, MA in Business Administration and Management, BA in Economics and Business IT Systems | | 0.12 |
| Tomas Jozonis | Member | ISM University of Management and Economics, BA in Management and Business Administration; Vilnius University, MA in Business | | - |
| **MANAGER OF THE COMPANY** | | | | |
| Gintautas Pangonis | President | Kaunas University of Technology, Telecommunications Engineer | - | Indirectly 43.5* |

*Ginvildos investicija UAB holds 43.5% of the Company's shares. 100% of shares of Ginvildos investicija UAB are held by Gintautas Pangonis.

**Gintautas Pangonis** – Chairman of the Board, President. Education – university degree. Profession – multichannel telecommunication engineer. Workplaces during the last 10 years:

| Employer | POSITION |
|---|---|
| Grigeo AB | General Director, Chairman of the Board |
| Grigeo AB | President, Chairman of the Board |

The Supervisory Board discusses and approves the business strategy of the Company, elects members to the Board of the Company and recalls them from their positions, takes decisions regarding transactions with related parties, supervises the activity performed by the Board and Manager of the Company, submits replies and proposals regarding the set of financial statements, drafts profit/loss distribution and the annual report of the Company as well as the activity of the Board and the Manager of the Company to the General Meeting of Shareholders; and resolves other issues assigned to the competence of the Supervisory Board by the Articles of Association of the Company and by the General Meeting of Shareholders regarding to the supervision of the activities of the Company and its management bodies.

The functions of the Audit Committee - to notify the Manager or the Supervisory Board of the Company of the results of the financial statements audit and to explain how this audit contributed to the reliability of the financial statements and the role of the Audit Committee in doing that; monitor the financial accountability process and submit recommendations for ensuring the reliability thereof; monitor the audit of the financial statements and consolidated financial statements; review and monitor the independence of the auditors and audit companies, provide recommendations regarding the auditors performing an audit established by laws or the appointment of audit companies; submit opinions regarding the transactions made by the Company with related parties.

The Board discusses and approves the Company's annual and interim reports, the management structure of the Company; elects and removes from the office the Manager of the Company, sets his salary thereof and other conditions of the employment contract; analyses and assesses the information submitted by the Manager of the Company about the Company's business organisation, financial condition, the set of the Company's annual financial statements, drafts profit/loss distribution and submits to the Supervisory Board and General Meeting of Shareholders in line with the responses and proposals in relation thereto; analyses, assesses the draft business strategy and information about the implementation of the Company's business strategy submitted by the Manager of the Company and takes other decisions assigned to the competence of the Board by the Law on Companies of the Republic of Lithuania, Articles of Association or General Meeting of Shareholders of the Company. The Articles of Association of the Company provide for the following competence of the Board in addition to those provided by the Law on companies of the Republic of Lithuania: the Board discusses and approves the payment systems to the employees; elects and recalls employees directly reporting to the Manager of the Company, directors of the Company's divisions, sets their salaries, other conditions of the employment contract, approves their job descriptions, allocates bonuses to these employees; elects and recalls the accounting company providing accounting services to the Company, sets the conditions of payment for the accounting services; approves the systems and procedures of bonuses, incentives to the employees procedures; sets the non-current assets depreciation or amortisation rates and calculation methods applied in the Company.

The Manager of the Company – the President – organises the Company's economic commercial business activities. The Manager of the Company has the right to unilaterally conclude transactions, except for the cases provided by the Articles of Association of the Company where the Manager of the Company may conclude transactions subject to the decision of the Board of the Company to conclude such transactions. The Manager of the Company is responsible for organising the Company's business and for implementation of its goals, compiling the set of annual financial statements, preparation of the Company's annual report, and for the performance of other obligations provided by the Law on Companies of the Republic of Lithuania and other laws as well as the Articles of Association of the Company.

*k. Information about all agreements between shareholders (their substance and terms)*

The Company is not aware of any agreements between shareholders.

## 17. Remuneration report

The remuneration report of Grigeo AB (hereinafter - the Company) is compiled for the year 2020.

The requirement to compile the remuneration report came into effect in the financial periods starting on 1 January 2020, therefore this report is compiled for the first time. Respectively, the mandatory disclosure of how the results of the voting in the General Meeting of Shareholders of the previous reporting period regarding the remuneration reports were taken into consideration is not submitted.

The Company applies the Remuneration Policy of the Company (hereinafter - the Remuneration Policy) approved on 4 August 2020. By the decision of the General Meeting of Shareholders of the Company, the Remuneration Policy regulates the rules and guidelines for setting remuneration to the Company's Manager, members of the Board and Supervisory Board, to be applied for efficient and rational management of the Company's funds and thereby creating conditions to find, recruit and retain top level professionals to the management and supervisory bodies as well as to achieve the goals set to the Company.

By approving the Remuneration Policy of the Company, account is taken of, *inter alia*, the conditions for remuneration and recruitment of the Company's employees with the goal and expectation that the amount, payment and calculation procedures of the remuneration to the members of the management and supervisory bodies of the Company will enhance consistent achievement of the Company's objectives, implementation of the long-term strategy and even exceeding them, which would respectively allow to improve the working, employment contracts and payment conditions for all employees of the Company.

The main provisions of the Remuneration Policy of the Company:

The remuneration to the Company's Manager consists of the fixed (base) monthly salary in the amount defined by the Board of the Company, bonuses, and other benefits. By the decision of the Board of the Company, the Company's Manager may be granted annual bonuses depending on the Company's financial performance and calculated following the bonus scheme approved by the Board of the Company. The amount of the annual bonus may not exceed 50 % of the annual salary of the Company's Manager. The bonus is paid out as a one-off payment following the procedure and within the term set by the bonus scheme approved by the Board. Following the Rules for Granting Shares of the Company, the Manager of the Company may be remunerated by granting shares thereto. No agreement is made with the Manager of the Company regarding additional pension, early retirement conditions, special notice terms or severance payments that are not provided by laws. In case of termination of the employment relations with the Company's Manager, settlements with the latter are made following the procedure and within the terms provided by the Labour Code of the Republic of Lithuania.

A civil agreement on the provision of services is concluded with the member of the Board of the Company who is not related to the Company through employment relations whereby a fixed monthly remuneration is set amounting to maximum EUR 2,500 (before the applicable taxes). The member of the Board is paid an additional monthly remuneration for the performance of the duties of the chairman of the Board of the Company which cannot exceed 25 % of the fixed monthly remuneration agreed with the member of the Board in the agreement. No variable remuneration components, bonuses or supplements are normally set to the member of the Board who is not related to the Company through employment relations, and no remuneration is offered by granting shares, no specific remuneration criteria are predefined depending on the financial and non-financial performance. The civil agreement signed between the Company and the member of the Board does not provide for any specific or other notice terms, except those defined by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. Also, in case of termination of the civil agreement with the member of the Board, the latter is not commonly paid out any additional severance pays or compensations other than the salary paid to the member of the Board for the factual performance of functions following the procedure and within the terms set by the Remuneration Policy.

Following the Remuneration Policy, the member of the Board who is the Company's employee receives remuneration under the employment contract signed with the Company. The remuneration of the member of the Board who is the Company's employee consists of a fixed (base) monthly salary, bonuses, and other benefits applicable to the employees of the Company. A specific fixed (base) monthly salary is set by the Board of the Company. By the decision of the Board of the Company, a member of the Board may be granted annual bonuses depending on the Company's financial performance, calculated in accordance with the bonus scheme approved by the Board of the Company. A bonus is paid in a one-off payment following the procedure and within the term set by the bonus scheme approved by the Board of the Company. Following the Rules for Granting Shares of the Company, the member of the Board who is the Company's employee may be remunerated by granting shares.

Following the procedure established by the Law on Companies of the Republic of Lithuania and by other laws, at the decision and discretion of the General Meeting of Shareholders of the Company, the members of the Board of the Company may be granted annual bonuses.

A civil agreement on the provision of services is concluded with the member of the Supervisory Board of the Company whereby a fixed annual remuneration is set amounting to maximum EUR 3,000 (before the applicable taxes). In case the member of the Supervisory Board has performed his activity for less than a calendar year, a proportionally lower remuneration is paid thereto in the view of the factual performance of the activity of the member of the Supervisory Board.

A member of the Supervisory Board shall be paid an annual additional remuneration of no more than 25 % for the performance of the duties of the Chairperson of the Supervisory Board of the Company, no more than 20 % for the performance of the duties of the member of the Audit Committee of the Company, and no more than 20 % for the performance of the duties of the Chairperson of the Audit Committee of the Company. No variable salary components, bonuses or premiums depending on the Company's performance are commonly set to the member of the Supervisory Board, and no remuneration is offered by granting shares, no specific remuneration criteria are predefined depending on the financial and non-financial performance.

Following the procedure established by the Law on Companies of the Republic of Lithuania and by other laws, at the decision and discretion of the General Meeting of Shareholders of the Company, a member of the Supervisory Board may be granted annual bonuses. In case of annual bonuses granted to a member of the Supervisory Board, such annual bonuses also include the remuneration payable to the member of the Supervisory Board.

The civil agreement signed between the Company and the member of the Supervisory Board does not provide for any specific or other notice terms, except those defined by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. Also, in case of termination of the civil agreement with the member of the Supervisory Board, the latter is not commonly paid out any additional severance pays or compensations other than the salary paid to the member of the Supervisory Board following the procedure set by the Remuneration Policy.

In case a member of the Board or the Supervisory Board started performing his duties before the Remuneration Policy came into effect and performs these duties after its entry into force, the Company and the respective member of the Board or the Supervisory Board may agree the agreement signed thereby that the provisions of the Remuneration Policy and the provisions of the agreement signed are applicable retrospectively and are effective from the moment the member of the Board or Supervisory Board is elected but not earlier than 1 January 2020.

The Remuneration Report presents information about the remuneration paid to each member of the management and supervisory bodies of the Company (including but not limited to, all of its components, i.e. fixed and variable salaries, bonuses, premiums and other benefits and taxes related to all payments or accrued benefits) by the Company and any other entity within the group of Grigeo AB.

All amounts are in EUR thousands unless otherwise stated

The Remuneration Report includes personal data of the members of the management and supervisory bodies of the Company (name, surname and other specified data) which is processed in order to enhance the Company's transparency, improve the accountability of the management and supervisory bodies, and monitor the remuneration to the members of the management and supervisory bodies.

*Remuneration paid to the Manager and members of the Board of the Company*

| Position, name, surname | Reporting period | Fixed salary component | | Variable salary component | Annual bonuses | One-off payments | Total remune-ration | Fixed to variable salary ratio, % |
|---|---|---|---|---|---|---|---|---|
| | | Base salary | Other benefits | | | | | |
| Chairman of the Board, President Gintautas Pangonis | 2020 | 115 | 5 | - | - | - | 120 | 100%/0% |
| | 2019 | 113 | 5 | - | 88 | - | 206 | 57%/43% |
| Member of the Board Tomas Jozonis (since 26/04/2019) | 2020 | 100 | 4 | 37 | - | - | 141 | 74%/26% |
| | 2019 | 62 | 2 | - | - | - | 64 | 100%/0% |
| Member of the Board Saulius Martinkevičius (since 26/04/2019) | 2020 | 82 | 4 | 12 | - | - | 97 | 88%/12% |
| | 2019 | 46 | 2 | - | - | - | 48 | 100%/0% |
| Member of the Board Vigmantas Kažukauskas | 2020 | 82 | 2 | 20 | - | - | 104 | 81%/19% |
| | 2019 | 78 | 2 | - | 68 | - | 148 | 54%/46% |
| Member of the Board Nina Šilerienė (until 12/07/2020) | 2020 | 71 | 2 | - | - | 54 | 128 | 58%/42% |
| | 2019 | 78 | 3 | - | 68 | - | 150 | 55%/45% |
| Independent Member of the Board Algimantas Variakojis (since 13/07/2020) | 2020 | 14 | - | - | - | - | 14 | 100%/0% |
| | 2019 | - | - | - | - | - | - | 0%/0% |

Members of the Supervisory Board were paid annual bonuses only, data presented in section e. of this chapter.

*a. Information about granted shares, rights granted by share options*

No remuneration by granting the Company's shares was allocated to members of the management and supervisory bodies of the Company. The Company has not granted any share options to the members of the management and supervisory bodies.

*b. Information about the use of the possibility to recover variable remuneration*

During the reporting period, variable remuneration was not recovered.

All amounts are in EUR thousands unless otherwise stated

c. *Annual changes in the remuneration to members of the management bodies of the Company as compared to the Group's performance and the average salary to the employees*

| Position, name, surname | 2016 | 2017 | 2018 | 2019 | 2020 | |
|---|---|---|---|---|---|---|
| Chairman of the Board, President Gintautas Pangonis | 146 | 153 | 176 | 206 | 120 | |
| Member of the Board Tomas Jozonis (since 26/04/2019) | - | - | - | 64 | 141 | |
| Member of the Board Saulius Martinkevičius (since 26/04/2019) | - | - | - | 48 | 97 | |
| Member of the Board Vigmantas Kažukauskas | 101 | 109 | 127 | 148 | 104 | |
| Member of the Board Nina Šilerienė (until 12/07/2020) | 99 | 107 | 126 | 150 | 128 | |
| Independent Member of the Board Algimantas Variakojis (since 13/07/2020) | - | - | - | - | 14 | |
| **Group results** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| EBITDA (-1 year)* | 18 311 | 16 068 | 22 894 | 28 113 | 28 603 | 26 245 |
| **Average annual salary paid to full time employees** | | | | | | |
| | **2016** | **2017** | **2018** | **2019** | **2020** | |
| Average annual salary paid to the Group employees** | 13.9 | 15.0 | 16.4 | 22.2 | 23.8 | |

*EBITDA ratio is presented in each case for the previous year as the business performance results are assessed based on the previous year's financial performance.

**The presented data is related to the Group's employees working in Lithuania who are not members of the management and supervisory bodies of the Company.

d. *Annual changes in the remuneration paid to members of the supervisory body of the Company as compared to the Group's performance and the average salary to the employees*

| Position, name, surname | 2016 | 2017 | 2018 | 2019 | 2020 | |
|---|---|---|---|---|---|---|
| Chairman of the Supervisory Board, member of the Audit Committee Norimantas Stankevičius | 7.5 | 9.0 | 10.0 | 12.0 | - | |
| Independent member of the Supervisory Board, member of the Audit Committee Vilius Oškeliūnas | 1.5 | 1.8 | 1.8 | 2.2 | - | |
| Member of the Supervisory Board Romualdas Degutis | 1.5 | 1.8 | 1.8 | 2.2 | - | |
| Independent member of the Supervisory Board, chairwoman of the Audit Committee Daiva Duksienė | 1.5 | 1.8 | 1.8 | 2.2 | - | |
| Member of the Supervisory Board Normantas Paliokas (since 26/04/2019) | - | - | - | - | - | |
| **Group results** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| EBITDA (-1 year)* | 18,311 | 16,068 | 22,894 | 28,113 | 28,603 | 26,245 |
| **Average annual salary paid to full time employees** | | | | | | |
| | **2016** | **2017** | **2018** | **2019** | **2020** | |
| Average annual salary paid to the Group employees ** | 13.9 | 15.0 | 16.4 | 22.2 | 23.8 | |

*EBITDA ratio is presented in each case for the previous year as the business performance results are assessed based on the previous year's financial performance.

** The presented data is related to the Group's employees working in Lithuania who are not members of the management and supervisory bodies of the Company.

*e. Compliance with the remuneration policy and information about the business results criteria applied*

The Company's remuneration Policy was approved on 4 August 2020, therefore the compliance of the remuneration paid to the members of the management and supervisory bodies of the Company before the application of the Remuneration Policy with the approved Remuneration Policy cannot be assessed.

4 out of 5 members of the Board of the Company (except for the independent member of the Board) are the Company's employees holding top level management positions in the Company. They are paid the remuneration in the amount set by the Board under the employment contract signed with the Company. The remuneration paid to the members of the Board who are the Company's employees are set in view of the qualifications and competence of each specific employee, the scope of functions and responsibilities assumed within the Company, the aim to retain a specific person in the Company's top management position, motivate him/her to work in good faith, with due care, qualification and loyalty for the Company to achieve the Company's goals, and implement the Company's strategy and interests, thereby increasing the Company's profitability and ensuring a consistent improvement of its financial performance in the long-term perspective. Following the Bonus System approved by the Board of the Company, bonuses were allocated to the members of the Board of the Company depending on the Company's financial performance. By allocating the annual bonuses to the top-level employees, the Company's profitability and EBITDA are the main criteria to evaluate the employees' performance results.

The monthly remuneration paid to the independent member of the Board is set in accordance with the provisions of the Remuneration Policy under the agreement signed with the member of the Board on the provision of management activities by the member of the Board.

Before the Remuneration Policy was approved, the members of the Board and Supervisory Board of the Company were allocated annual bonuses following the procedure set by the Law on Companies of the Republic of Lithuania and other laws, at the decision and discretion of the General Meeting of Shareholders of the Company.

The remuneration paid to the Manager, members of the Board and Supervisory Board of the Company complies with the remuneration guidelines defined by the Remuneration Policy of the Company and enables better accountability of members of the management and supervisory bodies to the Company and its shareholders as well as encourages members of the management and supervisory bodies of the Company to focus on the long-term goals and strategy rather than take risky decisions that may imply positive results only in the short-term.

## 18. Corporate social responsibility report

Corporate social responsibility report is presented in the next section of this document.


CORPORATE SOCIAL RESPONSIBILITY REPORT

## SECTION CONTENTS

## 1. GROUP OF COMPANIES

Grigeo AB (hereinafter – the Company) company group is the only paper and wood industry company group in Lithuania and one of the largest groups in the Baltic states. Grigeo AB company group consists of the following entities: Grigeo AB, Grigeo Packaging UAB, Grigeo Baltwood UAB, Grigeo Klaipėda AB, Mena Pak AT, Grigeo Recycling UAB and Grigeo Recycling SIA and Grigeo Investicijų Valdymas UAB (hereinafter – the Group).

In the scope of its operational processes, the Group performs an almost complete cycle of processing of wood and paper components, producing products with higher added value: tissue paper, i.e. toilet paper, tissues, paper towels, paper for the production of corrugated cardboard, honeycomb, corrugated cardboard and packaging, as well as solid fibreboard.

The Group operates on the principle of circular economy, a part of paper for the production of tissue paper products and raw material for the production of corrugated cardboard, i.e. testliner (smooth layered cardboard) and fluting (paper for corrugation and raw material for paper honeycomb) are produced by recycling secondary raw materials, i.e. waste paper, thus contributing to the reduction of waste in Lithuania and neighbouring countries as well as to the preservation of forests.

The Group's cardboard business model is based on full production cycle management: from raw material (waste paper) collection from primary sources and preparation for further processing, manufacturing of paper (cardboard) for the production of corrugated cardboard and packaging, and to the production of corrugated cardboard and packaging.

### Key Performance Indicators

During 2020, the Group achieved the consolidated sales turnover of EUR 129.9 million, which is EUR 10.4 million less than in 2019.

During the reporting period, the Group earned EUR 14.9 million profit before tax, which is EUR 0.9 million less than in 2019. The Group's EBITDA indicator – earnings before taxes, interest, depreciation, and amortization – decreased by EUR 2.4 million, as compared to 2019, and amounted to EUR 26.2 million.

The sales of the Company in 2020 amounted to EUR 63.6 million, which is EUR 1.5 million less than in 2019. The Company earned a profit of EUR 9.9 million before tax during the reporting period, while EBITDA amounted to EUR 14.8 million, i.e. increased by EUR 3.2 million compared to 2019.

### Management of the Company

According to the Articles of Association of the Company, the bodies of the Company are the General Meeting of Shareholders, the collegial supervisory body, i.e. the Supervisory Board, and the collegial management body, i.e. the Board, and the Manager of the Company – the President.

The General Meeting of Shareholders deals with the essential and the most important issues of the Company's activities. The General Meeting of Shareholders has the exclusive right to amend the Articles of Association of the Company, to elect and revoke the members of the Supervisory Board of the Company, to approve the sets of annual financial statements of the Company, to adopt a decision on the distribution of the Company's profit (loss), and to make other decisions provided for in the Articles of Association of the Company and legal acts of the Republic of Lithuania. All shares issued by the Company grant equal rights to all shareholders of the Company.

The Supervisory Board of the Company consists of 5 members. The Supervisory Board of the Company is elected by the General Meeting of Shareholders for a period of 4 years. The Supervisory Board considers and approves the Company's operational strategy, elects the members of the Board of the Company and removes them from office, as well as decides on other matters of supervision of the operation of the Company and its management bodies attributed to the competence of the Supervisory Board by the Articles of Association of the Company as well as by the resolutions of the General Meeting of Shareholders. The Company forms the Audit Committee, which is an advisory body of the Supervisory Board of the Company, consisting of 3 members of the Supervisory Board, two of whom are independent and one has at least 3 years of work experience in the field of accounting or auditing. The Audit Committee is appointed by the Supervisory Board for the term of office of the Supervisory Board. The functions of the Audit Committee are to monitor the Company's financial reporting and external audit process, to monitor the compliance of the external auditor and audit firm with the principles of independence and objectivity, and to make recommendations to the Supervisory Board regarding the selection of the external audit firm.

The Board of the Company consists of 5 members. The Board is elected by the Supervisory Board for a period of 4 years. The Board considers and approves the Company's annual report, the Company's management structure, elects and revokes the Manager of the Company, and adopts other decisions attributed to the competence of the Board by the Articles of Association of the Company as well as the resolutions of the General Meeting of Shareholders.

The Manager of the Company – the President – organises the Company's economic and commercial activities. The Manager of the Company has the right to enter into transactions unilaterally, except in the cases provided for in the

All amounts are in EUR thousands unless otherwise stated

Articles of Association of the Company, where the Manager of the Company may enter into transactions when the Board of the Company adopts a decision to enter into such transactions. The Manager of the Company is responsible for the organisation of the Company's activities and the implementation of its objectives, as well as for the fulfilment of other obligations laid down in the Republic of Lithuania Law on Companies and other legal acts, and in the Articles of Association of the Company.

**Shareholders**

Registered ordinary shares of Grigeo AB are listed on the Baltic Main List of Nasdaq Vilnius stock exchange (ticker – GRG1L).

On 31 December 2020, Grigeo AB had 3,412 shareholders.

Shareholders holding more than 5% of the Company's authorised capital on 31 December 2020 and/or 31 December 2019 are as follows:

| Name and surname of shareholder (company name, type, registered office address, company code) | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Number of ordinary registered shares owned by the shareholder, units | Share of the authorised capital held, % | Share of voting rights granted by the shares held, % | Number of ordinary registered shares owned by the shareholder, units | Share of the authorised capital held, % | Share of voting rights granted by the shares held, % |
| Ginvildos investicija UAB* Turniškių str. 10a-2, Vilnius, Lithuania 125436533 | 28,582,407 | 43.50 | 43.50 | 28,582,407 | 43.50 | 43.50 |
| Irena Ona Mišeikienė | 8,584,171 | 13.07 | 13.07 | 8,584,171 | 13.07 | 13.07 |

*100% shares of Ginvildos investicija UAB is held by Gintautas Pangonis.

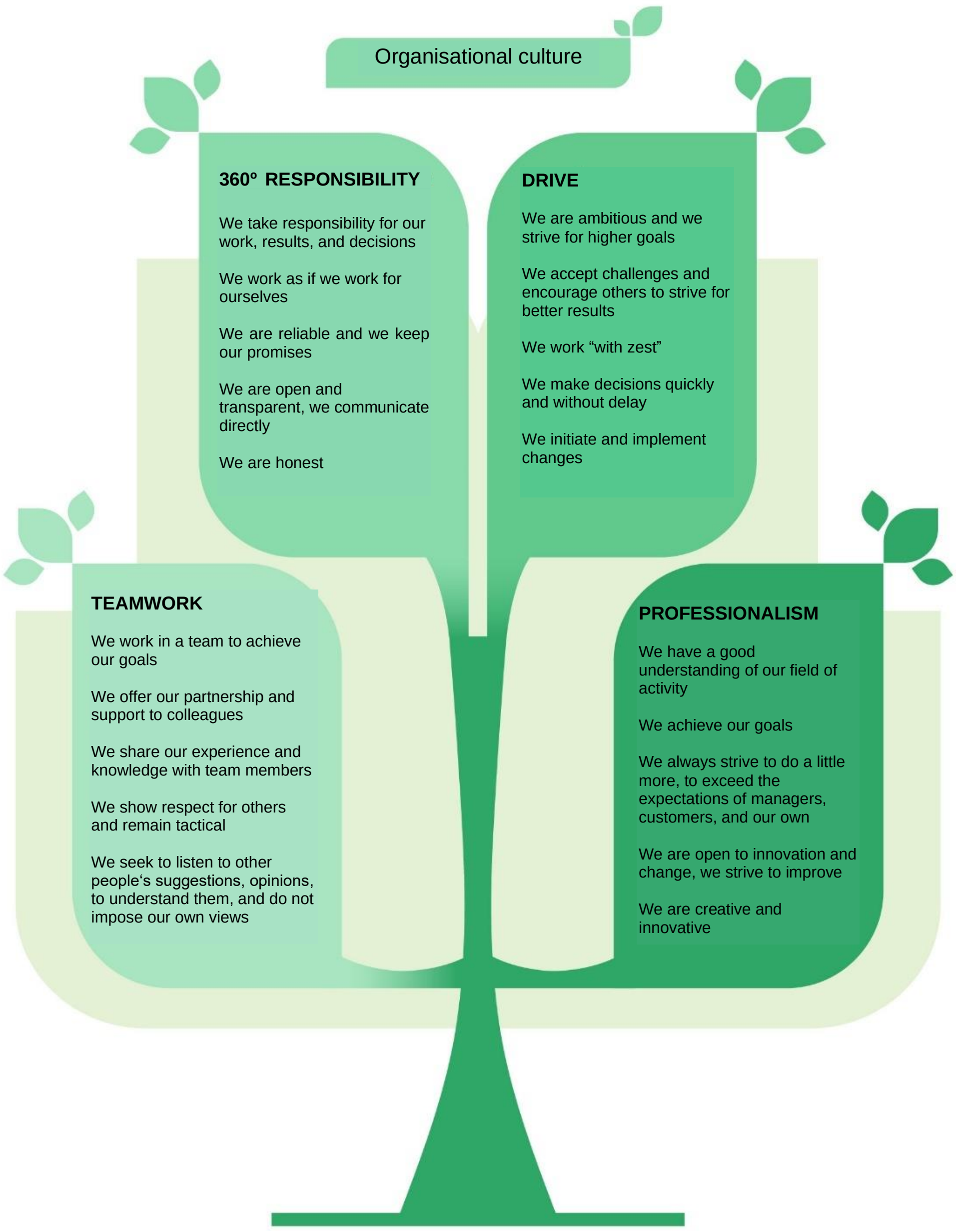
## 2. OUR VALUES

In our creation and production process, we always think about you – our customers, employees, partners, and colleagues.

**Our mission** is the development and production of environmentally friendly products and improvement of the quality of life.

**Our vision** is to become a recognised manufacturer throughout Europe.

**Culture of the companies belonging to our Group** is about values - awareness of them and adherence to them. Some values influencing each of us come from the age or the generation we represent, other come from our family, and the values of the companies belonging to the Group are taken over by our employees in the process of working with us. The average term of employment at the companies of the Group is 10 years, so the environment where our employees spend a large part of their lives is very important to us. We pay special attention to employees' education about the values of the organisation by integrating them into the management processes, provision of feedback, and joint initiatives of employees.



## 3. SOCIAL RESPONSIBILITY

As one of the largest paper and wood industry company groups in the Baltic states, Grigeo AB company Group recognises, understands, and feels responsible for the impact of its activities on the social, economic, and natural environment.

Companies of the Group understand their role in business creation very directly – by working based on the principles of sustainable business, creating and strengthening the environment, promoting a culture and practice of sustainable and responsible business, sharing positive experiences, and constantly improving their environment. It is important for the companies of the Group how business, environment, and people will live tomorrow. These are not words, but real aspirations in our everyday processes. Production efficiency, social responsibility, respect for employees and the community, maximum saving of resources, and the most beneficial use of raw materials will always be the main operating standards for the companies of the Group, which will allow achieving better results with lower consumption of energy, lower emissions, and, thus, with cleaner and healthier environment and happier people.

Essential business sustainability principles of the Group speak about the creation of value for the society, employees, and shareholders. For these purposes, we adhere to the Lean philosophy in organising the work processes of companies and encouraging the creation of value, identification and elimination of waste processes, and continuous improvement of operations. Lean enables to develop work organisation systems that increase production efficiency and improve quality and service using the same amount of resources.

The aforementioned aspect of creating value for employees is also important. The companies of the Group actively and very responsibly engage in the creation of a safe and healthy working environment, and, consequently, the daily well-being of their employees. Occupational safety and health management standards implemented in many companies of the Group help to ensure the consistency of processes and sufficient attention to the most important matters.

The Group also takes care of its shareholders who entrusted it with the management of their funds. The Group earns profit for the company and dividends for shareholders providing the results achieved through daily quality work. It also analyses the reality of the market in a particularly responsible manner and develops active business growth strategies distinguished by the fact that they use growth potential, investments targeting technological advancements, and clear geographic development plans. The Group has been growing continuously for 5 years and is implementing backward vertical integration in production processes (production of raw materials, production of thermal energy, and centralisation of procurements). Strengthened business differentiation enables risks to be managed in different segments and, at the same time, helps to achieve economies of scale in business servicing and support functions.

Environmental focus is one of the key aspects of sustainability of the companies belonging to the Group. At the beginning of 2020, information emerged that Grigeo Klaipėda AB discharged a part of biologically untreated wastewater into the Curonian Lagoon through the pre-treated wastewater collector of Klaipėdos Vanduo AB. Grigeo Klaipėda AB assumed full legal responsibility for its actions and will compensate for all environmental damage caused by its actions as soon as it is established. The environmental incident was a major blow to Grigeo Klaipėda AB, and also affected the Group as a whole, so we paid special attention to the analysis of the situation and actions which would ensure that similar situations do not repeat themselves, as well as to the strengthening of sustainability throughout the Group of companies as a whole.

Every business of the Group works for its customers, because the success of the business depends on the trust of its customers. In 2020, we have demonstrated repeatedly that by introducing environmentally friendly equipment and solutions in our operational processes, we took additional preventive actions aimed to create products with added value, ensure the maximum quality, and reduce the negative impact of consumption and production on the environment, health, climate, and natural resources.

Following the environmental incident at Grigeo Klaipėda AB, a number of control authorities inspected our activities, carried out management analyses, occupational safety and health audits, environmental audits, and verified that our products bearing the Ecolabel comply with the established labelling criteria and requirements. We have been open to all authorities who expressed the need for these actions, and they did not detect any material infringements during the inspections. On the basis of the findings of the inspections carried out we have successfully re-certified the supervisory management systems and recovered the suspended certificates and permits.

# 4. RELATIONS WITH EMPLOYEES

| Social Partnership | Payroll System | Development of Employees' Competences | Employee Engagement and Performance Evaluation |
|---|---|---|---|

## 4.1. Social Partnership

Social dialogue between the employer and employees of the companies of the Group is ensured by working together with operating trade unions and/or works councils. In 2020, the relations of Grigeo AB, Grigeo Packaging UAB and Grigeo Klaipėda AB with their employees were defined by the provisions of the collective agreement. We take care of our employees, strive to ensure that the employees of the Group companies feel engaged, motivated and safe, and provide employees with additional benefits. Taking into account the needs of employees, the list of additional benefits in the areas of health and safety improvement, strengthening and improvement of social relations and team building, recreation and working time balance, and other initiatives of similar nature are kept under constant review and up to date. These additional benefits are highly appreciated and actively used by our employees.

## 4.2. Payroll System

Companies of the Group aim to maintain a clear and transparent payroll system that helps to attract and retain the best/most qualified and competent employees, promotes productive and efficient work, and enables employees to be fairly remunerated for their work and performance. In 2020, we approved payroll systems in the companies of the Group. Payroll system was developed based on the following principles and grounds:

- gender equality and non-discrimination on other grounds;
- payroll system transparency;
- calculation and determination of fair remuneration;
- determination of the appropriate level of remuneration for all employees of the companies of the Group;
- encouraging employees to improve and seek higher qualifications;
- proper evaluation of employee performance and additional financial rewards and bonuses for the achievement of objectives.

The payroll system at the Group companies includes categorisation of employees by function and/or qualification, and these categories are broken down, *inter alia*, according to the international Hay Group methodology – an internationally recognised methodology that ensures an objective assessment of functions according to the following criteria: "know-how" (technical knowledge, scope of management, human relations skills), problem-solving (freedom to think, complexity of problems) and the level of accountability (freedom to act, magnitude of impact, nature of impact) which are specific to the function.

The basic salary of the Group employees is usually reviewed once a year. Comparing the average salary of a Group employee in 2020 and 2019, the average growth amounted to 7%. Changes of the basic salary depend, *inter alia*, on the conditions and changes on the labour market, economic indicators of the national market, performance of a particular employee, structural or work organisation changes at the Group companies, performance of the Group companies, estimated budget of the Group companies, and also the data and forecasts of the remuneration market surveys, inflation, and other objective circumstances are taken into account.

Group companies aim to create motivating working conditions for their employees at all levels. Group companies use additional monetary incentive or bonus schemes and individual categories of employees, groups of functions, groups of categories, or functions are paid other components of salary (premiums, bonuses or allowances) in addition to the basic salary on the bases, conditions, amounts, and procedures laid down therein.

## 4.3. Development of Employees' Competences

Companies of the Group promote the growth of their employees, so in 2020 some companies of the Group implemented an employee categorisation system in their production, customer service, and logistics divisions. This system regulates the conditions for obtaining the employee's category, criteria and period for upgrading qualifications, completion of the non-formal vocational training process, and the criteria for assessing acquired competences. Using the categorisation and vocational training systems, our new employees receive all the assistance required to successfully acquire new professional knowledge and skills and seamlessly integrate into the team, the systems ensure a consistent prospect for the growth of employee qualification, necessary achievement of qualitative and quantitative goals of the production process, implementation of the strategic goals of the Group companies, and acceptance of and compliance with the values of the Group companies.

All amounts are in EUR thousands unless otherwise stated

By ensuring smoother processes of onboarding and adaptation of new employees, Group companies have improved internal vocational non-formal training programs in the chain of manufacturing employees, successfully adapted changes in employee training and certification procedures by adapting the provisions of the laws of the Republic of Lithuania, and organised training for the acquisition of specialised skills in cooperation with accredited training institutions.

Due to the limitations imposed by the COVID-19 pandemic in 2020, the Group companies attempted to adapt to the current situation and carried out trainings remotely. They did not restrict the willingness of employees to improve and develop their competences and, thus, provided them with conditions for distance learning, participation in seminars and conferences.

### 4.4. Employee Engagement and Performance Evaluation

The Group companies take note and value the employees' contribution to the operating results, which is why they continued to successfully conduct employee performance discussions throughout 2020. The performance of employees working in the production, technical and logistics departments is assessed on a monthly basis by monitoring KPIs (key performance indicators), which are the main performance indicators used to measure the company's progress towards the set goals, where the KPI system is based on LEAN philosophy. Performance of the specialists is discussed quarterly, and the managers' performance is assessed once a year.

These periodic meetings are regarded very highly by employees: they enable the employees to become more involved in the company's activities, frequent feedback works as an excellent motivational tool, and guidelines for improving employees' qualifications are provided. Systematic monitoring of and discussion about the performance also contributes to the achievement of strategic objectives of the Group companies and provides employees with the opportunity to receive additional remuneration for achieved goals on the basis of approved additional monetary reward schemes.

Upholding of the values of the Group companies is the foundation used for the cultivation and maintenance of workplace culture. Companies of the Group in Lithuania foster an appealing tradition – they nominate and award their best employees. Employees whose behaviour reflected the values of the Group companies most prominently, thus setting a positive example and encouraging others to raise their game and strive for positive employee behaviour in their daily work, are nominated and elected as the best. Any employee can nominate their colleagues in this election. The best employees of the quarter are rewarded with gifts, and at the end of the year a draw is organised, where each company draws one lucky person from all its quarterly best employees, who is usually rewarded with a trip or, depending on the situation with the pandemic, a monetary prize of equivalent value to spend for their leisure. Group companies value the loyalty of their employees very highly, and therefore, at the end of each year the employees of the companies of the Group are rewarded for their long-term achievements. Within the constraints of the COVID-19 pandemic, the Group companies provided their employees with an opportunity to watch the ceremony of festive election and awards of the best employees of the year and long-time employees for their long-standing achievements remotely, using modern technological solutions.

Group companies are engaged in the creation of a successful system of innovative proposals for employee engagement culture, where employees can submit ideas to improve the efficiency, quality or safety and health at their work. Companies have approved a system for awarding points for implemented ideas and employees can later exchange their points for prizes – coupons.

Employee turnover and internal career indicators, as well as feedback information allows to monitor employee satisfaction with work at the companies of the Group. Although 2020 was a challenging year, we are proud of our employees and are grateful for their loyalty and belief in the values of the Group companies. We are very pleased that the employee turnover indicators in 2020, as compared to 2019, decreased at all companies of the Group:

| Turnover indicator | Grigeo AB | Grigeo Klaipėda AB | Grigeo Packaging UAB | Grigeo Baltwood UAB | Grigeo Recycling UAB / Grigeo Recycling SIA | Mena Pak AT |
|---|---|---|---|---|---|---|
| 2020 | 20.7% | 31.2% | 18.1% | 19.5% | 32.8% | 6.04% |
| 2019 | 35.8% | 39.6% | 44.4% | 27.3% | 37.9% | 26.7% |
| Change | -15.1p.p. | -8.4p.p. | -26.3p.p. | -7.8p.p. | -5.1p.p. | -20.6p.p. |

All amounts are in EUR thousands unless otherwise stated

## 5. OCCUPATIONAL SAFETY AND HEALTH

| COVID-19 Situation Management | Accident Prevention | Occupational Health | Employee Training |
|---|---|---|---|

### 5.1. COVID-19 Situation Management

In 2020, a lot of attention was paid to the management of COVID-19 situation, where the Group's Corporate Crisis Management Committee focused on the implementation of preventive measures, drawing up and implementation of contingency management plans, and ensuring constant and timely communication with the Group employees.

Awareness and focus of all employees contributed to the timely response and control of COVID-19 pandemic developments. Companies of the Group implemented the following COVID-19 prevention measures: preventive measurement of temperature of employees and all visitors entering the territory using a thermovisor and thermometers, continuous control of employees' temperature during work, continuous provision of personal and collective protective equipment (face masks, respirators, gloves, disinfectant fluid) to employees, organisation of remote work, management of employee flows, constant disinfection of all premises and surfaces, use of an antibacterial cleaning and air disinfection system, continuous provision of information to employees about the compliance with preventive measures, and preventive testing of employees using COVID-19 tests. These measures and employee awareness made it possible to prevent employees who had any symptoms from coming to work, to record cases of coronavirus disease in a timely manner, to isolate exposed employees, and to control the situation and spread of the virus within the Group companies. In the situation of a pandemic, it is important for us to protect employees not only at the workplace, but also at home, so we constantly notify employees about compulsory compliance with preventive measures not only at work, but also in households, strive to raise employees' awareness, improve their discipline and grow the sense of responsibility.

| Year 2020 | Grigeo AB | Grigeo Klaipėda AB | Grigeo Packaging UAB | Grigeo Baltwood UAB | Grigeo Recycling UAB/ Grigeo Recycling SIA | AT Mena Pak |
|---|---|---|---|---|---|---|
| COVID-19 tests performed | 343 | 46 | 149 | 463 | 106 | 35 |
| COVID-19 cases detected | 24 | 11 | 11 | 24 | 11 | 5 |

The Group also contributed to the management of COVID-19 pandemic at the national level by providing support to medical institutions and hospitals during this period:

- Grigeo AB contributed to the support to the medical community organised by the Lithuanian Confederation of Industrialists and donated a breathing apparatus to the Marijampolė Hospital in 2021;
- Grigeo AB also contributed by donating tissue paper (in the amount of EUR 76,000) produced by it to more than 40 healthcare and social care institutions throughout Lithuania;
- Grigeo Klaipėda AB contributed to the support of businesses for the management of the COVID-19 pandemic initiated by the Lithuanian Confederation of Industrialists and the Association of Klaipėda Industrialists: the acquisition of necessary medical and protective equipment, and also a donated breathing apparatus to the Klaipėda Seamen‘s Hospital in 2021;
- Grigeo Packaging UAB has contributed to the initiative of support for healthcare professionals "Laikykitės, medikai" by donating corrugated cardboard boxes for the transportation of necessary medical protective equipment.

Group's support to COVID-19 pandemic relief amounted to EUR 100,000 in total.

### 5.2. Accident Prevention

Group companies maintain a safe, reliable working environment that complies with the standards and requirements provided in the national legislation. The Group strives to create a culture of safe and healthy work in the day-to-day activities of its companies and promotes employee involvement in recording and resolving unsafe situations. We are pleased that our employees are actively involved in this initiative: 443 unsafe situations have been recorded in all companies of the Group, 334 of which have been resolved together with the employees, and the rest are currently being dealt with.

All amounts are in EUR thousands unless otherwise stated

| Year 2020 | Grigeo AB | Grigeo Klaipėda AB | Grigeo Packaging UAB | Grigeo Baltwood UAB | Grigeo Recycling UAB/ Grigeo Recycling SIA | AT Mena Pak |
|---|---|---|---|---|---|---|
| Unsafe situations detected | 125 | 50 | 85 | 144 | 14 | 25 |
| Unsafe situations resolved | 93 | 37 | 67 | 107 | 14 | 16 |

Preventive resolution of unsafe situations helps to reduce the number of accidents at the Group companies.

| Accidents | Grigeo AB | Grigeo Klaipėda AB | Grigeo Packaging UAB | Grigeo Baltwood UAB | Grigeo Recycling UAB/ Grigeo Recycling SIA | AT Mena Pak |
|---|---|---|---|---|---|---|
| Year 2020 | 14 | 7 | 2 | 4 | 2 | 0 |
| Year 2019 | 13 | 9 | 3 | 10 | 0 | 1 |
| Change | +1 | -2 | -1 | -6 | +2 | -1 |

The most common causes of accidents are careless actions, failure to wear personal protective equipment, negligence, and slipping. That is why we are constantly focused on improving our employees' knowledge in the area of occupational safety and health.

Group companies have acquired defibrillators and trained employees on how to use them in an emergency, so that every one of them would be able to save a life by providing first aid before the arrival of healthcare professionals.

In order to increase the safety of employees, the instructions for the performance of works with fire, contract work management and other occupational safety and health instructions have been updated and the register of contractors has been digitalised, which is going to allow for the management of all information on the access of contractors' organisations to the territory of the companies belonging to the Group and proper work organisation going forward.

Workplace risk assessments have been updated and process risk assessments have been initiated. This allows for clear identification of all risks at the workplace and all processes that pose a significant risk to the health and lives of employees.

In order to maintain the social dialogue with employees on occupational safety and health issues, the cooperation with active employees' representatives on health and safety in each company of the Group is carried out.

During 2020, the companies of the Group have been preparing for the migration from OHSAS 18001 to ISO 45001. This certificate substantiates the sustainable change in the company and systematic approach to the occupational health and safety. Group companies aim to continuously improve the existing system.

Group companies have successfully improved their business processes to ensure the maximum safety in the workplace: various repair works have been carried out in work and recreation areas, utility rooms and other premises, thus ensuring ergonomic, safe working conditions, reducing and eliminating vibration, noise, heat exposure and stumbling risk factors.

### 5.3. Occupational Health

Necessary periodic medical examinations are carried out annually for the employees of the Group companies and all employees are insured against accidents globally 24 hours a day. We provide an annual opportunity of preventive vaccination against influenza and tick-borne encephalitis to the willing employees.

### 5.4. Employee Training in Occupational Safety and Health Matters

Some of the Group companies aimed to improve employees' knowledge in the area of fire safety and organised theoretical fire safety training and practical exercises. Civil protection table-top exercises were also organised. Training on the use of defibrillators and chemicals has been carried out. Mental health training took place. With the improvement of mental health competencies of the company employees, we aim to develop the competencies of the employer and employees required in order to reduce the negative impact of psychosocial risk factors on the health of employees and to improve the psychosocial environment at the companies. Where required, new employees received instructions and training how to carry out high-risk works and testing.

All amounts are in EUR thousands unless otherwise stated

## 6. PUBLIC RELATIONS

| Promotion of the Sense of Community | Educational Activities and Internship Opportunities | Social and Voluntary Activities |
|---|---|---|

### 6.1. Promotion of the Sense of Community

It is important for the companies of the Group to nurture and maintain close links with the society and regional communities by creating and maintaining social dialogue and contributing to social initiatives. The Group is an active part of the business community and Grigeo AB and Grigeo Klaipėda AB are the members of the Lithuanian Confederation of Industrialists. Grigeo Klaipėda AB is also a member of Association of Klaipėda Industrialists and chairs its Education, Science and Innovation Committee. Grigeo Klaipėda AB is a member of the Confederation of European Paper Industries. Grigeo AB, Grigeo Klaipėda AB and Grigeo Baltwood UAB are members of the Lithuanian Forest Association.

Grigeo AB supports the construction of Grigiškės Church, which has become the largest epicentre of the town. In the course of the entire construction period, the Group's support amounted to EUR 431 thousand (during the period of 2016 to 2020), of which Grigeo AB donated EUR 50 thousand and Grigeo Baltwood UAB and Grigeo Packaging UAB donated EUR 8 thousand each in 2020. Grigeo Baltwood UAB annually gifts monetary support to Grigiškės for the Christmas tree and its decoration.

Grigeo AB is continuously implementing its initiative of funding the support and charity foundation "Mamų unija", which takes care of children with oncological diseases in Lithuania. As a Christmas gift, it decided to give its partners postcards of "Mamų unija" and pine seedlings and will invite to plant them in "Mamų unija" Family Home territory and all around Lithuania to add even more greenery to the landscape. In 2020, the Company provided the Foundation with financial support and also contributed with its products, EUR 6.5 thousand in total.

Grigeo AB donated EUR 2 thousand to support the Lithuanian Free Market Institute (a non-profit organization), which mission is to promote and consolidate ideas of individual freedom and responsibility, free market, and limited government intervention.

In June 2020, Grigeo Klaipėda AB and Klaipėda University concluded an aid agreement for the Grigeo Klaipėda AB's donation of EUR 500 thousand for the preparation of environmental specialists and development of environmental pollution solutions for the future of the Klaipėda region.

Grigeo Klaipėda AB held a meeting with the city and district communities, shared the list of works already carried out and planned to be carried out in the near future, and responded to the community's concerns, thus strengthening the dialogue with community representatives.

In order to increase the transparency of its activities and to promptly respond to the concerns expressed by residents, as of September 2020 Grigeo Klaipėda AB has been presenting the news and current information about the company via the Grigeo Klaipėda AB Facebook account.

Grigeo Packaging UAB has donated EUR 1.5 thousand to the public non-governmental welfare society for people with intellectual disabilities "Vilniaus viltis", also we contributed EUR 1 thousand to support the activities of the Youth Line – one of the largest charities providing free emotional support by telephone and internet in Lithuania.

### 6.2. Educational Activities and Internship Opportunities

In the face of the COVID-19 pandemic, the Group companies continued their cooperation with educational institutions, which allowed them to contribute to the training of production specialists and to provide them with the opportunity to be employed or undertake an internship at the companies of the Group. Thanks to the principles of safe work organisation, six students could complete their internship at the Group companies.

The team of financial specialists of Grigeo Klaipėda AB, together with other companies of the seaport, contributed to the review of the Professional Bachelor's Programme in Finance of the Klaipėda State University of Applied Sciences and provided comments and recommendations to ensure the quality of such programmes and fulfilment of market needs. This programme has been awarded the Investors' Spotlight label (a quality mark awarded by the Investors' Forum Association and the Foreign Direct Investment and Business Development Agency Invest Lithuania to evaluate the higher education programmes of Investors Spotlight).

Grigeo Klaipėda AB actively participates in educational initiatives to develop students' engineering skills and attract talent to Klaipėda region companies. One of the implemented projects in the academic year 2019/2020 was the performance of tests with one of the company's products – honeycomb filler – by the students of the Klaipėda city Baltic Gymnasium together with the project team and engineers of Grigeo Klaipėda AB. Grigeo Klaipėda AB maintains cooperation with Klaipėda city agency Klaipėda ID and contributes to new educational initiatives.

All amounts are in EUR thousands unless otherwise stated

### 6.3. Social and Voluntary Activities

Companies of the Group encourage volunteering. Every employee is given an opportunity to take a paid day off to participate in voluntary activities. In 2020, voluntary assistance of employees of Grigeo AB – installation of donated tissue paper dispensers -– contributed to the improvement of living conditions of children with oncological diseases supported by the support and charity foundation "Mamų unija".

## 7. ENVIRONMENTAL PROTECTION

| Environmental Solutions and Initiatives of Group Companies | Environmental Solutions of Grigeo Klaipėda AB |
|---|---|

### 7.1. Environmental Solutions and Initiatives of Group Companies

The philosophy of Group companies is to produce environmentally friendly products making optimal use of natural resources. Focus on the environment is one of the cornerstones of the organisation's sustainability that encourages continuous introspection and action to ensure a safe and healthy environment for us and future generations.

Environmental management system certificates ISO 14001:2015 implemented at the companies of the Group are a proof that we control the environmental impact in our production and distribution processes. We responsibly choose and use raw materials and energy sources, implement environmentally friendly technologies, and manage production waste.

The role of the circular economy of Grigeo Recycling UAB is to collect paper and cardboard packaging waste from producers and importers, thus returning it back into the cycle for the recycling at the plants of the Group companies. We purposefully aim to ensure the full supply of the necessary raw materials for the production of tissue paper and cardboard packaging to the plants of the Group companies. In order to achieve this goal, the divisions of Grigeo Recycling UAB have been equipped with modern equipment for the processing of secondary raw materials. It also offers producers and importers the services of collection of other types of packaging waste and its delivery to final processors. Grigeo Recycling UAB presents documents proving the management of collected and recycled packaging waste, confirming the final treatment of the resulting packaging waste. In this way, it contributes to the fulfilment of packaging waste recovery and/or recycling targets set by the Government of the Republic of Lithuania. Thanks to the activities of Grigeo Recycling UAB, secondary raw materials are given "second life" and transformed into excellent new products in further production processes.

Throughout 2020, Grigeo Recycling UAB collected and transferred for recycling 25.9 thousand tons of print shop wastepaper and 47 thousand tons of cardboard waste. Launched in December 2019, the Group company Grigeo Recycling SIA has been successfully operating in Latvia all year round, collecting 16 thousand tons of wastepaper in Latvia. The aim of Grigeo Recycling UAB is to collect as much wastepaper required for the Group companies in local markets as possible, thus shortening the transportation distance and reducing the amount of consumed energy and CO2 (carbon dioxide) emissions.

The Group sets high requirements and targets in order to implement changes towards sustainability and aims to integrate sustainability principles into operational processes; therefore, the Group reviewed and approved new corporate governance structures at Grigeo Klaipėda AB and Grigeo AB in 2020 and invited sustainability managers to join their teams. At the end of 2020, sustainability managers working at Grigeo Klaipėda AB and Grigeo AB started developing sustainability directions, which will include sustainable growth objectives, with a view to reducing the environmental impact of the Group activities, improving trust of the public, our customers and partners, and increasing the Group competitiveness and long-term returns to its shareholders.

As of June 2020, Grigeo Klaipėda AB and Grigeo AB have launched monitoring platforms for companies, where the data on industrial wastewater, service water consumption and emissions into the atmosphere from boilers in operation are made public. In order to achieve the highest environmental standards, we have added automated processes to the existing environmental systems, which not only make it easier to track data, but also to present them to the public. Action plans for rapid response to emergencies and abnormal situations are also publicly available.

Grigeo AB monitoring platform is available here.

Grigeo Klaipėda AB monitoring platform is available here.

Companies of the Group are introducing new IT technologies, and also implemented paperless office initiatives with invoices in 2020.

All Company waste is sorted pursuant to the Group's business sustainability policy and principles. Employees are continuously trained to sort it correctly and properly.

### 7.2. Environmental Solutions of Grigeo Klaipėda AB

In 2020, the Klaipėda County Prosecutor's Office of the Klaipėda District Prosecutor's Office initiated and conducted a pre-trial investigation into the actions of Grigeo Klaipėda AB related to wastewater management, where Grigeo Klaipėda AB discharged a part of biologically untreated wastewater into the Curonian Lagoon through the pre-treated wastewater collector of Klaipėdos Vanduo AB.

Grigeo Klaipėda AB immediately assumed and will further assume responsibility for its actions and will compensate for the damage caused to nature as soon as the fact and extent of the damage caused to the environment (the Curonian Lagoon) by Grigeo Klaipėda AB is objectively and reasonably established. In order to determine the fact and extent of environmental damage, Grigeo Klaipėda AB engaged foreign experts TIG Environmental, who conducted a long-term expert study to determine the potential damage to the waters of the Curonian Lagoon using principles and methodology for the determination of damage to the water established in the Directive 2004/35/CE of the European Parliament and of the Council of 21 April 2004 on Environmental Liability with Regard to the Prevention and Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy. The study was led by an Italian scientist who carried out environmental impact studies in various European Union states and other countries of the world, the managing director of forensics at TIG Environmental Dr. Carlo Monti. According to expert conclusions, the area of Curonian Lagoon affected by wastewater of Grigeo Klaipėda AB was limited and there was no impact at all on fish and zooplankton communities. More detailed information is provided in the notice of the Company of 16 December 2020.

After the incident at Grigeo Klaipėda AB, many significant positive changes towards the sustainable transformation of Grigeo Klaipėda AB were carried out in 2020, mainly in order to solve the encountered problems, create a dialogue with interested parties, as well as increase public and customer trust in the Group companies.

In order to evaluate the company's processes, at the beginning of 2020 Grigeo Klaipėda AB signed an agreement with the international engineering, design and consulting company AFRY Management Consulting Oy, known as AFRY, which analysed the environmental, occupational safety and health situation, as well as the sustainability of the operational processes of Grigeo Klaipėda AB. In July 2020, conclusions were presented and recommendations for changes were made.

At the end of November 2020, the Renewal Plan of Grigeo Klaipėda AB was presented which covered the main areas of operation and the company will continue the purposeful implementation of this plan in 2021.

The Renewal Plan is available here.

Grigeo Klaipėda AB has had the environmental management system ISO 14001 ensuring the continuous efficiency of environmental management implemented since 2004. In January 2020, the ISO 14001 environmental management system certificate was temporarily suspended. After carrying out additional audits of Grigeo Klaipėda AB, the global organisation for quality assurance and risk management DNV GL adopted a decision to restore the ISO 14001 certificate of the company in December 2020. The audit also assessed the effectiveness of management system review and internal audits of processes, management system updates, control of the use of certification marks and certification references, as well as the objectives set by the company and their implementation.

**Wastewater Management**

Up until 7 January 2020, all wastewater collected from the territory of Grigeo Klaipėda AB at Nemuno str. 2, Klaipėda city, used to be transferred via a closed pressurised wastewater transportation line to the company's wastewater treatment plant in Dumpiai village. From Dumpiai village, mechanically and biologically pre-treated wastewater was transported to Klaipėdos Vanduo AB pre-treated wastewater collector. After that, pre-treated wastewater of Grigeo Klaipėda AB mixed with the treated wastewater of Klaipėdos Vanduo AB used to be discharged into the Curonian Lagoon via the closed channel of approximately 10 km long. Mechanically or biologically treated wastewater could not enter the Curonian Lagoon directly either from the territory of Grigeo Klaipėda AB at Nemuno str. 2, Klaipėda city, or from the wastewater treatment plant owned by Grigeo Klaipėda AB in Dumpiai village.

Starting from 7 January 2020, Grigeo Klaipėda AB directed all the company's industrial wastewater discharges to Klaipėdos Vanduo AB wastewater networks located at Nemuno str. 2, Klaipėda. After directing the industrial wastewater transfer to the wastewater networks of Klaipėdos Vanduo AB, a system for wastewater accounting, quality measurement and control with the remote data transfer was implemented in June 2020. This system guarantees that the industrial wastewater of Grigeo Klaipėda AB is continuously monitored and controlled in order to ensure compliance with the wastewater contamination indicators and other quality parameters set by Klaipėdos Vanduo AB. Industrial wastewater accounting, automatic sampler, pH/T/ORP sensors, floating material analyser and data transmission equipment have been installed. The data is transferred, controlled and stored on the server of Klaipėdos Vanduo AB.

Grigeo Klaipėda AB does not have any mechanical or biological wastewater treatment facilities on the territory of its plant at Nemuno str. 2, Klaipėda, which essentially causes difficulties in ensuring that wastewater entering the treatment facilities of Klaipėdos Vanduo AB would be of such quality that it does not interfere with the operation of the treatment facilities of Klaipėdos Vanduo AB and would ensure the possibility for the company to continue its activities. Therefore, Grigeo Klaipėda AB has prepared a technical project for the connection of wastewater networks to Klaipėdos Vanduo AB" drainage system in Dumpiai based on the connection conditions established by Klaipėdos Vanduo AB. After the implementation of this project and after obtaining from all respective authorities the permits and consents to operate the new plants and to treat the wastewater generated in the production process, Grigeo Klaipėda AB would perform the pre-treatment of wastewater in its wastewater treatment facilities and transfer the wastewater meeting the permissible contamination standards to Klaipėdos Vanduo AB for the final treatment in Dumpiai on the grounds of a wastewater treatment contract.

**Odour Control**

In September 2020, Grigeo Klaipėda AB completed the implementation of the programme prepared by an Austrian company used to determine the causes of odours generated during the production process of Grigeo Klaipėda AB.

At the end of 2020, Grigeo Klaipėda AB signed a contract with a new partner for the control of odours generated in the production process and microbiology of circulating water using environmentally friendly materials and technologies.

Grigeo Klaipėda AB acquired and started using the Airborne10 mobile odour neutralisation system to neutralise both the odours emitted during the air removal from the pressurised wastewater lines and also eliminate the reasons of odour generation.

Grigeo Klaipėda AB purchased a station for the continuous measurement of ammonia (NH3) and sulphur hydrogen (H2S) emissions used for measuring emissions from stationary pollution sources in the production area.

In order to reduce odour emissions from wastewater sludge composting sites and fulfil its obligations to environmental protection authorities, in 2020 Grigeo Klaipėda AB sold about 30 thousand tons of compost accumulated on the composting sites in Dumpiai wastewater treatment plant. Qualitative characteristics of the compost have been checked by an accredited laboratory and verified to comply with the environmental requirements for biodegradable waste composting and anaerobic treatment. It is planned to remove the remaining accumulated compost during the period of 2021 to 2022. Currently, 11 composting sites out of 24 are empty. After the operation of the wastewater treatment plant in Dumpiai is resumed and the installation of sludge dewatering equipment (decanter) is completed, the existing sludge composting sites will be completely shut down. The resulting sludge will be transferred to other waste managers.

## 8. ENERGY

In 2020, Grigeo AB undertook to use for an indefinite period electricity produced from renewable energy sources only. On average, the Company consumes 5,200 kWh per day and has signed a green energy supply contract with the balancing energy supplier. All the electricity required for the plant producing cleaning and tissue paper in Grigiškės will be produced from solar, wind, hydroelectric and other renewable resources. Until now, the Company used to conclude only fixed-term power supply contracts that had to be renewed on a quarterly basis. The decision to use renewable electricity sources exclusively was adopted by the Company on its own initiative.

Based on the conclusions of the detailed energy consumption audit carried out by Grigeo AB in 2019, an application was approved and a contract was signed with BALTPOOL UAB for the recovery of 85% of funds paid for the public interest services for the period of 2019 to 2022, 75% of which will be invested in energy efficiency projects in accordance with the audit energy efficiency measures plan.

Based on the conclusions of the detailed energy consumption audit carried out by Grigeo Klaipėda AB in 2019, an application was submitted and approved, and a contract was signed with BALTPOOL UAB for the recovery of 85% of funds paid for the public interest services for the period of 2019 to 2022, 75% of which will be invested in energy efficiency projects in accordance with the audit energy efficiency measures plan. Implementation of this plan will lead to a significant reduction in energy consumption per unit of production.

In 2020, Grigeo Klaipėda AB started implementing the measures of automated analytics for the accounting of electricity and heat consumption and production data analysis. It is industry practice to determine the measures for the reduction of energy consumption and improvement of production efficiency through smart accounting data analytics.

Modernisation of the corrugation unit at Grigeo Packaging UAB in January 2020 resulted in 4% higher average speed of the unit, 11% reduction of steam consumption for the production of 1,000 square meters of corrugated cardboard and 4% reduction of electricity consumption.

In 2020, Grigeo Packaging UAB abandoned the old fluorescent lamps and renewed the lighting of the production premises with LED luminaires – a total of 262 luminaires were replaced. After the modernisation, the company managed not only to reduce the luminaire capacity and electricity consumption for lighting by 54% (95,000 kWh), but also to improve work safety and the working environment for the company's employees.

Based on the conclusions of the detailed energy consumption audit carried out by Grigeo Baltwood UAB in 2019, an application was approved and a contract was signed with BALTPOOL UAB for the recovery of 85% of funds paid for the public interest services for the period of 2019 to 2022, 75% of which will be invested in energy efficiency projects in accordance with the audit energy efficiency measures plan. In 2020, Grigeo Baltwood UAB carried out the repairs of the fibreboard production line in accordance with the efficiency improvement measures provided by the energy consumption audit. The implemented measures reduced the line downtime by ~160 h/m, the electricity consumption was reduced by 0.9% and thermal energy consumption by 3%. A project has been launched to replace mass and circulating water pumps with more energy-efficient equipment.

The installation of a more powerful tunnel press for secondary raw materials at Kaunas production division of Grigeo Recycling UAB resulted in an average 24% increase of utilisation of the hired transport capacity, as a result of which the number of hired trucks for the transportation of the production decreased from 30 to 24 units per month.

Mena Pak AT installed a more efficient steam generator in 2020, which allows to reduce gas consumption and carbon dioxide emissions.

## 9. ENVIRONMENTAL PERFORMANCE OF PRODUCTS

Grigeo AB is the first company in Lithuania whose products were awarded the EU Ecolabel which is designed for the implementation of the EU Sustainable Consumption and Production Policy and aims to reduce the negative impact of consumption and production on the environment, health, climate, and natural resources. The EU Ecolabel indicates compliance with strict requirements throughout the production and use cycle and the recycling of waste, and the products bearing it do not contain any hazardous chemical substances (carcinogenic, mutagenic, or toxic). Products of Grigeo AB have also been awarded the Nordic Swan Ecolabel of Nordic countries which signifies sustainable solutions based on the life cycle assessment and the general objective to reduce the environmental impact of the production and consumption of products. The requirements at all stages of the product's life cycle and the continuous tightening of these requirements for the assurance of sustainable development are the basis of the Nordic Swan Ecolabel.

ISO 9001 quality management system has been implemented at the Group companies, which guarantees the quality of its products and substantiates the effective and constantly improved operation of the company.

Companies of the Group use the FSC label on their products to demonstrate compliance with the green procurement policy prioritising products made from organic and renewable raw materials.

Obtained certificates confirm that we operate in compliance with international standards, conserve the environment, contribute to the reduction of impact to the climate, and build customer trust. These certificates also increase the competitiveness of our companies in European markets.

## 10. BUSINESS RISKS

| Business Risk Management | Integrity and Anti-Corruption | Human Rights | Business Ethics and Transparency |
|---|---|---|---|

### Business Risk Management

In accordance with the requirements of approved ISO standards and legal acts of the Republic of Lithuania, the Group companies have approved the risk identification and management procedure, which includes the procedure for identifying, analysing, assessing the significance of performed processes, as well as planning and carrying out preventive actions. Company's employees directly involved in the carried out activities (from specialists to managers) are engaged in the identification of risks and the management of preventive and corrective actions. Risks that may arise within the Group are assessed through internal and external aspects, taking into account the stakeholders. Risks are also disaggregated into specific categories of activities and general risks. Depending on the likelihood of occurrence of risks, the impact on risk management and the nature of the preventive actions, risk management tools are integrated into the activities' management standard as a mandatory part of the process, as appropriate, or risk identification and management is carried out separately. Accordingly, standard preventive and corrective action plans for risks are drawn up and the effectiveness of the actions is monitored based on the likelihood of occurrence of risks and the need to ensure the performance standard.

The main areas of risk assessment and management are as follows:

- Project risks
- Financial risks
- Procurement risks
- Sales risks
- Customer risks
- Strategic risks
- Environmental risks
- Occupational safety risks
- Quality risks
- Production process risks
- Product safety risks

In 2020, Grigeo AB made additional investments to improve the risk management of safety of manufactured products. Compliance of the company's product safety risk management with international standards was confirmed by the IFS HPC certificate obtained in August 2020. Grigeo AB is the first household and personal care product manufacturer in Lithuania to receive this certificate confirming that the Company efficiently controls the product quality, production process and product safety processes.

It is also important to note that the products of Grigeo AB are additionally inspected in accordance with the Recommendation XXXVI "Paper and cardboard intended for contact with foodstuffs" of the German Federal Institute for Risk Assessment (BfR), which defines the scope of chemical and microbiological testing of the produced soft paper in order to assess the suitability of the produced product and the assessment of potential risks when using the product coming in contact with foodstuffs. According to the studies carried out, cellulosic products produced by the Company do not pose any risks to the health and safety of consumers and may come in contact with foodstuffs.

### 10.1. Integrity and Anti-Corruption

Companies of the Group are strongly opposed to any form of corruption, bribery or other corrupt practices. In the course of their business, the companies of the Group do not provide, offer or promise to provide any unreasonable remuneration to persons with a view to directly or indirectly influencing persons in the performance of their functions and decision-making. Employees of Group companies do not accept any gifts or bribes intended to directly or indirectly influence employees' decisions or actions.

Companies of the Group implement the transparent remuneration policy (pay taxes to the State and contributions to the State Social Insurance Fund Board (Sodra)); we also transparently participate in tenders (public procurements) and pay all taxes in accordance with the legal requirements. Procurements are carried out in accordance with the procurement procedure provided in the management system, which clearly defines the criteria for the selection and evaluation of suppliers (price, quality, as well as delivery and payment conditions for the product or service).

### 10.2. Human Rights

Companies of the Group respect and guarantee human rights and freedoms as defined in the Universal Declaration of Human Rights of the General Assembly of the United Nations, the Convention for the Protection of Human Rights and Fundamental Freedoms of the Council of Europe, the Conventions of the International Labour Organisation, and the legislation of the Republic of Lithuania. More information about this is provided in the Code of Business Ethics of the Group, which sets out and defines the strict attitude of the Group towards the work of minors, the right to join or not to join any associations or trade unions, discrimination, and other related maters. No discrimination or other incidents related to human rights violations were detected in the Group in 2020.

Group companies protect personal data and ensure personal privacy. The Group processes personal data only to the extent necessary for the achievement of the purposes for which the data are processed and in accordance with the requirements of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), the Law on Legal Protection of Personal Data, and other legal acts governing the protection of personal data.

### 10.3. Business Ethics and Transparency, Prevention of Conflicts of Interest

Employees of the Group companies are guided in their daily work by the operational standards approved in the Code of Business Ethics of the Group, which are considered as the basis of our business and are used in establishing and maintaining relationship with customers, suppliers, partners, state institutions, and our own mutual communication.

The Code of Business Ethics was created with all employees of the Group companies and members of the Group corporate governance and supervisory bodies in mind.

Companies of the Group are engaged in transparent and fair business, companies operating in Lithuania comply with the laws of the Republic of Lithuania, and companies operating in Latvia and Ukraine, respectively, comply with the laws of these countries, pay all imposed taxes, pay salaries to employees in a transparent manner, and encourage other market participants to also implement transparency practices as such. Any payments or other expenditure not recorded in the relevant documents are prohibited. Companies of the Group are strongly opposed to any form of corruption, bribery and other corrupt practices.

Members of the supervisory and management bodies of the Group and its employees must avoid situations where their personal interests conflict or may conflict with the interests of the Group.

Members of the supervisory and management bodies of the Group and its employees may not confuse the assets of the company, the use of which has not been specifically discussed with them, with their own assets, use these assets or information obtained by them as a member of the company body or an employee for activities that are illegal under the laws of the Republic of Lithuania, or for personal gain, or for the benefit of a third party.

Members of the supervisory and management bodies of the Company have an obligation to act exclusively in the interests of the Company, avoid conflicts of interest between the interests of the Company and the member of the body, and to inform the Company in writing in due time of any impending conflicts of interest. The Company publicly discloses information about the positions of the members of the supervisory and management bodies of the Company in other legal persons and their participation in the capital of legal persons. Members of the supervisory and management bodies of the Company must immediately notify the Company of any changes of their positions and participation in other legal persons.

The Group has established an internal whistleblowing channel that can be used by individuals to report any criminal offences, administrative misconducts, breach of employment obligations, as well as serious violations of mandatory professional ethics, or other violations of or risks to the public interest possibly arranged, currently underway or previously committed by any of the companies of the Group that the person has become aware of through their current or former employment relations or contractual relations with the company of the Group.

# CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

All amounts are in EUR thousands unless otherwise stated

## STATEMENTS OF FINANCIAL POSITION

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2020 | As at 31 December 2019 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | 70,629 | 72,987 | 28,613 | 28,143 |
| Right-of-use assets | 5 | 4,129 | 3,287 | 1,833 | 1,038 |
| Intangible assets | 6 | 3,624 | 3,798 | 430 | 521 |
| Investment property | 7 | 1,979 | 1,521 | 1,979 | 1,521 |
| Investments in subsidiaries | 1 | - | - | 23,051 | 25,151 |
| Other amounts receivable | 9 | 3 | 94 | - | 91 |
| Deferred income tax assets | 24 | - | 769 | - | 377 |
| **Total non-current assets** | | **80,364** | **82,456** | **55,906** | **56,842** |
| | | | | | |
| **Current assets** | | | | | |
| Inventories | 8 | 9,133 | 10,142 | 3,996 | 4,356 |
| Trade and other amounts receivable | 9 | 15,127 | 15,041 | 7,367 | 8,386 |
| Other current assets | | 282 | 236 | 166 | 156 |
| Cash and cash equivalents | 10 | 18,275 | 8,649 | 10,453 | 1,581 |
| **Total current assets** | | **42,817** | **34,068** | **21,982** | **14,479** |
| **TOTAL ASSETS** | | **123,181** | **116,524** | **77,888** | **71,321** |

*(Cont'd on the next page)*

**All amounts are in EUR thousands unless otherwise stated**

## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2020 | As at 31 December 2019 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | 11 | 19,053 | 19,053 | 19,053 | 19,053 |
| Share premium | 11 | 1,119 | 1,119 | 1,119 | 1,119 |
| Legal reserve | 11 | 1,905 | 1,905 | 1,905 | 1,905 |
| Hedging reserve | 11 | 11 | (17) | (4) | (12) |
| Foreign currency translation reserve | 11 | (2,407) | (1,795) | - | - |
| Retained earnings | 11 | 69,278 | 55,986 | 38,980 | 30,002 |
| **Equity attributable to shareholders of the Company** | | **88,959** | **76,251** | **61,053** | **52,067** |
| Non-controlling interest | | 596 | 619 | - | - |
| **Total equity** | | **89,555** | **76,870** | **61,053** | **52,067** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 12 | 1,226 | 5,177 | 556 | 3,836 |
| Lease liabilities | 13 | 3,287 | 2,767 | 1,554 | 829 |
| Grants | 14 | 1,147 | 1,494 | 970 | 1,101 |
| Deferred income tax liability | 24 | 77 | - | 187 | - |
| Fair value of financial instruments | 3 | - | 33 | - | 12 |
| Long-term employee benefits | 15 | 191 | 156 | 86 | 68 |
| Other amounts payable | | 282 | 5 | - | 29 |
| **Total non-current liabilities** | | **6,210** | **9,632** | **3,353** | **5,875** |
| **Current liabilities** | | | | | |
| Borrowings | 12 | 6,404 | 11,029 | 2,281 | 3,271 |
| Lease liabilities | 13 | 387 | 34 | 310 | 235 |
| Income tax payable | | 572 | 249 | 352 | - |
| Trade and other amounts payable | 16 | 20,048 | 18,710 | 10,535 | 9,873 |
| Fair value of financial instruments | 3 | 5 | - | 4 | - |
| **Total current liabilities** | | **27,416** | **30,022** | **13,482** | **13,379** |
| **Total liabilities** | | **33,626** | **39,654** | **16,835** | **19,254** |
| **TOTAL EQUITY AND LIABILITIES** | | **123,181** | **116,524** | **77,888** | **71,321** |

*The accompanying notes are an integral part of these financial statements.*

*The financial statements were prepared by the management on 8 April 2021 and signed with qualified electronic signature on its behalf by:*

Gintautas Pangonis
President

Martynas Nenėnas
Financial Director

All amounts are in EUR thousands unless otherwise stated

## STATEMENTS OF COMPREHENSIVE INCOME

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 |
| Revenue | 17 | 129,602 | 139,977 | 63,735 | 65,158 |
| Cost of sales | 18 | (96,133) | (106,804) | (46,424) | (52,068) |
| **Gross profit** | | **33,469** | **33,173** | **17,311** | **13,090** |
| Selling and distribution expenses | 19 | (11,706) | (11,119) | (5,158) | (5,283) |
| Administrative expenses | 20 | (7,828) | (6,530) | (2,985) | (3,170) |
| Other income | 21 | 373 | 402 | 312 | 4,218 |
| Other gains/(losses) – net | 22 | 828 | 1,299 | 537 | 1,412 |
| **Operating profit** | | **15,136** | **17,225** | **10,017** | **10,267** |
| Finance income | 23 | 111 | 68 | 6 | 9,032 |
| Finance costs | 23 | (332) | (1,445) | (129) | (1,200) |
| **Finance income/(costs) – net** | | **(221)** | **(1,377)** | **(123)** | **7,832** |
| **Profit before income tax** | | **14,915** | **15,848** | **9,894** | **18,099** |
| Income tax | 24 | (1,646) | (2,223) | (916) | (918) |
| **PROFIT FOR THE PERIOD** | | **13,269** | **13,625** | **8,978** | **17,181** |
| | | | | | |
| **Profit for the period is attributable to:** | | | | | |
| Shareholders of the Company | | 13,292 | 13,509 | 8,978 | 17,181 |
| Non-controlling interest | | (23) | 116 | - | - |
| | | | | | |
| **Other comprehensive income/(expenses)** | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | **-** | **-** | **-** | **-** |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Exchange differences on translation of foreign operations | | (612) | 350 | - | - |
| Cash flow hedges – effective portion of changes in fair value | | 28 | 58 | 8 | 31 |
| **Total items that may be reclassified subsequently to profit or loss** | | **(584)** | **408** | **8** | **31** |
| **Other comprehensive income/(expenses) for the period** | | **(584)** | **408** | **8** | **31** |
| | | | | | |
| **Total comprehensive income for the period** | | **12,685** | **14,033** | **8,986** | **17,213** |
| | | | | | |
| **Total comprehensive income for the period is attributable to:** | | | | | |
| Shareholders of the Company | | 12,708 | 13,917 | 8,986 | 17,213 |
| Non-controlling interest | | (23) | 116 | - | - |
| | | | | | |
| Basic and diluted earnings per share (in EUR) | 25 | 0.202 | 0.206 | 0.137 | 0.262 |

*The accompanying notes are an integral part of these financial statements.*

Gintautas Pangonis
President

Martynas Nenėnas
Finance Director

**All amounts are in EUR thousands unless otherwise stated**

## STATEMENTS OF CHANGES IN EQUITY

| Group | Equity attributable to owners of the Company | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Legal reserve | Hedging reserve | Foreign currency translation reserve | Retained earnings | Total | | |
| **At 1 January 2019** | **19,053** | **1,119** | **1,905** | **(75)** | **(2,145)** | **46,380** | **66,237** | **649** | **66,886** |
| Profit for the period | - | - | - | - | - | 13,508 | **13,508** | 116 | 13,625 |
| Other comprehensive income | - | - | - | 58 | 350 | - | **408** | - | 408 |
| **Total comprehensive income for the period** | - | - | - | **58** | **350** | **13,508** | **13,916** | **116** | **14,032** |
| Approved dividends | - | - | - | - | - | (3,942) | (3,942) | (94) | (4,036) |
| **Transactions with the Company's owners** | - | - | - | - | - | **(3,942)** | **(3,942)** | **(94)** | **(4,036)** |
| **Transactions with non-controlling interest** | **-** | **-** | **-** | **-** | **-** | **40** | **40** | **(52)** | **(12)** |
| **At 31 December 2019** | **19,053** | **1,119** | **1,905** | **(17)** | **(1,795)** | **55,986** | **76,251** | **619** | **76,870** |
| Profit for the period | - | - | - | - | - | 13,292 | 13,292 | (23) | 13,269 |
| Other comprehensive income/(expenses) | - | - | - | 28 | (612) | | (584) | - | (584) |
| **Total comprehensive income/(expenses) for the period** | - | - | - | **28** | **(612)** | **13,292** | **12,708** | **(23)** | **12,685** |
| **At 31 December 2020** | **19,053** | **1,119** | **1,905** | **11** | **(2,407)** | **69,278** | **88,959** | **596** | **89,555** |

| Company | Share capital | Share premium | Legal reserve | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | **19,053** | **1,119** | **1,905** | **(43)** | **16,763** | **38,797** |
| Profit for the period | - | - | - | - | 17,181 | 17,181 |
| Other comprehensive income | - | - | - | 31 | - | 31 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **31** | **17,181** | **17,213** |
| Approved dividends | - | - | - | - | (3,942) | (3,942) |
| **Transactions with the Company's owners** | **-** | **-** | **-** | **-** | **(3,942)** | **(3,942)** |
| **At 31 December 2019** | **19,053** | **1,119** | **1,905** | **(12)** | **30,002** | **52,067** |
| Profit for the period | - | - | - | - | 8,978 | 8,978 |
| Other comprehensive income | - | - | - | 8 | - | 8 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **8** | **8,978** | **8,986** |
| **At 31 December 2020** | **19,053** | **1,119** | **1,905** | **(4)** | **38,980** | **61,053** |

*The accompanying notes are an integral part of these financial statements.*

Gintautas Pangonis
President

Martynas Nenėnas
Finance Director

All amounts are in EUR thousands unless otherwise stated

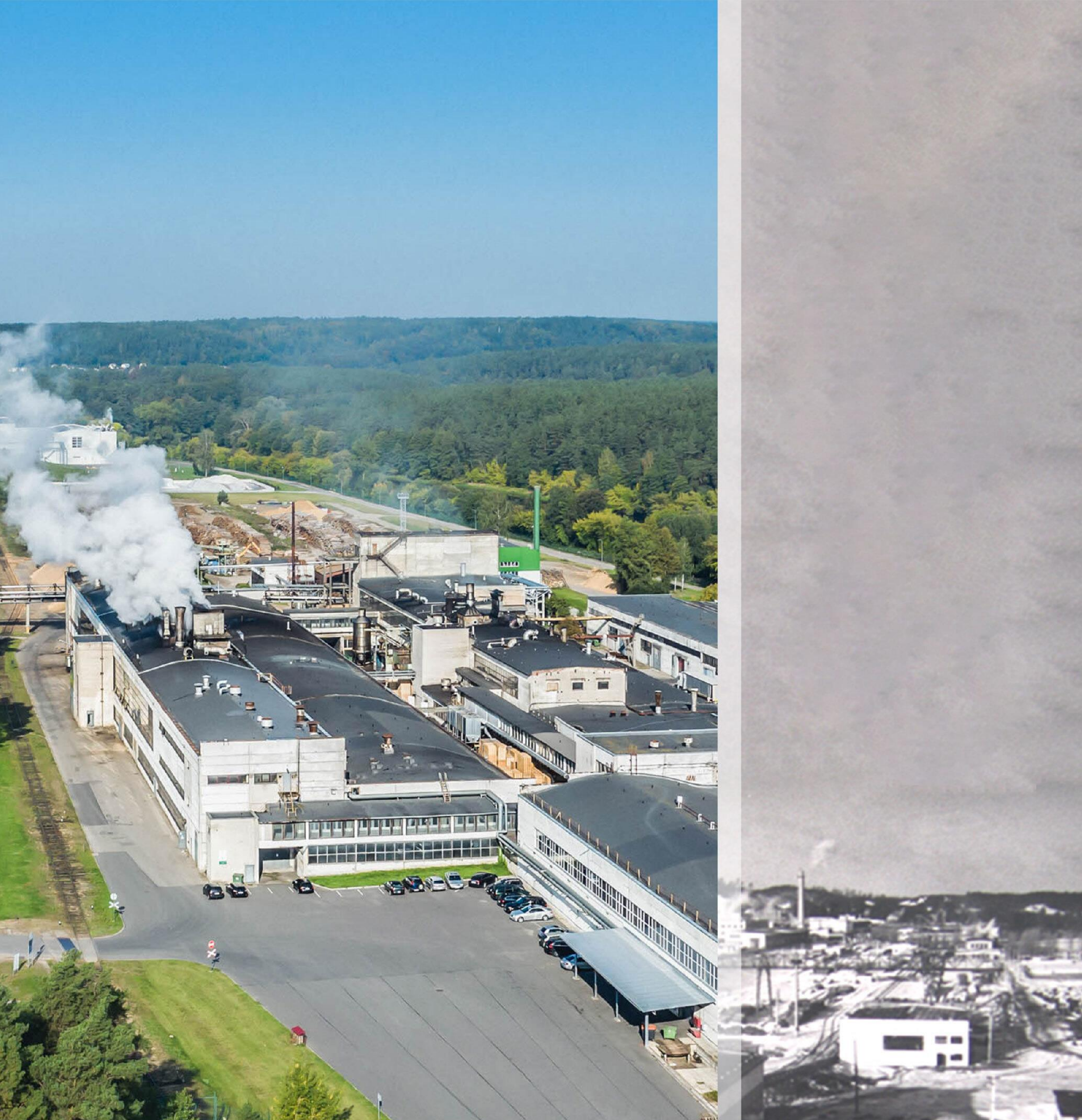
## STATEMENTS OF CASH FLOWS

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 |
| **Cash flows from operating activities** | | | | | |
| Profit before income tax | | 14,915 | 15,848 | 9,894 | 18,099 |
| | | | | | |
| **Adjustments for non-cash items:** | | | | | |
| Depreciation and amortisation | | 11,107 | 11,378 | 4,770 | 5,221 |
| Elimination of finance (income)/costs – net | 23 | 221 | 1,377 | 123 | (7,832) |
| Gain on disposal of property, plant and equipment | | (81) | (218) | (36) | (78) |
| | | **26,162** | **28,385** | **14,751** | **15,410** |
| **Changes in working capital** | | | | | |
| Decrease/(increase) in trade and other amounts receivable | | 282 | 878 | 1,111 | (870) |
| (Increase)/decrease in inventories | | 991 | 1,596 | 342 | 249 |
| (Increase)/decrease in other assets | | (46) | 21 | (11) | 61 |
| Increase/(decrease) in trade and other amounts payable | | (90) | (4,188) | (296) | (5,862) |
| | | **1,137** | **(1,693)** | **1,146** | **(6,422)** |
| | | | | | |
| Interest paid | | (317) | (343) | (111) | (144) |
| Income tax paid | | (435) | (605) | - | - |
| **Net cash inflow from operating activities** | | **26,547** | **25,744** | **15,786** | **8,844** |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment and intangible assets | 4, 6 | (7,868) | (10,468) | (4,222) | (2,588) |
| Acquisition of investment property | 7 | (257) | (358) | (257) | (358) |
| Disposal of property, plant and equipment | | 147 | 751 | 88 | 153 |
| Acquisition of investment in subsidiaries | 1 | - | - | - | (1,066) |
| Reduction of the share capital of the subsidiary | 28 | - | - | 1,062 | - |
| Dividends received | 21 | - | - | - | 3,900 |
| **Net cash inflow/(outflow) from investing activities** | | **(7,978)** | **(10,075)** | **(3,329)** | **41** |
| | | | | | |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | (10) | (4,026) | (9) | (3,879) |
| Repayment of borrowings | | (8,576) | (13,145) | (3,271) | (7,204) |
| Proceeds from borrowings | | - | 5,400 | - | 4,000 |
| Lease payments | | (357) | (199) | (305) | (223) |
| **Net cash (outflow) from financing activities** | | **(8,943)** | **(11,970)** | **(3,585)** | **(7,306)** |
| | | | | | |
| **Net increase/(decrease) in cash flows** | | **9,626** | **3,699** | **8,872** | **1,579** |
| | | | | | |
| **Cash and cash equivalents at the beginning of the period** | | **8,649** | **4,950** | **1,581** | **2** |
| **Cash and cash equivalents at the end of the period** | | **18,275** | **8,649** | **10,453** | **1,581** |

*The accompanying notes are an integral part of these financial statements.*

Gintautas Pangonis
President

Martynas Nenėnas
Finance Director



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION CONTENTS

**All amounts are in EUR thousands unless otherwise stated**

## 1. General information

Grigeo AB (hereinafter - the Company) is a public limited liability company registered in the Republic of Lithuania on 23 May 1991. The Company is engaged in the production of toilet paper, paper towels and paper napkins. The paper mill in Grigiškės was established in 1923.

The address of the Company's registered office is as follows: Vilniaus str. 10, Grigiškės, Vilnius City Municipality, Lithuania.

The Company's shares are listed on the Baltic Main List of Nasdaq AB Vilnius Stock Exchange (ISIN code of shares is LT0000102030). The trading code of shares on Nasdaq AB Vilnius stock exchange is GRG1L.

As at 31 December 2020 and 31 December 2019, the Company's shareholder structure was as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of shares | Ownership interest (%) | Number of shares | Ownership interest (%) |
| Lithuanian legal entities | 31,107,068 | 47.4 | 31,598,017 | 48.1 |
| Lithuanian natural persons | 30,305,507 | 46.1 | 30,259,208 | 46.1 |
| Foreign legal entities | 2,680,309 | 4.1 | 2,364,988 | 3.6 |
| Foreign natural persons | 1,607,116 | 2.4 | 1,477,787 | 2.2 |
| **TOTAL** | **65,700,000** | **100** | **65,700,000** | **100** |

Three major shareholders as at 31 December 2020 and 31 December 2019 are listed below:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of shares | Ownership interest (%) | Number of shares | Ownership Interest (%) |
| Ginvildos Investicija UAB | 28,582,407 | 43.50 | 28,582,407 | 43.50 |
| Mišeikienė Irena Ona | 8,584,171 | 13.07 | 8,584,171 | 13.07 |
| Norimantas Stankevičius | 2,903,628 | 4.42 | 2,898,628 | 4.41 |
| **TOTAL** | **40,070,206** | **60.99** | **40,065,206** | **60.98** |

As at 31 December 2020, the number of the Group's employees was 859 (31 December 2019: 869). As at 31 December 2020, the number of the Company's employees was 288 (31 December 2019: 295).

**All amounts are in EUR thousands unless otherwise stated**

## 1. General information (continued)

### Structure of the Group

As at 31 December 2020 and 2019, the Grigeo group consisted of Grigeo AB and the following subsidiaries (the "Group"):

| | At 31 December 2020 | | | | At 31 December 2019 | | Address | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | Ownership interest held by the Group | Amount (cost) of investment | Profit/(loss) for the reporting period | Share capital at the end of the reporting period (100 %) | Ownership interest held by the Group | Amount (cost) of investment | | |
| **Subsidiaries directly controlled by the Company:** | | | | | | | | |
| Grigeo Baltwood UAB | 100% | 2,555 | 1,530 | 6,221 | 100% | 4,655 | Vilniaus str. 10, Grigiškės, Vilnius City Municipality Lithuania | Manufacturing of wood fiber boards. |
| Grigeo Recycling UAB | 100% | 1,066 | 655 | 2,981 | 100% | 1,066 | Vilniaus str. 10, Grigiškės, Vilnius City Municipality Lithuania | Collection of secondary raw materials and preparation for recycling. |
| Naujieji Verkiai UAB | 100% | - | - | (17) | 100% | - | Popieriaus str. 15, Vilnius, Lithuania | Building and development of real estate. The company was dormant in 2020. |
| Grigeo Investicijų Valdymas UAB | 100% | 19,427 | 134 | 31,774 | 100% | 19,427 | Vilniaus str. 10, Grigiškės, Vilnius City Municipality Lithuania | Investment activities and corporate governance. |
| Grigiškių Energija UAB | 100% | 3 | - | - | 100% | 3 | Vilniaus str. 10, Grigiškės, Vilnius City Municipality Lithuania | Heat production and sale. The company was dormant in 2020 and 2019. |
| **Total** | | **23,051** | | | | **25,151** | | |

| | 2020 | | | | 2019 | | Address | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | Ownership interest held by the Group | Amount (cost) of investment | Profit/(loss) for the reporting period | Share capital at the end of the reporting period (100 %) | Ownership interest held by the Group | Amount (cost) of investment | | |
| **Subsidiaries indirectly controlled by the Company:** | | | | | | | | |
| Grigeo Klaipėda AB* | 97.67% | - | (649) | 27,989 | 97.67% | - | Nemuno str. 2, Klaipėda, Lithuania | Production of cardboard and cardboard paper honeycomb. |
| Grigeo Packaging UAB* | 100% | - | 1,793 | 18,992 | 100% | - | Vilniaus str. 10, Grigiškės, Vilnius City Municipality Lithuania | Manufacturing of corrugated cardboard and packaging. |
| Mena Pak AT** | 100% | - | 502 | 2,244 | 100% | - | Koshovoho str. 6, Chernihiv region, Mena, Ukraine | Manufacturing of corrugated cardboard and packaging. |
| Grigeo Recycling SIA*** | 100% | - | 61 | 457 | 100% | - | Ēdoles str. 5, Riga, Latvia | Collection of secondary raw materials and preparation for recycling. |

*Controlled by Grigeo Investicijų Valdymas UAB; ** Controlled by Grigeo Klaipėda AB; ***Controlled by Grigeo Recycling UAB.

The non-controlling interest consists of 2.33% of shares of Grigeo Klaipėda AB, which are not owned by the Company's shareholders. Changes in the non-controlling interest in 2019 are related to the result's portion attributable to it and on 5 February 2019, Grigeo Klaipėda AB redeemed 2.08% of shares of subsidiary Mena Pak AT from the minority shareholders and with effect from that date Grigeo Klaipėda AB became the sole shareholder of the subsidiary. Changes in the non-controlling interest in 2020 are related to the result's portion attributable to it. Grigeo Klaipėda AB paid dividends of EUR 0.8 thousand to the non-controlling interest (2019: EUR 53 thousand).

All amounts are in EUR thousands unless otherwise stated

## 1. General information (continued)

Key financial indicators of Grigeo Klaipėda AB:

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---|---|
| Non-current assets | 30,258 | 31,624 |
| Current assets | 6,750 | 10,176 |
| **TOTAL ASSETS** | **37,008** | **41,800** |
| Equity | 27,989 | 28,623 |
| Liabilities | 9,019 | 13,177 |
| **TOTAL EQUITY AND LIABILITIES** | **37,008** | **41,800** |
| | | |
| Profit/(loss) for the period | (649) | 4,564 |
| Net cash flows from operating activities | 2,017 | 10,423 |
| Net cash flows from investing activities | (1,540) | (1,695) |
| Net cash flows from financing activities | (3,500) | (9,062) |
| **Cash and cash equivalents at the beginning of the period** | **4,320** | **4,653** |
| **Cash and cash equivalents at the end of the period** | **1,296** | **4,320** |

**Changes in 2020 and 2019**

***Grigeo Baltwood UAB***

The Articles of Association of Grigeo Baltwood UAB that were amended under the decision of the sole shareholder Grigeo AB dated 27 May 2020 were registered with the Register of Legal Entities on 26 August 2020. The share capital of Grigeo Baltwood UAB was reduced from EUR 6,100 thousand to EUR 4,000 thousand by annulling 2,100,000 ordinary registered shares with the nominal value of EUR 1 in order to pay the company's funds to the sole shareholder. A part of the amount (EUR 1,038 thousand) was offset against the loan and interest payable by the Company to Grigeo Baltwood UAB (Note 28), and the remaining amount (EUR 1,062 thousand) was transferred to the Company's settlement account.

***Grigeo Packaging UAB***

On 2 January 2019, Grigeo AB transferred a part of its business – the business of the corrugated cardboard manufacturing – to its wholly owned subsidiary Grigeo Packaging UAB. The disposal of the business to Grigeo Packaging UAB was carried out by increasing the share capital of Grigeo Packaging UAB, and Grigeo AB paid up the total price of the new issue of shares by making a non-cash contribution, i.e. the business, as a set of assets, rights and obligations which is an autonomous economic unit from the organisational perspective, in exchange for new ordinary registered shares of Grigeo Packaging UAB. The value of the disposed business estimated by the independent valuer was equal to EUR 15,200 thousand. The Company earned profit of EUR 8,609 thousand from the disposal of shares (see Note 23).

On 9 August 2019, Grigeo AB, as the sole shareholder, adopted the decision to increase the share capital of Grigeo Investicijų Valdymas UAB from EUR 3,710 thousand up to EUR 19,330 thousand through the additional issue of 15,620,000 shares with the nominal value of EUR 1. On 13 August 2020, Grigeo AB paid up the total price of the new issue of shares by making a non-cash contribution, i.e. 15,202,900 shares of Grigeo Packaging UAB with the nominal value of EUR 1, the value of which estimated by the independent property valuer was equal to EUR 15,620 thousand. The Company earned profit of EUR 417 thousand from the disposal of shares (see Note 23).

The Board of Grigeo AB believes that the concentration of the corrugated cardboard manufacturing business in a separate company will help guarantee an even greater clarity and efficiency of the management of this business and in the short-term will not have a significant effect on the financial results of the Grigeo group companies.

***Grigeo Recycling UAB***

On 13 August 2019, the Company acquired 50% of shares of Grigeo Recycling UAB for EUR 1,065 thousand. The shares were acquired from the Group companies – 39.19% were acquired from Grigeo Klaipėda AB and 10.81% were acquired from Grigeo Investicijų Valdymas UAB. The remaining shares were acquired from Grigeo Klaipėda AB by Grigeo Investicijų Valdymas UAB.

The share purchase and sale price was determined by the independent property valuer. As at 31 December 2019, the Company directly and indirectly controlled 100% of shares of Grigeo Recycling UAB.

**COVID-19**

As at the date of the presentation of these financial statements in fight with the global COVID-19 pandemic the governments of a large number of countries, including Lithuania, have passed various decisions that could have impact on business undertakings.

## 1. General information (continued)

Taking into consideration the situation related to the COVID-19 disease (coronavirus infection), as well as that the government, the municipal institutions and other countries implemented measures to contain the outbreak, the Company took immediate preventive actions aiming to protect health of its employees and partners. Accordingly, the crisis response team was formed at the Group that conducted daily monitoring and analysis of the situation at the Group companies and adjusted the action plan when necessary.

The large-scale economic impact was caused by these events:

- Business and economic activities were disrupted in Lithuania, all stages of the supply chain were negatively affected;
- Significant disruptions occurred in certain business sectors in Lithuania and in the markets which are dependent on the foreign supply chain as well as in the export oriented companies dependent on foreign markets. The mentioned sectors comprise trade and transport, travel and tourism, entertainment, production, construction, retail trade, insurance, education and finance sectors;
- There has occurred a significant decrease in demand for non-essential goods and services;
- Economic uncertainty has increased and it was reflected by volatility in property prices and foreign exchange rates.

Referring to this public information, the management has assessed possible dynamics of the outbreak and its potential impact on the Company and the economic environment in which it operates, including measures implemented by the Lithuanian Government and the governments of the countries in which the main partners and customers of the Company are located.

The management has taken into consideration the following operational risks that could have a negative impact on the Group and the Company:

- A major part of employees involved in the production process becoming infected with COVID-19;
- Disruptions in transportation of goods which could cause disruptions in the delivery of goods to the sales locations;
- Possible decline in the current level of available cash due to possible delays in settlements by customers;
- Possible non-compliance with bank covenants after the end of the year due to possible liquidity risk.

The Group continued production after the declaration of the quarantine in Lithuania. The Group closely monitored the situation and regularly communicated its plans and contractual obligations to the customers and the suppliers. To mitigate the risks arising from possible negative scenarios, the management started to implement the following measures:

- The production unit's employees were trained to observe very strict precautionary measures;
- In order to respond to a possible decline in demand for the Company's products, a possibility was considered to adjust the scope of the Company's activities (reduce production volumes);
- Economic market tendencies in Europe and the CIS countries were assessed including their possible long-term effect. Aiming to mitigate the impact of the outbreak, among others, the Company has accumulated significant financial resources, a sufficient amount of inventories and raw materials and diversified the supply and purchase chains of raw materials.

Although the quarantine restrictions had no direct impact on the Company's and the Group's activities, the Company and the Group closely monitored economic tendencies in Europe and the CIS countries and their possible long-term impact on their financial position and results of operations. The Group's sales volumes decreased in 2020 compared to 2019 due to pre-trial investigation started after the beginning of the year with respect to Grigeo Klaipėda AB a part of the cardboard paper honeycomb customers terminated cooperation; the plant AB had temporarily suspended its production activities. The suspension of production activities of Grigeo Klaipėda AB is related to a temporary suspension of the agreement with Klaipėdos Vanduo AB, however the COVID-19 pandemic had no significant impact on the decline of sales. Settlements from the Group's customers were not significantly overdue during 2020. The Group generated positive cash flows from operating activities and its current assets exceeded its current liabilities as at 31 December 2020. There were also no significant disruptions in supply lines of raw materials – no delays were observed, the suppliers fulfilled their obligations. Moreover, the delivery and acquisition chains of raw materials were diversified. The health of the Group's employees was regularly monitored.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) effective at 31 December 2020. All references to IFRS used below are references to IFRS approved by the EU.

These financial statements of the Group and the Company have been prepared on a historical cost basis, except of financial instruments used for hedging that are accounted for at fair value.

These financial statements of the Group and the Company for the year ended 31 December 2020 have been prepared under the assumption that the Group and the Company will continue as a going concern.

All amounts in these financial statements of the Group and the Company are presented in the euros. Amounts are rounded to the nearest thousand (EUR thousands), unless otherwise stated.

The Company's management prepared these financial statements on 8 April 2021. The shareholders of the Company have a statutory right to approve these financial statements of the Group and the Company or not to approve them and to require preparation of a new set of the financial statements of the Group and the Company.

The preparation of financial statements in conformity with IFRS requires the management to make judgements, assumptions and estimates that are related to the application of the Group's and the Company's accounting policies. Estimates and judgements are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Set out below are the areas significant to the Group's and the Company's financial statements that involve difficult judgements, assumptions and accounting estimates:

***Accounting estimates and assessments***

**Useful lives of property, plant and equipment**

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. In assessing the remaining useful life of property, plant and equipment, the management takes into account conclusions presented by the employees responsible for technical maintenance of assets.

**Impairment of goodwill**

Goodwill is tested for impairment annually by calculating the recoverable value. The recoverable value of goodwill is calculated by discounting future cash flows to their present value. The management tested goodwill of EUR 3,001 thousand, which was recognised upon the acquisition of subsidiary Grigeo Klaipėda AB, for impairment and did not establish any indications of impairment (Note 6).

**Legal processes**

Subsidiary Grigeo Klaipėda AB has received a claim in relation to indemnification for damage to the environment. Based on the management's estimate, the outcome of the claim involves a high degree of uncertainty (Note 29).

### 2.2 Amendments to standards and their interpretations

Adoption of new and/or amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

**a) IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2020 are as follows:**

**Amendments to the Conceptual Framework for Financial Reporting**

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. In the opinion of the Group and the Company, these amendments had no significant impact on the Group's and the Company's financial statements.

**Definition of a business – Amendments to IFRS 3**

The amendments revise the definition of a business. In the opinion of the Group and the Company, these amendments had no impact on the Group's and the Company's financial statements.

## 2. Summary of significant accounting policies (continued)

**Definition of materiality – Amendments to IAS 1 and IAS 8**

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In the opinion of the Group and the Company, these amendments had no significant impact on the Group's and the Company's financial statements.

**Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7**

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. In the opinion of the Group and the Company, these amendments had no impact on the Group's and the Company's financial statements.

**COVID-19-related rent concessions – Amendments to IFRS 16**

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. In the opinion of the Group and the Company, these amendments had no significant impact on the Group's and the Company's financial statements.

**b) Standards, interpretations and their amendments that are not yet effective and have not been early adopted by the Group and the Company**

**Amendments to IFRS 17 and an amendment to IFRS 4**

The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. In the opinion of the Group and the Company, these amendments will have no impact on the Group's and the Company's financial statements.

**Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. In the opinion of the Group and the Company, these amendments will have no significant impact on the Group's and the Company's financial statements.

**c) Standards, interpretations and amendments that have not been adopted by the European Union and that have not been early adopted by the Group and the Company:**

- IFRS 14 *Regulatory deferral accounts*
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28
- IFRS 17 *Insurance contracts*
- Classification of liabilities as current or non-current – Amendments to IAS 1
- Classification of liabilities as current or non-current, deferral of the effective date – Amendments to IAS 1
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

The Group and the Company are currently assessing the impact of these amendments on the Group's and the Company's financial statements.

There are no other new standards, amendments to the existing standards or interpretations that are not yet effective and that could have a material impact on the Group and the Company.

## 2. Summary of significant accounting policies (continued)

### 2.3 Principles of consolidation

The consolidated financial statements of the Group include Grigeo AB and its subsidiaries.

**Subsidiaries**

Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The control of an entity is normally evidenced when the Company owns more than 50% of the shares granting voting rights. Subsidiaries are consolidated from the date on which effective control is transferred to the Company or the Group, and they are no longer consolidated from the date on which control is transferred out of the Group.

**Inter-company transactions**

The financial statements of the subsidiaries are prepared for the same reporting year using consistent accounting policies. All inter-company transactions, balances and unrealised gains or losses and dividends on transactions between the Group companies are fully eliminated.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance of the non-controlling interest. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative foreign exchange differences, recorded in equity;
- Recognises the consideration received at fair value;
- Recognises any investment retained at fair value;
- Recognises any surplus or deficit in the statement of comprehensive income;
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to the statement of comprehensive income or retained earnings, as appropriate.

**Business combinations and accounting for goodwill**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 2. Summary of significant accounting policies (continued)

### Split of companies

When a company is split by way of a spin-off or split-off, its assets and liabilities are transferred to newly established or other operating companies, and a decrease in assets, liabilities and equity is registered in the accounting of the split company.

The difference in value of assets and liabilities of the spin-off or split-off companies provided in the conditions of the split determines the equity amount of the newly established or operating companies, and in their accounting equity is registered in the account of the authorised share capital and other equity accounts as at the date of reception and transfer according to the conditions of the split. If the conditions of the split do not provide in which equity accounts the difference in value of assets and liabilities should be registered, it is registered in the account of the formed share capital and share premium or the account of retained earnings (loss).

### 2.4 Presentation currency

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All amounts in the financial statements are presented in the euros, which is the Group's and the Company's functional and presentation currency.

The functional currency of the Company and its subsidiaries operating in Lithuania is the euro. The functional currencies of foreign subsidiaries are the respective currencies of the foreign countries in which their registered offices are based. The amounts in the financial statements of these subsidiaries are presented in their functional currencies.

Assets and liabilities of the foreign subsidiaries are translated into euros at the reporting date using the exchange rate prevailing at the date of the statement of financial position, whereas the statements of comprehensive income of the foreign subsidiaries are translated using the weighted average exchange rate for the year. Exchange differences arising on translation are recognised in other comprehensive income.

On disposal of a foreign subsidiary, the result of foreign currency translation accumulated in other comprehensive income is reclassified to the statement of comprehensive income.

### Transactions and balances

Foreign currency transactions are initially measured using the functional currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the date of the statement of financial position using the exchange rate prevailing at the date of the statement of financial position. All non-monetary items that are measured at amortised cost are translated using the exchange rates at the date of the transactions.

### 2.5 Investments in subsidiaries (the Company)

Investments in subsidiaries in the Company's separate financial statements are carried at cost, less impairment.

### 2.6 Discontinued operations

A discontinued operation is a component of the Group's or the Company's business, the operations and cash flaws of which can be clearly distinguished from the rest of the Group and the Company and which:

- represents a separate major line of business or geographical area of operation;
- is part of a single co-ordinated plan to dispose of a separate major line of business or major geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

All amounts are in EUR thousands unless otherwise stated

## 2. Summary of significant accounting policies (continued)

### 2.7 Intangible assets (other than goodwill)

Intangible assets acquired separately are stated initially at cost. The cost of intangible assets acquired in a business combination is its fair value at acquisition date. Intangible assets are recognised when it is probable that economic benefits will flow to the enterprise in relation to these assets in the future and the value of these assets can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite.

After initial recognition, intangible assets with finite lives are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortised using the straight-line method over the estimated useful lives:

| | |
|---|---|
| Licences, patents, etc. | 3–6 years |
| Software | 3–8 years |
| Other intangible assets | 3–6 years |

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from intangible assets other than goodwill.

The Group and the Company do not have any intangible assets (excluding goodwill) with indefinite useful life.

The Group and the Company have no capitalised internally created intangible assets.

### 2.8 Property, plant, and equipment

Property, plant and equipment is stated at cost (or deemed cost – see below) less accumulated depreciation and impairment losses.

Before 31 December 2010, buildings were accounted for as follows:

- The Company’s buildings, acquired before 1 January 1996, were stated at the indexed value less indexed accumulated depreciation and estimated impairment losses.
- The Company’s buildings, acquired after 1 January 1996, were stated at acquisition cost less accumulated depreciation and estimated impairment losses.

On 31 December 2010, according to the exception available under IFRS 1, a part of the buildings acquired before 1 January 1996 were measured at fair value which was determined at that date by the independent property valuers, and these values were used as deemed cost from that date.

After 31 December 2010, property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

The initial value of property, plant and equipment comprises the acquisition cost including not refundable acquisition taxes and all directly attributable costs associated with the preparation for use or transportation to the place of use of assets concerned. Repair and maintenance costs incurred after property, plant and equipment has been made available for intended use are normally charged to the statement of comprehensive income in the period when such costs are incurred. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings and structures | 8–80 years |
| Machinery and equipment | 5–25 years |
| Motor vehicles | 4–6 years |
| Other fixtures and equipment | 3–10 years |

The useful lives, residual values and the depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from property, plant and equipment. In the reporting financial year, the useful live of the items of property, plant and equipment was reviewed and adjusted accordingly.

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year in which the asset is derecognised.

## 2. Summary of significant accounting policies (continued)

Construction in progress is stated at cost which comprises the value of building, constructions and facilities and other directly attributable costs. Construction in progress is not depreciated until the completion of construction and until the assets are ready for use.

### 2.9 Investment property

Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale.

Investment property is stated at historical cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the following estimated useful lives: 10-90 years.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use. When the asset is transferred from investment property to owner-occupied property, plant and equipment, the cost of that asset is deemed to be the carrying amount of investment property at the date of transfer. If property, plant and equipment are transferred to investment property, the Company and the Group account for such assets in accordance with the accounting principles applicable to property, plant and equipment until the date of transfer. The deemed cost of the transferred investment property is considered to be the carrying amount of that asset at the date of transfer.

### 2.10 Impairment of non-financial assets

Non-financial assets, except for goodwill, inventories and deferred income tax, are assessed for impairment when events or circumstances indicate that the value of assets may not be recoverable. If such circumstances exist, the asset's recoverable amount is estimated. Where the carrying amount of an asset exceeds its recoverable amount, impairment loss is accounted for in profit or loss. A reversal of an impairment loss recognised in prior periods is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has materially decreased. Reversal is accounted for in profit or loss under the same item as impairment loss. Impairment of goodwill is recorded in profit or loss.

The recoverable amount of other assets is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and impairment is recognised for a part of its value in excess of the recoverable amount.

### 2.11 Assets held for sale

Assets held for sale are measured at the lower of their carrying amount and the fair value less expected costs to sell. Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. This condition is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. The management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

### 2.12 Emission allowances

Based on Directive 2003/87/EC of the European Union, the greenhouse gas emissions trading scheme was developed which came into force on 1 January 2005. The first operating phase of this system covered the period of 3 years which started in 2005 and ended in 2007; the second phase covered the period of 5 years which started in 2008 and ended in 2012, thus coinciding with the period detailed in the Kyoto Agreement. The third phase covered the period of 8 years which started in 2013 and ended in 2020. The system works on the 'cap and trade' principle. The governments of the EU Member States are required to set caps for each emission unit in the scheme and for the period of implementation. Revenue from emission allowances is presented in the statement of cash flows as cash flows from operating activities.

This cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State. The NAP determines the amount of yearly emissions (measured in tonnes of carbon dioxide equivalent) for each emission unit and for each operating phase and allocates allowances on an annual basis.

A Member State has an obligation to allocate emission allowances by 28 February of each year in accordance with the NAP (a part of emission allowances is set aside for new units).

A Member State is to assure that an operator of each emission unit submits data on actual amount of gas emitted to the environment by the unit during the current calendar year not later than by 30 April of the next year.

## 2. Summary of significant accounting policies (continued)

The Group and the Company apply the net liability approach in accounting for the emission allowances received. Under this method emission allowances are recorded at a nominal (nil) value. When actual emissions exceed allocated emission allowances, the obligation of purchasing additional allowances is recognised as a provision measured at the market value of the allowances as at the reporting date. The Group and the Company assess the shortage of emission allowances by comparing the annual quantity of emission allowances obtained with the actual annual emissions.

Disposals of emission allowances are recorded at the fair value of the disposal transaction. Any differences between the actual selling price and the carrying amount of emission allowances obtained are recognised as profit or loss, irrespective of whether such transaction results in the actual or possible shortage of emission allowances. If the disposal of emission allowances results in an actual shortage of emission allowances, an additional liability is recognised in the statement of financial position.

### 2.13 Borrowing costs

Borrowing costs comprise interest and other expenses that the Company and the Group incur when borrowing funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as expenses as incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include:

- interest expenses calculated using the effective interest method; and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest expenses.

The commencement date for capitalisation is the date when all of the following three conditions are met:

- expenditure for the asset is incurred;
- borrowing costs are incurred;
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### 2.14 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Recognition and initial measurement**

The Group and the Company recognise a financial asset or a financial liability in their statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at fair value which is equal to the fair value of consideration paid plus transaction costs for all financial assets not carried at fair value through profit or loss.

**Classification and subsequent measurement**

The Group and the Company classify financial assets into the following categories:

- measured at amortised cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss;
- hedging financial instruments.

The Group and the Company classify financial assets into the appropriate category depending on the business model for managing financial assets and on the characteristics of contractual cash flows for a respective financial asset.

The Group and the Company classify trade receivables, loans granted, other accounts receivable of financial assets and cash and cash equivalents as assets measured at amortised cost.

At the initial recognition the Group and the Company attribute equity instruments, i.e. shares of other entities, to financial instruments measured at fair value through other comprehensive income.

**2. Summary of significant accounting policies (continued)**

The Group and the Company attribute financial derivatives not used for hedge accounting and hedging instruments measured in accordance with the hedge accounting principles to assets measured at fair value through profit or loss.

The Group and the Company classify financial liabilities into the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss;
- hedging financial instruments.

The Group and the Company attribute trade liabilities, other accounts payable and borrowings to financial liabilities measured at amortised cost.

Liabilities of derivative financial instruments not designated for hedge accounting are measured by the Group and the Company at fair value through profit or loss.

**Measurement of financial assets at amortised cost**

The Group and the Company apply the effective interest rate method to measure financial assets at amortised cost.

After initial recognition trade receivables are measured at amortised cost using the effective interest rate method, including impairment losses, while trade receivables with maturities less than 12 months from the date of recognition (i.e., not containing a financing element) and not classified as factoring, are not discounted and are measured at a nominal value.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate exactly discounts future cash payments over the expected life of the financial liability, or (where appropriate) a shorter period.

**Measurement of financial assets at fair value through other comprehensive income**

Gains and losses on a financial asset constituting an equity instrument classified as at fair value through other comprehensive income are recognised in other comprehensive income, except for income from received dividends.

**Financial assets measured at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for sale, i.e. acquired for selling it in the near term. Gain or loss from change in the value of these assets is recognised in profit or loss. Gain or loss on assets classified at fair value through profit or loss also includes interest or dividend income.

As at 31 December 2020 and 2019, the Group and the Company had no financial instruments measured at fair value through profit or loss.

**Derivative financial instruments and hedge accounting**

The Group and the Company use derivative financial instruments to hedge their interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives initially are measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

***Cash flow hedges***

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit of loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit of loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for the hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

## 2. Summary of significant accounting policies (continued)

### Derecognition of a financial instrument in the statement of financial position

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group/Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group/Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group/Company has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's/Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group/Company could be required to repay.

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

### Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Impairment of financial assets

IFRS 9 contains a new model for calculation of impairment of financial assets measured at amortised cost or at fair value through other comprehensive income (except for investments in equity instruments and contract assets). The impairment model is based on calculated expected losses.

In determining impairment losses, the Group and the Company apply the following models:

- general model (basic);
- simplified model.

The Group and the Company apply the general model for financial assets measured at amortised cost, except for trade receivables and assets measured at fair value through other comprehensive income.

By applying the general model, the Group and the Company monitor changes in the level of credit risk associated with a respective financial asset and classify financial assets to one of three stages for determining impairment losses based on changes in the credit risk level after the initial recognition of the instrument.

Depending on the categorisation to individual stages, impairment is measured at an amount equal to a 12-month period (stage 1) or the lifetime of the instrument (stage 2 and stage 3).

On each end day of the reporting period, the Group and the Company analyse indications, based on which financial assets are categorised to individual stages for measuring impairment losses. Indications may include changes in the debtor's creditworthiness, serious financial problems of the debtor, significant adverse changes in the debtor's economic, legal or market environment.

For the purpose of estimating expected credit losses, the Group and the Company apply default probability levels implicit in market quotes of credit derivatives, for entities with a granted credit rating and from a respective sector.

The Group and the Company include forward looking information in the parameters of the expected credit loss estimation model by calculating the probability of insolvency parameters based on current market quotes.

The simplified model is applied by the Group and the Company for trade receivables.

## 2. Summary of significant accounting policies (continued)

By applying the simplified model, the Group and the Company do not monitor changes in the credit risk level during the lifetime of the instrument and estimate expected credit losses for the period until the end of the use of the instrument.

For the purpose of estimating expected credit losses, the Group and the Company use the provision matrix calculated referring to historical levels of repayment and recovery of amounts receivable from clients.

The Group and the Company include information about the future periods in the parameters used in the expected loss estimation model by adjusting the key insolvency probability parameters.

For the purpose of calculating expected credit losses, the Group and the Company determine default probability parameters for liabilities of accounts receivable that are calculated based on historical analysis of the number of unpaid invoices, and default probability parameters that are calculated based on historical analysis of the value of unpaid invoices.

Expected credit losses are calculated when the amount receivable is recognised in the statement of financial position and is updated on each subsequent end day of the reporting period depending on the number of overdue days of the amount receivable.

**Impairment losses (reversal of impairment losses) on financial instruments**

Impairment losses (reversal of impairment losses) on financial instruments include, in particular, losses (reversal of losses) due to impairment of trade receivables and losses (reversal of losses) due to impairment of loans granted.

### 2.15 Inventories

Inventories are recognised at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion, marketing and distribution. The cost of inventories is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

### 2.16 Leases – where the Group is a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. The contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group follows IFRS 16 *Leases*.
At the commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.
The lease contract, when the right to control the use of an identified asset for a period of time is acquired in exchange for consideration, is recognised by the lessee as right-of-use assets and is measured at a discounted cost at the commencement date.

The Group and the Company recognise right-of-use assets and lease liabilities at the lease inception date, i.e. the date when the Group or the Company can start to use the leased assets. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

The right-of-use asset is subsequently measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date until the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. In 2020, the Group applied a discount rate of 4.0% (2019: 4.0%) to land and buildings used under the lease rights and the discount rate of 1.3% was applied to machinery and equipment. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

## 2. Summary of significant accounting policies (continued)

Lease payments included in the measurement of a lease liability include:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate initially measured using an index or a rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Lease liabilities are subsequently measured at amortised cost using the effective interest rate method. The lease term is a non-cancellable term; the periods covered by an option to extend or terminate the lease (if any) are included in the lease term only if it is reasonably certain that the lease will be extended or terminated.

The lease liability is subsequently increased by the amount of interest on the lease liability and reduced by the amount of lease payments made.  It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee (there were no guaranteed residual values as at 31 December 2020 and 31 December 2019), if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment (no extension options under the lease contracts were accounted for as at 31 December 2020 and 31 December 2019 due to uncertainty). When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The cost of right-of-use assets comprises: the amount of the initial measurement of the lease liability; additional lease payments or concessions made before the commencement date of the contract; direct contract costs; additional costs associated with the asset's preparation for use.  As at 31 December 2020 and 31 December 2019, the Group did not recognise any lease incentives, initial direct expenses, renewal expenses or other expenses in respect of the leased assets.

The depreciation period of right-of-use assets is normally the shorter of the useful life of the assets or the lease term. Depreciation is calculated using the straight-line method. As at 31 December 2020 and 31 December 2019, the straight-line method was applied to the Company's leased right-of-use assets.

Interest expenses of lease liabilities and depreciation of right-of-use assets are accounted for separately in the statement of comprehensive income. Right-of-use assets and lease liabilities are disclosed separately in the statement of financial position.

Payments related to short-term lease of equipment and lease of all low-value assets are recognised as expenses in the statement of comprehensive income using the straight-line method.

### 2.17 Leases – where the Group is a lessor

#### Classification

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.  If this is the case, then the lease is a finance lease; if not, i.e. the lessor retains substantially all risks and rewards, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

#### Initial recognition

The underlying assets leased under the operating lease contracts are accounted for in the lessor's balance sheet.

#### Subleases

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to right-of-use assets; otherwise it is classified as an operating lease. The Group's subleases are classified as an operating lease. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease. The Group and the Company had no sublease contracts in 2020 and 2019.

## 2. Summary of significant accounting policies (continued)

### Accounting for non-lease components

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract and to account for a non-lease component.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the net investment in the lease.

### Rental income

The Group recognises lease payments received under the operating leases as income on a straight-line basis over the lease term when it is earned as part of ‘other income’. All contracts for the lease of real estate contain a fixed, periodic lease payment.

### 2.18 Long-term employee benefits

Each employee of retirement age who terminates his/her employment with the Group or the Company upon retirement is entitled to receive a one-off payment equal to 2 monthly salaries as stipulated in the Lithuanian Labour Code.

The past service costs are recognised as an expense in the statement of comprehensive income immediately after the assessment of such liability. Gain or loss resulting from changes in employee benefits (decrease or increase) is recognised immediately in profit or loss.

Employee benefit obligation is calculated with reference to actuarial valuations using the projected unit credit method. Liability is recognised in the statement of financial position and it reflects the present value of these benefits at the date of the preparation of the statement of financial position.

The present value of employee benefit obligation is determined by discounting the estimated future cash flows using the interest rates set for government bonds denominated in the same currency as the benefits and with a maturity similar to the expected timing of benefits settlement. Actuarial gains and losses are recognised in other comprehensive income

### 2.19 Financial guarantees contracts

Financial guarantees provided for the liabilities of the Group companies (i.e. companies controlled by the same parent) during the initial recognition are accounted for at fair value as equity contribution and as financial liability in the balance sheet.

Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation/settlement of the Group company’s financial liability to the bank. If there is a possibility that the Group company may fail to fulfil its obligations to the bank, a financial liability of the Group company is accounted for at the higher of the amortised value and the value estimated according to IAS 9 *Financial instruments*.

### 2.20 Grants and subsidies

Grants and subsidies (hereinafter “grants”) allocated for the purchase, construction or any other acquisition of non-current assets are defined as grants related to assets. Assets received free of charge are also allocated to this group of grants. Grants related to assets are recognised in profit or loss in the proportions in which depreciation expense on those assets is recognised, and a relevant line item of expenses is reduced in profit or loss. Grants are accounted for at the fair value of non-current assets received or acquired.

Grants received as a compensation for expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are defined as grants related to income. Grants related to income are recognised as used in parts to the extent of expenses incurred during the reporting period or unearned income to be compensated by that grant.

### 2.21 Income tax and deferred income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. Corporate income tax is included in these financial statements based on the management’s calculations prepared in accordance with the respective tax legislation applied in the Republic of Lithuania and Ukraine.

With effect from 1 January 2010, companies operating in the Republic of Lithuania are subject to income tax at a rate of 15 %. A standard income tax rate in Ukraine for the year 2020 was 18% (2019: 18%).

## 2. Summary of significant accounting policies (continued)

Tax losses can be carried forward for an indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments and for the losses accumulated in the Ukrainian company (losses can be carried forward for 4 years according to the Ukrainian regulatory legislation). Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature.

With effect from 2014, according to the Lithuanian regulatory legislation deductible tax losses available for carry forward can be used to reduce taxable income of the current tax year by maximum 70%.

Deferred taxes are calculated using the balance sheet liability method. Deferred tax represents a net tax effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred tax assets and liabilities are measured using a tax rate that is expected to be used when deferred tax assets are utilised or deferred tax liability is settled taking account of tax rates adopted or actually effective at the date of the statement of financial position.

Deferred tax assets are recognised in the statement of financial position to the extent that the management expects to utilise such assets in the near future taking into consideration forecasts of taxable profit. When it is probable that a portion of deferred tax will not be utilised, this portion of deferred tax is not recognised in the financial statements.

### 2.22 Revenue recognition

The Group's and the Company's revenue is recognised in accordance with the provisions of IFRS 15, i.e. the Group and the Company recognise revenue at the time and to such an extent so that the transfer of goods or services to customers would show the amount which reflects to the consideration that the Company expects to receive in exchange for the goods or services. When applying this standard, the Company takes into consideration the terms of the contract and all significant facts and circumstances. Revenue is recognised in the Company using the five-step model.

#### Identification requirements for contracts with customers

A contract with a costumer meets the definition if all of the following criteria are met: the contract has been approved by the parties to the contract and they committed to perform their obligations; the Group and the Company can identify each party's rights in relation to the goods and services to be transferred; the Group and the Company can identify the payment terms for the goods and services to be transferred; the contract has commercial substance and it is probable that the Group and the Company will collect the consideration to which they will be entitled to in exchange for the goods or services that will be transferred to the costumer. Contracts with customers can be combined or separated into several contracts by maintaining the criteria of the previous contracts. Such combination or separation is treated as a contract modification.

#### Identification of performance obligations

At the inception of the contract, the Group and the Company assess the goods and services promised in the contract with the client and identify as an obligation to perform any promise to transfer to the client: a good or service (or bundle of goods or services)

that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

#### Determination of transaction price

In order to determine the transaction price, the Group and the Company take into account the terms of the contract and the customary business practices. The transaction price is the amount of consideration to which the Group and the Company expect to be entitled in exchange for the transfer of promised goods and services to the customer, except for the amounts collected on behalf of third parties. The consideration specified in the contract with the customer may include fixed amounts, variable amounts or both.

When calculating variable amounts, the Group and the Company decided to apply the most probable value method for contracts with one threshold or the expected value method for contracts with more value thresholds from which the customer receives a discount.

#### Allocation of the transaction price for each performance obligation

The Group and the Company allocate the transaction price to each performance obligation at an amount that reflects the amount of consideration to which the Group and the Company expect to be entitled in exchange for the transfer of the promised goods or services to the customer.

## 2. Summary of significant accounting policies (continued)

### Revenue recognition when performance obligations are satisfied

The Group and the Company recognise revenue when the Group and the Company satisfy a performance obligation by transferring to the customer a promised good or service (i.e. the customer obtains control of the asset). Revenue is recognised as amounts equal to the transaction price that was allocated to a given performance obligation.

The Group and the Company transfer the right to control goods or services over time and thus satisfy the performance obligation and recognise revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group and the Company as they perform;
- the Group's and the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

the Group's and the Company's performance does not create an asset with an alternative use to the Group and the Company and the Group and the Company have an enforceable right to payment for performance completed to date.

| Type of goods sold and services rendered | Nature and timing of the fulfilment of performance obligations and payment terms | Revenue recognition under IFRS 15 |
|---|---|---|
| Paper and paper products<br><br>Wood fibre boards<br><br>Raw materials for corrugated cardboard (test liner and fluting), corrugated cardboard and its products<br><br>Other goods | The customer takes over the control of goods when goods are delivered. Invoices for goods are issued at the time when goods are delivered to the customer or when goods are removed from the warehouse. Invoices are usually paid within 30-45 calendar days.<br><br>Turnover discounts are applied to goods sold which are calculated the end of each month, quarter and year for the previous period. | Revenue is recognised when goods are delivered to the customer or when goods are removed from the warehouse.<br><br>Related expenses are recognised in the statement of comprehensive income when incurred.<br><br>Marketing expenses that are directly related to earning of revenue are accounted for in the statement of comprehensive income as a reduction of revenue.<br><br>Possible loss for the contract is recognised immediately in the statement of comprehensive income. |
| Sales of heat energy and other utility services | Invoices for the serviced rendered during the month are issued on the last day of the month. A standard established payment term is 10-30 calendar days. | Revenue is recognised over a period of time when the services are rendered. |

### 2.23 Fair value measurement

Certain accounting policies and disclosures of the Group and the Company require the fair value measurement for financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Company have access at that date. The fair value of a liability reflects its non-performance risk.

In determining the fair value of assets or liabilities the Group and the Company use as much as possible inputs that are observable in the market. A fair value hierarchy categorises into three levels the inputs to valuation methods used to measure fair value:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

## 2. Summary of significant accounting policies (continued)

The Group and the Company recognise the amounts transferred within the fair value hierarchy levels at the end of the reporting period in which the change occurred.

Fair values measured for the purposes of assessment and (or) disclosure are calculated using the below presented methods. When applicable, further information on assumptions used in determining fair values is disclosed in the note related to specific assets or liabilities:

Note 7 – Investment property

Note 3 – Financial instruments – fair values and risk management

### 2.24 Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities related to business combinations. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

### 2.25 Events after the end of the reporting period

Events after the reporting period that provide additional information about the Group's/Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Events after the reporting period other than adjusting events are disclosed in explanatory notes to the financial statements when such events are significant.

### 2.26 Comparative figures

New accounting estimates do not affect reliability of information disclosed in the financial statements, therefore they are corrected in the accounting records and presented in the financial statements prospectively.

### 2.27 Inter-company offsetting

For the purpose of the financial statements, assets and liabilities, income and expenses are not offset, unless such offsetting is required by a specific Business Accounting Standard.

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management

The Group and the Company are exposed to financial risks in their operations, i.e. credit risk, liquidity risk and market risk (foreign exchange risk, interest rate risk). In managing these risks, the Group and the Company seek to mitigate the effect of factors which could make a negative effect on the financial performance of the Group and the Company.

### Credit risk

The largest exposure to credit risk is represented by the carrying amount of each financial asset. Consequently, the Company's management considers that its maximum exposure is reflected by the amount of current and non-current trade and other receivables, net of recognised impairment losses and cash and cash equivalents at the date of the statement of financial position. Credit risk or the risk of counterparties defaulting, is controlled by the application of credit terms and monitoring procedures using services of external credit insurance and debt recovery agencies. The Company's objective is to maximise the number of insured clients and with regard to the clients who are not insured by a credit insurance company the advance payment basis is usually applied.

***Maximum exposure to credit risk***

The table below summarises all credit risk exposures relating to on-balance sheet items of the Group and the Company.

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Trade receivables | 13,420 | 14,185 | 6,462 | 7,703 |
| Trade receivables from related parties | - | - | 425 | 426 |
| Other amounts receivable | 966 | 579 | 394 | 331 |
| Cash and cash equivalents | 18,275 | 8,649 | 10,453 | 1,581 |
| **Total** | **32,661** | **23,413** | **17,734** | **10,041** |

### Trade receivables

As at 31 December 2020 and 2019, the Company and the Group carried out the assessment of a loss allowance for expected losses according to IFRS 9. For trade receivables, the Company and the Group apply a simplified approach to measure the amount of lifetime expected credit losses. The amount of the allowance for expected losses for trade receivables is calculated on the basis of the profile of payments for sales in 2018-2020. Historical loss rates are adjusted with reference to the present and future-oriented information on the macroeconomic factors affecting the customers' ability to settle the amounts due. The Company has established that the growth rate of the Lithuanian GDP is the major factor and adjusts historical loss rates accordingly referring to expected changes in these factors.

Based on the impairment tests performed, the individually assessed loss allowance of EUR 54 thousand was additionally established at the Group in 2020 (it was not established in 2019). Movements in the loss allowance for amounts receivable were as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Individually assessed impairment 2020 | Individually assessed impairment 2019 | Collectively assessed impairment 2020 | Collectively assessed impairment 2019 | Individually assessed impairment 2020 | Individually assessed impairment 2019 | Collectively assessed impairment 2020 | Collectively assessed impairment 2019 |
| **At 1 January** | **117** | **146** | **-** | **2** | **72** | **132** | **-** | **-** |
| Increase in allowance | 54 | - | - | - | - | - | - | - |
| Receivables written off | (18) | (29) | - | (2) | - | (30) | - | - |
| Transferred to the subsidiary | - | - | - | - | - | (30) | - | - |
| **At 31 December** | **152** | **117** | **1** | **-** | **72** | **72** | **-** | **-** |

Change in the loss allowance for trade receivables in 2020 and 2019 is included in administrative expenses.

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

Expected credit losses:

| Group | Not past due | Trade receivables past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | < 30 days | 30–60 days | 60–90 days | 90–360 days | > 360 days | |
| **Trade receivables – net (2020)** | **12,245** | **986** | **108** | **52** | **29** | **-** | **13,420** |
| Trade receivables – gross | 12,245 | 986 | 108 | 52 | 29 | 153 | 13,573 |
| Recognised loss allowance | - | - | - | - | - | (153) | (153) |
| Expected loss coefficient | - | - | - | - | - | 100% | |
| **Trade receivables – net (2019)** | **11,055** | **2,784** | **312** | **34** | **-** | **-** | **14,185** |
| Trade receivables – gross | 11,055 | 2,784 | 312 | 34 | - | 117 | 14,302 |
| Recognised loss allowance | - | - | - | - | - | (117) | (117) |
| Expected loss coefficient | - | - | - | - | - | 100.0% | |

| Company | Not past due | Trade receivables past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | < 30 days | 30–60 days | 60–90 days | 90–360 days | > 360 days | |
| **Trade receivables – net (2020)** | **6,337** | **120** | **2** | **2** | **-** | **-** | **6,461** |
| Trade receivables – gross | 6,337 | 120 | 2 | 2 | - | 72 | 6,533 |
| Recognised loss allowance | - | - | - | - | - | (72) | (72) |
| Expected loss coefficient | - | - | - | - | - | 100.0% | |
| **Trade receivables – net (2019)** | **6,799** | **866** | **38** | **-** | **-** | **-** | **7,703** |
| Trade receivables – gross | 6,799 | 866 | 38 | - | - | 72 | 7,775 |
| Recognised loss allowance | - | - | - | - | - | (72) | (72) |
| Expected loss coefficient | - | - | - | - | - | 100.0% | |

The concentration of trade partners of the Group and the Company is not high. As at 31 December 2020, the Group's trade receivables from two major customers accounted for respectively 9.4% and 2.0% of the total trade receivables (31 December 2019: 6.7% and 2.3% respectively). As at 31 December 2020, the Company's amounts receivable from two major customers accounted for respectively 20.4% and 4.4% of the total trade receivables (31 December 2019: 17.1% and 4.3% respectively).

As at 31 December 2020 and 31 December 2019, the Group and the Company did not recognise a loss allowance for expected credit losses for trade receivables not past due and trade receivables past due and past due less than 360 days due to immateriality of the amounts.

**Amounts receivable from related parties and other amounts receivable**

The Group's other amounts receivable comprise amounts receivables of the recovery of a part of the PSO (services under public service obligation (PSO) scheme) fee and other amounts receivable. The recovery amount of a part of the PSO service fee is the amount receivable from the state authority. Based on the management's estimate, risk arising from amounts receivable from the state enterprises is minimal and the credit rating of the Republic of Lithuania is applied to them. The Group's and the Company's other amounts receivable are not analysed due to their immateriality. The risk of recovery of the Company's amounts receivable from the related parties is not significant because the operations of the subsidiaries are profitable and amounts receivable from the related parties are not material.

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

### Cash and cash equivalents

The maximum exposure to credit risk of the Group's and the Company's cash and cash equivalents is equal to the fair value of cash and cash equivalents classified as cash and cash equivalents at the date of the preparation of the statements of financial position. The Group's and the Company's management considers that the risk arising from cash and cash equivalents held in bank accounts and other short-term financial instruments is not significant as cash is held only in those commercial banks that have high credit ratings.

The credit quality of cash held in bank accounts is evaluated based on the long-term borrowing ratings assigned by *Standard & Poor's* (or equivalent rating assigned by *Moody's*):

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| AA- | - | 3,532 | - | - |
| A+ | 17,898 | 5,058 | 10,080 | 1,527 |
| Baa1 | 373 | 54 | 373 | 54 |
| Other | 4 | 5 | - | - |
| **Total** | **18,275** | **8,649** | **10,453** | **1,581** |

### Capital management

The main objective of the Group's and the Company's capital management is to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintain healthy capital ratios in order to support their business and to maximise shareholders' value (capital in the meaning of IAS 1 corresponds to equity presented in the financial statements and attributable to the Company's owners).

The Group and the Company manage the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. No changes were made concerning risk management objectives, policies or processes during the year ended 31 December 2020.

Pursuant to the Lithuanian Law on Companies, the Group's and the Company's equity must be not less than 50% of their share capital. As at 31 December 2020 and 2019, the Company complied with this requirement.

The Group and the Company use the debt-to-equity ratio to evaluate their capital. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. It is aimed that the debt-to-equity ratio should not be higher than 50%-60%.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Non-current liabilities (excluding subsidies, grants and deferred income tax liability) | 4,986 | 8,138 | 2,196 | 4,774 |
| Current liabilities | 27,416 | 30,022 | 13,482 | 13,379 |
| **Total liabilities** | **32,402** | **38,160** | **15,678** | **18,153** |
| **Equity attributable to owners of the Company** | **88,959** | **76,251** | **61,053** | **52,067** |
| **Debt-to-equity ratio** | **36%** | **50%** | **26%** | **35%** |

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

### Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments.

| Group | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| Borrowings | 1,713 | 4,738 | 1,240 | - | 7,691 | 7,630 |
| Lease liabilities | 131 | 387 | 951 | 7,173 | 8,642 | 3,674 |
| Trade payables | 15,768 | - | - | - | 15,768 | 15,768 |
| Other amounts payable | 1,471 | - | - | - | 1,471 | 1,471 |
| **At 31 December 2020** | **19,083** | **5,125** | **2,191** | **7,173** | **33,572** | **28,543** |
| Borrowings | 2,554 | 6,120 | 7,740 | - | 16,414 | 16,206 |
| Lease liabilities | 38 | 116 | 551 | 6,726 | 7,431 | 2,802 |
| Trade payables | 14,821 | - | - | - | 14,821 | 14,821 |
| Other amounts payable | 1,325 | - | - | - | 1,325 | 1,325 |
| **At 31 December 2019** | **18,738** | **6,236** | **8,291** | **6,726** | **39,991** | **35,154** |

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments:

| Company | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| Borrowings | 658 | 1,649 | 558 | - | 2,865 | 2,837 |
| Lease liabilities | 94 | 282 | 742 | 2,848 | 3,966 | 1,864 |
| Amounts payable to related parties | 661 | - | - | - | 661 | 661 |
| Trade payables | 7 910 | - | - | - | 7,910 | 7,910 |
| Other amounts payable | 437 | - | - | - | 437 | 437 |
| **At 31 December 2020** | **9,760** | **1,931** | **1,300** | **2,848** | **15,839** | **13,709** |
| Borrowings | 1,158 | 2,137 | 3,913 | | 7,208 | 7,107 |
| Lease liabilities | 72 | 215 | 152 | 2 340 | 2 779 | 1 065 |
| Amounts payable to related parties | 753 | - | - | - | 753 | 753 |
| Trade payables | 7 629 | - | - | - | 7 629 | 7 629 |
| Sureties/guarantees for related parties | 545 | - | - | - | 545 | 545 |
| Other amounts payable | 449 | - | - | - | 449 | 449 |
| **At 31 December 2019** | **10,606** | **2,352** | **4,065** | **2,340** | **19,362** | **17,548** |

Interest payments on borrowings bearing variable interest rates in the table above indicate average market interest rates at the period end, and these amounts may change as market interest rates change. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As disclosed in Note 12, the Group and the Company have secured bank borrowings that are subject to loan covenants. In case of breach of covenants, the Group may be required to repay the borrowing earlier than it is indicated in the above table. The finance team regularly monitors compliance with the loan covenants. To ensure the fulfilment of contractual obligations reports on compliance with the terms are regularly provided to management.

In 2018, the Company provided a guarantee to the bank to secure the repayment of the loans granted by the bank to Grigeo Klaipėda AB (loans amounted to EUR 545 thousand as at 31 December 2019). The loan was repaid to the bank in 2020.

### Market risk

#### *Interest rate risk*

The major part of the Group's and the Company's borrowings comprises borrowings and lease liabilities that bear a variable interest rate linked with EURIBOR and expose to the interest rate risk (Note 12).

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

In 2016, the Company entered into two interest rate swap agreements with the bank establishing fixed interest rates on loans. The agreements come into effect on 15 February 2016 and will be effective until 15 March 2021. As at 31 December 2020, the financial instrument's fair value, which is calculated by the bank, was EUR 4 thousand for the Company and EUR 5 thousand for the Group (31 December 2019: the financial instrument's fair value was EUR 12 thousand for the Company and EUR 26 thousand for the Group). As at 31 December 2020, the nominal value of the financial instruments was EUR 2,865 thousand for the Company and EUR 3,664 thousand for the Group (31 December 2019: the nominal value of the financial instruments was EUR 6,179 thousand for the Company and EUR 16,414 thousand for the Group).

The following table demonstrates the sensitivity of the Group's and the Company's profit before tax to possible changes in interest rates with all other variables held constant (through the impact on variable interest rate borrowings).

| | Increase/decrease in basis points | Group | Company |
|---|---|---|---|
| | | Effect on profit before tax | Effect on profit before tax |
| **2020** | | | |
| EUR | +100 | (54) | (15) |
| EUR | -100 | 54 | 15 |
| | | | |
| **2019** | | | |
| EUR | +100 | (212) | (63) |
| EUR | -100 | 212 | 63 |
| | | | |

***Foreign exchange risk***

The Company's financial assets and liabilities as at 31 December 2020 and 2019 are denominated in the euros. The Group's financial assets and liabilities as at 31 December 2020 and 2019 are denominated in the euros and the Ukrainian hryvnias. The table below shows the sensitivity of the Group's profit before tax to possible changes in the exchange rate of the Ukrainian hryvnia:

| | 2020 | 2019 |
|---|---|---|
| Reasonably possible change in the EUR/UAH exchange rate, % | +/-10% | +/-10% |
| Financial assets denominated in the Ukrainian hryvnias | 686 | 835 |
| Financial liabilities denominated in the Ukrainian hryvnias | 241 | 92 |
| Estimated negative effect on profit before tax | (41) | (67) |
| Estimated positive effect on profit before tax | 41 | 67 |

**Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Company have access at that date. The fair value of a liability reflects its non-performance risk.

The carrying amount of the Group's and the Company's trade and other receivables, cash and cash equivalents, borrowings, lease liabilities, trade and other payables approximates their fair value. The fair value of financial instruments is measured at the Group and the Company using the following hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. The Group's and the Company's financial assets attributed to this level comprise cash and cash equivalents.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group's and the Company's assets and liabilities attributed to this level comprise:

- Trade and other amounts receivable, trade and other amounts payable. The average payment term of these financial instruments is less than 3 months (7-90 days for trade receivables, 10-120 days for trade payables), therefore their fair value approximates the carrying amount.
- Borrowings and lease liabilities. The fair value of these financial instruments approximates the carrying amount as they are stated at the amortised cost and interest rates applicable to them are similar to the market interest rates at the balance sheet date.

All amounts are in EUR thousands unless otherwise stated

## 4. Property, plant and equipment

| Group | Buildings and structures | Machinery and equipment | Motor vehicles | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | |
| **Cost** | **43,501** | **110,701** | **2,193** | **1,912** | **792** | **159,099** |
| **Accumulated depreciation** | **(15,335)** | **(66,601)** | **(1,377)** | **(1,137)** | **-** | **(84,450)** |
| **Net book amount** | **28,166** | **44,100** | **816** | **775** | **792** | **74,649** |
| | | | | | | |
| **Opening net book amount at 1 January 2019** | **28,166** | **44,100** | **816** | **775** | **792** | **74,649** |
| Additions | 121 | 410 | 416 | 601 | 8,813 | 10,361 |
| Disposals and write-offs | (93) | (350) | (84) | (7) | - | (534) |
| Transfer from construction in progress to property, plant and equipment | 4,024 | 3,151 | - | 105 | (7,280) | - |
| Reclassification to investment property | (117) | - | - | - | - | (117) |
| Foreign exchange effect | 31 | 68 | 2 | 1 | 19 | 121 |
| Depreciation charge | (2,522) | (8,350) | (279) | (342) | - | (11,493) |
| **Closing net book amount at 31 December 2019** | **29,610** | **39,029** | **871** | **1,133** | **2,344** | **72,987** |
| **At 31 December 2019** | | | | | | |
| **Cost** | **47,326** | **112,333** | **2,337** | **2,535** | **2,344** | **166,875** |
| **Accumulated depreciation** | **(17,716)** | **(73,304)** | **(1,466)** | **(1,402)** | **-** | **(93,888)** |
| **Net book amount** | **29,610** | **39,029** | **871** | **1,133** | **2,344** | **72,987** |
| | | | | | | |
| **Opening net book amount at 1 January 2020** | **29,610** | **39,029** | **871** | **1,133** | **2,344** | **72,987** |
| Additions | 21 | 278 | 259 | 282 | 7,889 | 8,729 |
| Disposals and write-offs | (1) | (23) | (39) | (3) | - | (66) |
| Transfer from inventories | - | 18 | - | - | - | 18 |
| Transfer from construction in progress to property, plant and equipment | 472 | 1,930 | 13 | 181 | (2,596) | - |
| Reclassification to investment property | (61) | - | - | - | (2) | (63) |
| Reclassification between categories | - | 249 | 85 | (334) | - | - |
| Foreign exchange effect | (42) | (155) | (2) | (1) | (22) | (222) |
| Depreciation charge | (2,444) | (7,707) | (288) | (315) | - | (10,754) |
| **Closing net book amount at 31 December 2020** | **27,555** | **33,619** | **899** | **943** | **7,613** | **70,629** |
| **At 31 December 2020** | | | | | | |
| **Cost** | **46,988** | **112,980** | **2,378** | **2,454** | **7,613** | **172,413** |
| **Accumulated depreciation** | **(19,433)** | **(79,361)** | **(1,479)** | **(1,511)** | **-** | **(101,784)** |
| **Net book amount** | **27,555** | **33,619** | **899** | **943** | **7,613** | **70,629** |

All amounts are in EUR thousands unless otherwise stated

## 4. Property, plant and equipment (continued)

| Company | Buildings and structures | Machinery and equipment | Motor vehicles | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | |
| **Cost** | **16,125** | **55,214** | **582** | **897** | **348** | **73,166** |
| **Accumulated depreciation** | **(5,112)** | **(35,912)** | **(286)** | **(578)** | **-** | **(41,888)** |
| **Net book amount** | **11,013** | **19,302** | **296** | **319** | **348** | **31,278** |
| | | | | | | |
| **Opening net book amount at 1 January 2019** | **11,013** | **19,302** | **296** | **319** | **348** | **31,278** |
| Additions | 49 | 165 | 100 | 102 | 1,881 | 2,297 |
| Disposals and write-offs | (5) | (19) | (49) | (1) | - | (74) |
| Transfer from construction in progress to property, plant and equipment | 1,477 | 164 | - | 55 | (1,697) | - |
| Reclassification to investment property | (117) | - | - | - | - | (117) |
| Depreciation charge | (889) | (4,124) | (81) | (147) | - | (5,241) |
| **Closing net book amount at 31 December 2019** | **11,528** | **15,488** | **266** | **328** | **532** | **28,143** |
| **At 31 December 2019** | | | | | | |
| **Cost** | **17,475** | **55,162** | **587** | **1,042** | **532** | **74,799** |
| **Accumulated depreciation** | **(5,947)** | **(39,674)** | **(321)** | **(714)** | **-** | **(46,656)** |
| **Net book amount** | **11,528** | **15,488** | **266** | **328** | **532** | **28,143** |
| | | | | | | |
| **Opening net book amount at 1 January 2020** | **11,528** | **15,488** | **266** | **328** | **532** | **28,143** |
| Additions | - | 49 | 187 | 98 | 4,613 | 4,947 |
| Disposals and write-offs | - | (18) | (30) | (3) | - | (51) |
| Transfer from/(to inventories) | - | 18 | - | - | - | 18 |
| Transfer from construction in progress to property, plant and equipment | 142 | 71 | 13 | 118 | (344) | - |
| Reclassification to investment property | (61) | - | - | - | (2) | (63) |
| Depreciation charge | (910) | (3,240) | (82) | (148) | - | (4,380) |
| **Closing net book amount at 31 December 2020** | **10,699** | **12,368** | **354** | **393** | **4,799** | **28,613** |
| **At 31 December 2020** | | | | | | |
| **Cost** | **16,964** | **54,035** | **708** | **1,086** | **4,799** | **77,592** |
| **Accumulated depreciation** | **(6,265)** | **(41,667)** | **(354)** | **(693)** | - | **(48,979)** |
| **Net book amount** | **10,699** | **12,368** | **354** | **393** | **4,799** | **28,613** |

All amounts are in EUR thousands unless otherwise stated

## 4. Property, plant and equipment (continued)

The depreciation charge of the Group's and the Company's property, plant and equipment is included in the following line items of the statement of comprehensive income and the statement of financial position:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Cost of sales | 10,057 | 10,529 | 3,985 | 4,750 |
| Administrative expenses | 260 | 178 | 169 | 179 |
| Selling and distribution expenses | 120 | 344 | 73 | 88 |
| **Statement of comprehensive income – total** | **10,437** | **11,051** | **4,227** | **5,017** |
| **Statement of financial position – inventories** | **317** | **442** | **153** | **224** |
| **Total** | **10,754** | **11,493** | **4,380** | **5,241** |

As at 31 December 2020, the Group's and the Company's property, plant and equipment with the carrying amount of respectively EUR 50,139 thousand and EUR 16,927 thousand (31 December 2019: EUR 56,741 thousand and EUR 19,833 thousand respectively) was pledged to the banks as security for borrowings (Note 12).

A part of the Group's and the Company's property, plant and equipment was fully depreciated but still in use. Information by category of assets is presented below:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Buildings and structures | 791 | 897 | 272 | 371 |
| Machinery and equipment | 6,757 | 7,211 | 2,062 | 3,029 |
| Motor vehicles | 457 | 286 | 172 | 87 |
| Other assets | 597 | 586 | 290 | 332 |
| **Total** | **8,602** | **8,980** | **2,796** | **3,819** |

As at 31 December, the Group's and the Company's constructions in progress and prepayments include projects in progress:

| Group | At 31 December 2020 | | | At 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Total estimated costs of the project | Estimated year of completion | Carrying amount | Total estimated costs of the project | Estimated year of completion |
| Construction of the anaerobic reactor | 269 | 2,000 | 2022 | - | - | |
| Project for the connection of sewage networks | 89 | 300 | 2021 | - | - | |
| AFH roll line | 4,773 | 4,883 | 2021 | 519 | 4,883 | 2020 |
| Sheet palettizing line | | | | 978 | 1,000 | 2020 |
| Automatic box production line | 1,712 | 1,800 | 2021 | 650 | 1,800 | 2020 |
| System for enclosure of sewage treatment plants and pumping of sewage sludge | 419 | 545 | 2021 | 129 | 531 | 2020 |
| Modernisation of the drying line enclosure and ventilation | 75 | 413 | 2021 | 50 | 100 | 2020 |
| Other projects | 276 | 648 | 2021 | 18 | 163 | 2020 |
| **Total** | **7,613** | **10,589** | | **2,344** | **8,477** | |

The Group's and the Company's commitments for the acquisition of property, plant and equipment under the signed agreements amounted to respectively EUR 446 thousand and EUR 251 thousand as at 31 December 2020 (31 December 2019: EUR 4,116 thousand and EUR 2,190 thousand respectively).

All amounts are in EUR thousands unless otherwise stated

## 4. Property, plant and equipment (continued)

| Company | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Total estimated costs of the project | Estimated year of completion | Carrying amount | Total estimated costs of the project | Estimated year of completion |
| AFH roll line | 4,773 | 4,883 | 2021 | 519 | 4,883 | 2020 |
| Other projects | 26 | 220 | 2021 | 13 | 126 | 2020 |
| **Total** | **4,799** | **5,103** | | **532** | **5,009** | |

## 5. Right-of-use assets

| Group | Land | Buildings and structures | Machinery and equipment | Total |
|---|---|---|---|---|
| **Opening net book amount at 1 January 2019** | **2,997** | **-** | **-** | **2,997** |
| Transfer from intangible assets | 569 | - | - | 569 |
| Foreign exchange effect | 3 | - | - | 3 |
| Amortisation charge | (282) | - | - | (282) |
| **Closing net book amount at 31 December 2019** | **3,287** | **-** | **-** | **3,287** |
| **At 31 December 2019** | | | | |
| **Cost** | **3,695** | **-** | **-** | **3,695** |
| **Accumulated depreciation** | **(408)** | **-** | **-** | **(408)** |
| **Net book amount** | **3,287** | **-** | **-** | **3,287** |
| | | | | |
| **Opening net book amount at 1 January 2020** | **3,287** | **-** | **-** | **3,287** |
| Change in value-in-use | 260 | 242 | 765 | 1,267 |
| Foreign exchange effect | (6) | - | - | (6) |
| Amortisation charge | (65) | (110) | (244) | (419) |
| **Closing net book amount at 31 December 2020** | **3,476** | **132** | **521** | **4,129** |
| **At 31 December 2020** | | | | |
| **Cost** | **3,945** | **242** | **765** | **4,952** |
| **Accumulated depreciation** | **(469)** | **(110)** | **(244)** | **(823)** |
| **Net book amount** | **3,476** | **132** | **521** | **4,129** |

All amounts are in EUR thousands unless otherwise stated

## 5. Right-of-use assets (continued)

| Company | Land lease rights | Buildings and structures | Machinery and equipment | Total |
|---|---|---|---|---|
| **Opening net book amount at 01 January 2019** | **821** | **461** | **-** | **1,282** |
| Amortisation charge | (13) | (231) | - | (244) |
| **Closing net book amount at 31 December 2019** | **808** | **230** | **-** | **1,038** |
| **At 31 December 2019** | | | | |
| **Cost** | **821** | **461** | **-** | **1,282** |
| **Accumulated depreciation** | **(13)** | **(231)** | **-** | **(244)** |
| **Net book amount** | **808** | **230** | **-** | **1,038** |
| | | | | |
| **Opening net book amount at 1 January 2020** | **808** | **230** | **-** | **1,038** |
| Change in value-in-use | 195 | 693 | 241 | 1,129 |
| Disposals, write-offs | (1) | - | - | (1) |
| Amortisation charge | (15) | (237) | (81) | (333) |
| **Closing net book amount at 31 December 2020** | **987** | **686** | **160** | **1,833** |
| **At 31 December 2020** | | | | |
| **Cost** | **1,013** | **1,154** | **241** | **2,408** |
| **Accumulated depreciation** | **(26)** | **(468)** | **(81)** | **(575)** |
| **Net book amount** | **987** | **686** | **160** | **1,833** |

The depreciation charge of the Group's and the Company's right-of-use assets is included in the following line items of the statement of comprehensive income:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Cost of sales | 292 | 192 | 52 | 33 |
| Administrative expenses | 64 | 49 | 15 | 10 |
| Selling and distribution expenses | 62 | 41 | 266 | 201 |
| **Total** | **418** | **282** | **333** | **244** |

As at 31 December 2020, the Group's and the Company's land lease rights with the carrying amount of respectively EUR 2,022 thousand and EUR 364 thousand (31 December 2019: EUR 2,111 thousand and EUR 370 thousand respectively) were pledged to the banks as security for borrowings (Note 12).

All amounts are in EUR thousands unless otherwise stated

## 6. Intangible assets

| Group | Goodwill | Land | Licences, patents | Software | Other assets, prepayments | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | |
| **Cost** | **3,001** | **695** | **63** | **2,088** | **531** | **6,378** |
| **Accumulated amortisation** | - | **(118)** | **(47)** | **(1,201)** | **(528)** | **(1,894)** |
| **Net book amount** | **3,001** | **577** | **16** | **887** | **3** | **4,484** |
| | | | | | | |
| **Opening net book amount at 1 January 2019** | **3,001** | **577** | **16** | **887** | **3** | **4,484** |
| Transfer to right-of-use assets | - | (569) | - | - | - | (569) |
| Additions | - | - | 87 | 63 | 41 | 191 |
| Transfer from projects in progress to intangible assets | - | - | - | 41 | (41) | - |
| Amortisation charge | **-** | (8) | (5) | (294) | (1) | (308) |
| **Closing net book amount at 31 December 2019** | **3,001** | **-** | **98** | **697** | **2** | **3,798** |
| | | | | | | |
| **At 31 December 2019** | | | | | | |
| **Cost** | **3,001** | **-** | **150** | **2,192** | **531** | **5,874** |
| **Accumulated amortisation** | - | **-** | **(52)** | **(1,495)** | **(529)** | **(2,076)** |
| **Net book amount** | **3,001** | **-** | **98** | **697** | **2** | **3,798** |
| | | | | | | |
| **Opening net book amount at 1 January 2020** | **3,001** | **-** | **98** | **697** | **2** | **3,798** |
| Additions | - | - | 8 | 11 | - | 19 |
| Reclassification from property, plant and equipment | - | - | - | 10 | - | 10 |
| Foreign exchange effect | - | - | - | (1) | - | (1) |
| Amortisation charge | **-** | **-** | (34) | (167) | (1) | (202) |
| **Closing net book amount at 31 December 2020** | **3,001** | **-** | **72** | **550** | **1** | **3,624** |
| | | | | | | |
| **At 31 December 2020** | | | | | | |
| **Cost** | **3,001** | **-** | **158** | **2,207** | **531** | **5,897** |
| **Accumulated amortisation** | - | **-** | **(86)** | **(1,657)** | **(530)** | **(2,273)** |
| **Net book amount** | **3,001** | **-** | **72** | **550** | **1** | **3,624** |

### Goodwill

On 1 March 2010, the Company acquired the Grigeo Investicijų Valdymas UAB group consisting of Grigeo Investicijų Valdymas UAB, Avesko UAB (in 2010, Avesko UAB was reorganised by merging it with Grigeo Klaipėda AB), Grigeo Klaipėda AB and Mena Pak AT.

Goodwill of EUR 3,001 thousand was recognised on acquisition of these subsidiaries. The goodwill arose on expected synergies of the activities of the Group companies. Goodwill is not amortised but is tested annually for possible impairment.

For the purpose of impairment testing as at 31 December 2020 and 2019, goodwill was allocated to the Grigeo Klaipėda AB cash-generating unit. As at 31 December 2020 and 2019, the recoverable amount of the cash-generating unit was determined based on projected future discounted cash inflows according to the five-year financial forecasts approved by the management.

All amounts are in EUR thousands unless otherwise stated

## 6. Intangible assets (continued)

Forecasts as at 31 December 2020:

| Revenue | Projected annual revenue growth (decrease), % | | | | |
|---|---|---|---|---|---|
| **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| 31,100 | 33.5 | 13.7 | 0.6 | (5.0) | 0.0 |
| **Gross profit margin, %** | | | | | |
| **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| 10.0 | 22.2 | 27.2 | 26.0 | 19.4 | 18.1 |

Decline in the profit margin is projected in 2024-2025 because it is forecasted that remuneration, depreciation, servicing expenses will increase, however revenue will not increase.

Forecasts as at 31 December 2019:

| Revenue | Projected annual revenue growth (decrease), % | | | | |
|---|---|---|---|---|---|
| **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| 43,305 | (34.4) | 12.9 | 5.0 | 12.1 | 9.7 |
| **Gross profit margin, %** | | | | | |
| **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| 20.7 | 8.3 | 7.8 | 8.2 | 15.9 | 20.5 |

Revenue was projected based on the management's assumptions as at 31 December 2020 and 31 December 2019 respectively, which forecast that future revenue will increase due to investments in the enhancement of operational efficiency of production facilities and intensification of sales actions. As at 31 December 2020, projected investments for the upcoming period of 5 years amounted to EUR 1,571 thousand on average annually (31 December 2019: EUR 1,964 thousand). Expenses were projected in view of actual expenses taking into consideration the projected level of inflation. Cash flows beyond the five-year period were extrapolated using a 1% annual growth rate that reflects the management's best estimate in view of the current situation in this industry. The discount rate used by the management for a specific cash-generating unit was calculated as a weighted average cost of capital which is equal to 7% after tax for the cash generating units located in Lithuania.

The calculation of the recoverable amount of the cash-generating unit as at 31 December 2020 and 2019 did not indicate any impairment of goodwill. The assessment was performed without taking into consideration the legal process described in Note 29 of the financial statements. With regard to the assessment of the recoverable amount of the above-mentioned cash-generating unit as at 31 December 2020 and 2019, the management believes that no possible change in any of the above key assumptions would cause the carrying amount of the cash-generating unit to materially exceed its recoverable amount.

The sensitivity analysis of the calculation of the recoverable amount of the investment in Grigeo Klaipėda AB shows the impact of change in the assumptions used in the impairment testing on the assessment result:

| Changes in assumptions | Effect as at 31 December 2020 and 2019 |
|---|---|
| Decrease in revenue and cost of sales of each forecast year by 10% | - |
| Decrease in gross profit margin by 500 basis points | - |
| Increase in discount rate by 100 basis points | - |

Considering the above changes in the assumptions, no impairment indicators of goodwill were identified in the sensitivity analysis.

All amounts are in EUR thousands unless otherwise stated

## 6. Intangible assets (continued)

| Company | Licences, patents | Software | Other assets, prepayments | Total |
|---|---|---|---|---|
| **At 1 January 2019** | | | | |
| **Cost** | **63** | **913** | **10** | **986** |
| **Accumulated amortisation** | **(47)** | **(384)** | **(7)** | **(438)** |
| **Net book amount** | **16** | **529** | **3** | **548** |
| | | | | |
| **Opening net book amount at 1 January 2019** | **16** | **529** | **3** | **548** |
| Additions | 87 | 40 | 41 | 168 |
| Reclassifications from projects in progress | - | 41 | (41) | - |
| Amortisation charge | (5) | (189) | (1) | (195) |
| **Closing net book amount at 31 December 2019** | **98** | **421** | **2** | **521** |
| | | | | |
| **At 31 December 2019** | | | | |
| **Cost** | **150** | **994** | **10** | **1,154** |
| **Accumulated amortisation** | **(52)** | **(573)** | **(8)** | **(633)** |
| **Net book amount** | **98** | **421** | **2** | **521** |
| | | | | |
| **Opening net book amount at 1 January 2020** | **98** | **421** | **2** | **521** |
| Additions | 8 | - | - | 8 |
| Reclassification from property, plant and equipment | - | 10 | - | 10 |
| Amortisation charge | (34) | (74) | (1) | (109) |
| **Closing net book amount at 31 December 2020** | **72** | **357** | **1** | **430** |
| | | | | |
| **At 31 December 2020** | | | | |
| **Cost** | **158** | **998** | **10** | **1,166** |
| **Accumulated amortisation** | **(86)** | **(641)** | **(9)** | **(736)** |
| **Net book amount** | **72** | **357** | **1** | **430** |

Amortisation expenses of intangible assets are included in the following line items of the statement of comprehensive income:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Cost of sales | 200 | 287 | 109 | 182 |
| Administrative expenses | - | 21 | - | 12 |
| Selling and distribution expenses | 2 | 1 | - | 1 |
| **Total** | **202** | **309** | **109** | **195** |

All amounts are in EUR thousands unless otherwise stated

## 6. Intangible assets (continued)

A part of the Group's and the Company's intangible assets was fully amortised but still in use. Information by category of assets is presented below:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Licences, patents | 9 | 8 | 9 | 8 |
| Software | 522 | 530 | 72 | 78 |
| Other assets | 521 | 521 | - | - |
| **Total** | **1,052** | **1,059** | **81** | **86** |

## 7. Investment property

| Group and Company | Buildings | Construction in progress and prepayments | Total |
|---|---|---|---|
| **At 1 January 2019** | | | |
| **Cost** | **1,151** | **306** | **1,457** |
| **Accumulated depreciation** | **(226)** | **-** | **(226)** |
| **Net book amount** | **925** | **306** | **1,231** |
| | | | |
| **Opening net book amount at 1 January 2019** | **925** | **306** | **1,231** |
| Additions | - | 225 | 225 |
| Transfer from construction in progress | 491 | (491) | - |
| Reclassification from property, plant and equipment | 117 | - | 117 |
| Depreciation charge | (52) | - | (52) |
| **Closing net book amount at 31 December 2019** | **1,481** | **40** | **1,521** |
| | | | |
| **At 31 December 2019** | | | |
| **Cost** | **1,775** | **40** | **1,815** |
| **Accumulated depreciation** | **(294)** | **-** | **(294)** |
| **Net book amount** | **1,481** | **40** | **1,521** |
| | | | |
| **Opening net book amount at 1 January 2020** | | | |
| Additions | - | 484 | 484 |
| Reclassification from property, plant and equipment | 61 | (8) | 53 |
| Depreciation charge | (79) | - | (79) |
| **Closing net book amount at 31 December 2020** | **1,463** | **516** | **1,979** |
| | | | |
| **At 31 December 2020** | | | |
| **Cost** | **2,266** | **516** | **2,782** |
| **Accumulated depreciation** | **(803)** | **-** | **(803)** |
| **Net book amount** | **1,463** | **516** | **1,979** |

As at 31 December 2020, the Group's and the Company's investment property (buildings) with the acquisition cost of respectively EUR 31 thousand and EUR 31 thousand (31 December 2019: EUR 31 thousand and EUR 31 thousand respectively) was fully amortised but still in use.

All amounts are in EUR thousands unless otherwise stated

## 7. Investment property (continued)

As at 31 December, the Group's and the Company's constructions in progress and prepayments include projects in progress:

| Company | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Total estimated costs of the project | Estimated year of completion | Carrying amount | Total estimated costs of the project | Estimated year of completion |
| Major repair of investment buildings | 516 | 2,509 | 2021 | - | - | |
| **Total** | **516** | **2,509** | | **-** | **-** | |

Commitments for the acquisition of investment property under the signed agreements amounted to EUR 165 thousand as at 31 December 2020 (31 December 2019: EUR 101 thousand).

Investment property comprises the buildings located at Popieriaus street 15 and Popieriaus street 25 in Naujieji Verkiai and the leased site at Vilniaus street 10 in Grigiškės. A part of the investment property (82% as at 31 December 2020 and 86% as at 31 December 2019 at the carrying amount) is leased to third parties. The lease term under the contracts is between 1 months to 3 years. As at 31 December 2020, future annual revenue amounted to EUR 311 thousand (31 December 2019: EUR 263 thousand) in the period from 2021 to 2023. Depreciation expenses are included in administrative expenses.

### Fair value measurement

The fair value of the investment property was measured based on the cash flows from the investment property for a 10-year period with reference to forecast revenue and expenses. Cash flows were calculated using a discount rate of 8%, a rental yield at the end of the assessed period was equal to 9%. According to the calculation, the fair value of the investment property is equal to EUR 2,270 thousand (31 December 2019: EUR 1,830 thousand).

The sensitivity of the value measurement considering reasonably possible changes in the discount rate and the rental yield is presented below:

| | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Change in the discount rate (+100 basis points) | 2,100 | 1,690 |
| Change in the discount rate (-100 basis points) | 2,450 | 1,980 |
| Change in the rental yield (+100 basis points) | 2,140 | 1,730 |
| Change in the rental yield (-100 basis points) | 2,420 | 1,950 |

## 8. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Materials | 4,507 | 4,060 | 1,153 | 1,082 |
| Work in progress | 1,392 | 1,403 | 1,010 | 736 |
| Finished products | 3,035 | 4,482 | 1,779 | 2,460 |
| Inventories in transit | 164 | 65 | 36 | 42 |
| Prepayments | 35 | 133 | 18 | 36 |
| **Total** | **9,133** | **10,142** | **3,996** | **4,356** |

As at 31 December 2020, the acquisition value (cost) of the Group's and the Company's inventories was decreased by respectively EUR 398 thousand and EUR 167 thousand (31 December 2019: EUR 276 thousand and EUR 193 thousand respectively) to net realisable value. The net realisable value adjustment was accounted for under cost of sales.

In 2020, inventories of EUR 62 million (2019: EUR 77 million) for the Group and inventories of EUR 34 million (2019: EUR 41 million) for the Company were included in cost of sales.

As described in the Note 12, as at 31 December 2020, the Group and the Company had pledged inventories with a carrying amount of respectively EUR 1,158 thousand and EUR 1,158 thousand (31 December 2019: EUR 1,158 thousand and EUR 1,158 thousand respectively) as security for bank borrowings.

All amounts are in EUR thousands unless otherwise stated

## 9. Amounts receivable

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Trade receivables – gross | 13,573 | 14,302 | 6,533 | 7,775 |
| Loss allowance | (153) | (117) | (72) | (72) |
| **Trade receivables – net** | **13,420** | **14,185** | **6,461** | **7,703** |
| Amounts receivable from related parties (Note 28) | - | - | 425 | 426 |
| Amount receivable of the recovery of a part of the PSO* service fee | 758 | - | 273 | - |
| VAT receivable | 744 | 371 | 87 | 17 |
| Other amounts receivable – gross | 208 | 579 | 121 | 331 |
| **Total trade and other amounts receivable – net** | **15,130** | **15,135** | **7,367** | **8,477** |
| Of which: | | | | |
| **Non-current amounts receivable** | **3** | **94** | **-** | **91** |
| **Current amounts receivable** | **15,127** | **15,041** | **7,367** | **8,386** |

*PSO – services under public service obligation scheme.

As disclosed in Note 12, as at 31 December 2020 and 31 December 2019, the Company and subsidiary Grigeo Packaging UAB had pledged future inflows to secure the repayment of bank borrowings.

## 10. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Cash at bank | 18,275 | 8,649 | 10,453 | 1,581 |
| Cash on hand | - | - | - | - |
| **TOTAL** | **18,275** | **8,649** | **10,453** | **1,581** |

As at 31 December 2020, cash held in bank accounts amounting to EUR 13,089 thousand (2019: EUR 2,447 thousand) for the Group and EUR 10,453 thousand (2019: EUR 1,581 thousand) for the Company was pledged as collateral against borrowings as further described in Note 12. As at 31 December 2020 and 2019, there were no restrictions on use of cash balances held in the pledged bank accounts.

## 11. Share capital and reserves

### Share capital

As at 31 December 2020 and 31 December 2019, the Company's share capital amounted to EUR 19,053,000. The share capital is divided into 65,700 thousand ordinary registered shares with the nominal value of EUR 0.29 each. All the shares of the Company have been fully paid up. The Company does not have any other categories of shares than ordinary shares mentioned above. The Company's Articles of Association do not establish any restrictions on rights to shares or special control rights for the shareholders. The Company and its subsidiaries do not hold the Company's shares. The Company has not issued any convertible securities, exchangeable securities or guarantee securities, neither has unfulfilled acquisition rights or commitments to increase share capital as at 31 December 2020 and 2019.

### Share premium

The Company's capital was increased after the additional issue of shares with the total nominal value of EUR 1,650,834 in accordance with the decisions of the annual General Shareholders' Meeting of the Company held on 26 April 2013. The nominal value per share is EUR 0.29, while the shares were issued for EUR 0.51 per share. Share premium is the difference between the issue price and the nominal value of shares, less expenses related to the issue of shares.

All amounts are in EUR thousands unless otherwise stated

## 11. Share capital and reserves (continued)

### Reserves

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of at least 5 per cent of profit to be appropriated calculated in accordance with the accounting principles established by laws are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2020 and 2019, the legal reserve was fully formed. In accordance with the procedure prescribed by the laws, the reserve can be used to cover the company's losses.

The foreign currency translation reserve arises from exchange differences that occur on consolidation of the financial statements of the foreign subsidiary (Note 2.4).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges that will be subsequently recognised in profit or loss.

### Dividends

No dividends were allocated in 2020. During the Ordinary General Meeting of Shareholders of the Company held in 2019, a decision was made to allocate dividends equal to EUR 0.06 per share (Note 26).

## 12. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| **Non-current borrowings:** | | | | |
| Bank borrowings | 1,226 | 5,177 | 556 | 2,836 |
| Borrowings from related parties (Note 28) | - | - | - | 1,000 |
| | **1,226** | **5,177** | **556** | **3,836** |
| **Current borrowings:** | | | | |
| Bank borrowings | 6,404 | 11,029 | 2,281 | 3,271 |
| | **6,404** | **11,029** | **2,281** | **3,271** |
| **TOTAL** | **7,630** | **16,206** | **2,837** | **7,107** |

Movements in bank borrowings during the year are presented in the table below:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| **Opening balance** | **16,206** | **23,951** | **6,107** | **8,510** |
| Proceeds from borrowings | - | 5,400 | - | 4,000 |
| Repayments | (8,576) | (10,724) | (3,270) | (4,063) |
| Proceeds from credit lines (repayments) | - | (2,421) | - | (2,340) |
| Interest charged | 183 | 343 | 66 | 144 |
| Interest paid | (183) | (343) | (66) | (144) |
| **Closing balance** | **7,630** | **16,206** | **2,837** | **6,107** |

Borrowings outstanding at the year-end by currency:

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| EUR | 7,630 | 16,206 | 2,837 | 7,107 |
| **TOTAL** | **7,630** | **16,206** | **2,837** | **7,107** |

The unwithdrawn balance under the credit limit agreements amounted to EUR 2,000 thousand for the Group and EUR 1,000 thousand for the Company as at 31 December 2019. Neither the Group nor the Company had credit limit agreements as at 31 December 2020.

All amounts are in EUR thousands unless otherwise stated

## 12. Borrowings (continued)

**Compliance with loan covenants**

***The Company's borrowings***

Under the loan and overdraft agreements, the Group and the Company have to comply with certain financial and non-financial covenants, such as: debt service coverage ratio, the Company's EBITDA to financial liabilities ratio, equity to the Company's liability ratio, free cash flow indicator. The Company and its certain subsidiaries are also required to conduct a certain number of settlements through the bank that provided the loan.

Indicators of the Company's borrowings:

| Indicator | Established ratio | Indicators of the Group | | Indicators of the Company | |
|---|---|---|---|---|---|
| | | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Borrowings/EBITDA | < 3.0 | (0.40) | 0.27 | (0.51) | 0.48 |
| Debt service coverage ratio (DSCR) | > 1.2 | 2.98 | 2.56 | 4.43 | 2.75 |

As at 31 December 2020, the Company complied with all financial and non-financial requirements established in the bank agreements.

***Loans received by the subsidiaries***

As at 31 December 2020, the Group complied with all financial and non-financial requirements established in the bank agreements, except for Grigeo Klaipėda AB which did not comply with the DSCR, however at the time of approval of the financial statements it had the bank's consent regarding non-compliance with the requirement (established ratio – 1.2, calculated ratio – 0.6). The consent was received on 25 February 2021 and although it was received after the end of the financial year, the classification of current liabilities was not affected because the loan of Grigeo Klaipėda AB is to be repaid in 2021, i.e. the loan is classified within current liabilities.

As at 31 December 2019, the Company and the Group complied with financial and non-financial requirements established in the bank agreements, except for one company of the group Grigeo Packaging UAB which breached a non-financial requirement established in the bank agreement. In April 2020, the Group company received the bank's letter whereby it confirmed that it will not impose any penalties with regard to the breach. As the bank's letter was received after the end of the financial year, the total amount of the loan of the Group company (EUR 2.5 million) was reclassified to current liabilities. At the end of the first quarter of 2020, the non-compliance with financial and non-financial requirements was eliminated, therefore the loan was reclassified to non-current liabilities.

**Interest rates**

The Group and the Company see the risk of potential changes in interest rates. Actual interest rates are close to effective interest rates. As at 31 December 2020 and 31 December 2019, the Company's and the Group's borrowings were subject to variable interest rates. They are linked with EURIBOR interest rate base and with the margin agreed with the bank which is consistent with the market conditions. In 2020 and 2019, the period of re-pricing variable interest rates on borrowings ranged from 1 to 6 months.

The weighted average interest rate applicable to the Group's and the Company's bank borrowings is presented in the table below:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| **Weighted average interest rate** | **1.47%** | **1.47%** | **1.42 %** | **1.43 %** |

In 2016, the Group and the Company entered into fixed interest rate swap contracts. As at 31 December 2020, borrowings amounting to EUR 1,697 thousand for the Group and EUR 974 thousand for the Company (31 December 2019: EUR 18,374 thousand and EUR 2,884 thousand respectively) were hedged until 2021. As at 31 December 2020, the financial instrument's fair value was EUR 4 thousand for the Company and EUR 5 thousand for the Group (31 December 2019: the financial instrument's fair value was EUR 12 thousand for the Company and EUR 33 thousand for the Group).

**Pledged assets**

The Group and the Company have pledged to the banks property, plant and equipment (Note 4), right-of-use assets (Note 5), inventories (Note 8), cash balances in bank accounts (Note 10) and future inflows (Note 9) as security for borrowings.

All amounts are in EUR thousands unless otherwise stated

## 13. Lease liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Non-current | 3,287 | 2,767 | 1,554 | 829 |
| Current | 387 | 34 | 310 | 235 |
| **TOTAL** | **3,674** | **2,801** | **1,864** | **1,064** |

The assets leased by the Group and the Company under lease contracts comprised motor vehicles, equipment, and lease of premises and land. The lease terms of the lease contracts: between 8 and 79 years for the lease of land; between 2 and 3 years for the lease of buildings; and between 1 and 4 years for the lease of machinery and equipment. The lease contracts are denominated in the euros.

Movements in liabilities related to lease over the year are provided in the table below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Balance at 1 January** | **2,801** | **3,009** | **1,064** | **1,288** |
| New lease liabilities | 1,267 | - | 1,129 | - |
| Interest charged | 142 | 116 | 47 | 52 |
| Lease payments | (536) | (324) | (376) | (276) |
| **Balance at 31 December** | **3,674** | **2,801** | **1,864** | **1,064** |

The Group's and the Company's lease liabilities are secured by right-of-use assets (Note 5).

## 14. Grants

| | Group | Company |
|---|---|---|
| **Balance at 1 January 2019** | **2,262** | **1,621** |
| Revision of grants | (9) | (9) |
| Amortisation charge | (759) | (511) |
| **Balance at 31 December 2019** | **1,494** | **1,101** |
| Amortisation charge | (347) | (131) |
| **Balance at 31 December 2020** | **1,147** | **970** |

The grants consist of the support received from the EU funds for the construction of structures, acquisition of machinery and equipment (non-current assets).

No agreements were signed in 2019 and 2020.

Amortisation of grants is recognised in the statement of comprehensive income within the cost of sales and reduces depreciation expenses of the related assets.

## 15. Long-term employee benefits

As at 31 December 2020 and 2019, the Group and the Company accounted for long-term employee benefits for employees leaving the Group or the Company after reaching the retirement age. Expenses related to the accounting for these liabilities are included in profit or loss.

| | Group | Company |
|---|---|---|
| **At 31 December 2018** | **153** | **81** |
| Change during the year 2019 | 3 | (13) |
| **At 31 December 2019** | **156** | **68** |
| Change during the year 2020 | 35 | 18 |
| **At 31 December 2020** | **191** | **86** |

Actuarial gains and losses during 2020 and 2019 were insignificant, therefore they were not separately disclosed in other comprehensive income.

All amounts are in EUR thousands unless otherwise stated

## 15. Long-term employee benefits (continued)

The main assumptions applied in evaluating the Group's and the Company's long-term employee benefits are as follows:

| | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Discount rate | 0.16 % | 0.31 % |
| Expected annual salary increase | 2.18 % | 5.00 % |

## 16. Trade and other amounts payable

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| Trade payables | 15,768 | 14,821 | 8,571 | 8,382 |
| Wages and salaries and social security contributions | 2,209 | 1,984 | 1,147 | 955 |
| Advance amounts received | 247 | 173 | 105 | 71 |
| Accrued expenses | 353 | 407 | 274 | 17 |
| Other amounts payable | 1,471 | 1,325 | 437 | 449 |
| **TOTAL** | **20,048** | **18,710** | **10,535** | **9,873** |
| Of which: | | | | |
| Attributable to financial liabilities (Note 3) | 17,592 | 16,553 | 9,283 | 8,848 |
| Not attributable to financial liabilities | 2,456 | 2,157 | 1,252 | 1,025 |

## 17. Segment information

### Segment reporting

For decision making purposes, the Group is organised into three operating business units based on its products produced and has three reportable segments: paper and paper products, wood fibre boards and wood products, raw materials for corrugated cardboard and related products. The Group analyses segment information only up to gross profit, as other operating income and finance income and expenses are not attributed to any segment. Assets and liabilities of the Group are not divided into segments for decision-making purposes. However, information about property, plant and equipment and intangible assets, investment property and right-of-use assets is disclosed according to the segments.

Segment information about these three business segments is presented below:

| Group 2020 | Paper and paper products | Wood fibre boards | Raw materials for corrugated cardboard and related products | Total reportable segments | Unallocated | Elimination | TOTAL |
|---|---|---|---|---|---|---|---|
| Sales | 58,909 | 17,260 | 51,184 | 127,353 | 2,249 | - | 129,602 |
| Inter-segment sales | (5,310) | (657) | (12,305) | (18,272) | (3,926) | 22,198 | - |
| Unconsolidated segment sales | 64,219 | 17,916 | 63,490 | 145,625 | 6,175 | (22,198) | 129,602 |
| Cost of sales | (41,330) | (13,710) | (39,078) | (94,118) | (2,015) | - | (96,133) |
| **Gross profit** | **17,579** | **3,550** | **12,106** | **33,235** | **234** | **-** | **33,469** |
| Depreciation and amortisation | 4,573 | 706 | 5,774 | 11,053 | 401 | - | 11,454 |
| Property, plant and equipment of the segment | 25,366 | 3,154 | 37,980 | 66,499 | 4,130 | - | 70,629 |
| Intangible assets of the segment | 322 | 2 | 190 | 513 | 110 | - | 623 |
| Investment property of the segment | - | - | - | - | 1,979 | - | 1,979 |
| Right-of-use assets of the segment | 290 | 904 | 1,901 | 3,095 | 1,034 | - | 4,129 |
| Goodwill | - | - | 3,001 | 3,001 | - | - | 3,001 |
| Investments of the segment | 4,711 | 634 | 3,059 | 8,404 | 828 | - | 9,232 |

All amounts are in EUR thousands unless otherwise stated

## 17. Segment information (continued)

| Group 2019 | Paper and paper products | Wood fibre boards | Raw materials for corrugated cardboard and related products | Total reportable segments | Unallocated | Elimination | TOTAL |
|---|---|---|---|---|---|---|---|
| Sales | 58,934 | 16,188 | 62,596 | 137,718 | 2,259 | - | 139,977 |
| Inter-segment sales | (5,620) | (680) | (15,093) | (21,393) | (4,707) | 26,100 | - |
| Unconsolidated segment sales | 64,553 | 16,868 | 77,690 | 159,111 | 6,966 | (26,100) | 139,977 |
| Cost of sales | (45,732) | (14,122) | (45,133) | (104,987) | (1,817) | - | (106,804) |
| **Gross profit** | **13,202** | **2,066** | **17,463** | **32,731** | **442** | **-** | **33,173** |
| Depreciation and amortisation | 4,836 | 953 | 5,242 | 11,031 | 1,105 | - | 12,136 |
| Property, plant and equipment of the segment | 24,521 | 3,202 | 40,838 | 68,561 | 4,426 | - | 72,987 |
| Intangible assets of the segment | 384 | 4 | 272 | 660 | 137 | - | 797 |
| Investment property of the segment | - | - | - | - | 1,521 | - | 1,521 |
| Right-of-use assets of the segment | 16 | 848 | 1 615 | 2 479 | 808 | | 3,287 |
| Goodwill | - | - | 3,001 | 3,001 | - | - | 3,001 |
| Investments of the segment | 1,335 | 512 | 7,346 | 9,193 | 1,584 | - | 10,777 |

[1] Unallocated sales comprise sales not attributable to either of the listed segments, mainly, sales of heating energy (steam) (as the Company has its own steam house) and sales of other utilities.
[2] Unallocated cost of sales comprises cost related to unallocated sales, mainly, the cost of wood and gas necessary for the energy generation.
[3] Unallocated depreciation and amortisation, property, plant and equipment, investment property, intangible assets and capital expenditure are related to sales of thermal energy and other utilities.

### Breakdown by country

The following table shows a breakdown of revenue by country for the year ended 31 December:

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Domestic market (Lithuania)** | **38,189** | **46,621** | **19,388** | **21,738** |
| **Foreign market** | | | | |
| Poland | 22,161 | 27,544 | 9,554 | 11,512 |
| Latvia | 11,820 | 13,928 | 7,582 | 7,073 |
| Estonia | 8,222 | 9,621 | 4,390 | 3,714 |
| Ukraine | 8,019 | 8,972 | 1,924 | 3,025 |
| Finland | 8,006 | 8,089 | 3,528 | 4,226 |
| Denmark | 7,879 | 6,785 | 6,658 | 5,722 |
| Sweden | 6,545 | 4,580 | 4,169 | 3,278 |
| Belarus | 3,881 | 3,648 | 863 | 1,153 |
| Germany | 2,768 | 1,898 | 1,791 | 337 |
| The Netherlands | 2,747 | 2,919 | 2,105 | 1,489 |
| China | 1,551 | 17 | - | - |
| Saudi Arabia | 1,513 | - | - | - |
| Russia | 1,350 | 1,358 | 577 | 614 |
| Great Britain | 943 | 1,380 | - | 432 |
| Norway | 873 | 496 | 806 | 496 |
| Austria | 664 | 849 | 53 | 42 |
| Czech Republic | 272 | 425 | - | - |
| **Other markets** | **2,199** | **847** | **347** | **307** |
| **TOTAL** | **129,602** | **139,977** | **63,735** | **65,158** |

All amounts are in EUR thousands unless otherwise stated

### 17. Segment information (continued)

Breakdown of property, plant and equipment and investment property by geographical location:

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Lithuania | 79,592 | 80,673 | 32,855 | 31,223 |
| Ukraine | 769 | 920 | - | - |
| **TOTAL** | **80,361** | **81,593** | **32,855** | **31,223** |

### 18. Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Raw materials and consumables | 48,568 | 59,884 | 28,539 | 33,990 |
| Wages and salaries and social security contributions | 14,963 | 13,976 | 5,317 | 4,720 |
| Energy | 13,566 | 15,020 | 5,182 | 6,062 |
| Depreciation and amortization of non-current assets, including grants | 10,520 | 10,443 | 4,167 | 4,716 |
| Other expenses | 8,516 | 7,481 | 3,219 | 2,580 |
| **TOTAL** | **96,133** | **106,804** | **46,424** | **52,068** |

### 19. Selling and distribution expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Fuel and transport services | 7,895 | 6,908 | 2,839 | 2,486 |
| Wages and salaries and social security contributions | 2,366 | 2,134 | 1,237 | 1,108 |
| Other selling expenses | 715 | 524 | 226 | 448 |
| Intermediation, marketing, advertising and representation | 446 | 1,134 | 442 | 1,122 |
| Depreciation and amortization of non-current assets | 185 | 346 | 340 | 89 |
| Property maintenance and servicing | 99 | 73 | 74 | 30 |
| **TOTAL** | **11,706** | **11,119** | **5,158** | **5,283** |

### 20. Administrative expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Wages and salaries and social security contributions | 3,293 | 2,856 | 1,612 | 1,529 |
| Legal services | 602 | 93 | 20 | 76 |
| Consultation services | 505 | 126 | 25 | 34 |
| Taxes (other than income tax) | 502 | 498 | 185 | 180 |
| Property maintenance and servicing | 481 | 438 | 283 | 230 |
| Depreciation and amortisation of non-current assets | 402 | 774 | 262 | 364 |
| Security services | 329 | 359 | 46 | 47 |
| Support | 255 | 91 | 140 | 73 |
| Social expenses | 202 | 234 | 76 | 87 |
| Insurance services | 181 | 138 | 61 | 33 |
| Audit services | 146 | 64 | 64 | 20 |
| Impairment of doubtful amounts receivable/(reversal of impairment) | 70 | (46) | - | (60) |
| Advertising and representation | 47 | 57 | 11 | 30 |
| Personnel training and recruitment expenses | 47 | 44 | 34 | 26 |
| Expenses for the listing of securities and related expenses | 35 | 36 | 35 | 36 |
| Fuel and transport services | 32 | 42 | 15 | 22 |
| Bonuses and other similar payments | 14 | 190 | 14 | 160 |
| Other administrative expenses | 685 | 536 | 102 | 283 |
| **TOTAL** | **7,828** | **6,530** | **2,985** | **3,170** |

During 2020, audit services provided according the audit agreements by the audit firm PricewaterhouseCoopers UAB amounted to EUR 96 thousand for the Group and EUR 32 thousand for the Company, non-audit services provided amounted to respectively EUR 28 thousand and EUR 9 thousand.

All amounts are in EUR thousands unless otherwise stated

## 21. Other income

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Rental income | 373 | 402 | 312 | 318 |
| Dividend income | - | - | - | 3,900 |
| **TOTAL** | **373** | **402** | **312** | **4,218** |

In 2019, the Company received dividends of EUR 3,900 thousand from Grigeo Investicijų Valdymas UAB.

## 22. Other gains/(losses) – net

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net gain from turnover of emission allowances | 645 | 1,436 | 459 | 1,292 |
| Result of disposal of assets | 98 | 101 | 36 | 78 |
| Other gain/(losses) | 85 | (238) | 42 | 42 |
| **TOTAL** | **828** | **1,299** | **537** | **1,412** |

## 23. Finance income and costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income | 16 | 4 | 2 | 2 |
| Foreign exchange gain – net | 90 | - | - | - |
| Gain on disposal of a part of the business | - | - | - | 8,609 |
| Gain on disposal of shares | - | - | - | 417 |
| Other finance income | 5 | 64 | 4 | 4 |
| **Total finance income** | **111** | **68** | **6** | **9,032** |
| | | | | |
| Interest on loans and lease | (317) | (439) | (123) | (195) |
| Foreign exchange loss – net | - | (2) | - | (1) |
| Default charges | - | (1,000) | - | (1,000) |
| Other finance costs | (15) | (4) | (6) | (4) |
| **Total finance costs** | **(332)** | **(1,445)** | **(129)** | **(1,200)** |
| | | | | |
| **Net finance costs** | **(221)** | **(1,377)** | **(123)** | **7,832** |

### Interest on loans and lease

The Group and the Company capitalise borrowings costs for assets under development. In 2019, the Group and the Company capitalised borrowing costs of EUR 6 thousand and EUR 6 thousand respectively. No interest was capitalised in 2020.

### Gain on disposal of a part of the business

The Company's gain on disposal of a part of the business in 2019 comprised the gain of EUR 8,609 thousand received on disposal a part of the Company's business to the Group company Grigeo Packaging UAB (Note 1).

| | 2019 |
|---|---|
| Total assets transferred | 14,886 |
| Transferred liabilities related to assets transferred | 8,295 |
| **Net assets disposed** | **6,591** |
| | |
| Value of the business disposed (Note 1) | 15,200 |
| **Gain on disposal of a part of the business** | **8,609** |

### Gain on disposal of shares

The gain of EUR 417 thousand was received on the disposal of shares to Grigeo Investicijų Valdymas UAB (see the description in Note 1).

All amounts are in EUR thousands unless otherwise stated

## 23. Finance income and costs (continued)

### Default charges

In 2019, the Group's and the Company's other finance costs comprised default charges of EUR 1,000 thousand resulting from the termination of the cooperation on investments in the cardboard and packaging business owned with BSGF Salvus UAB, a subsidiary of INVL Baltic Sea Growth Fund.

## 24. Income tax and deferred income tax

| Income tax expense components: | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current year income tax | 783 | 961 | 352 | - |
| Adjustments to previous year income tax | 17 | - | - | - |
| Deferred income tax (benefit) | 846 | 1,262 | 564 | 918 |
| **Income tax expenses recognised in profit or loss** | **1,646** | **2,223** | **916** | **918** |

The amount of income tax expenses attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate to profit before income tax:

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Profit before income tax** | **14,915** | **15,848** | **9,894** | **18,099** |
| Income tax expenses calculated at the tax rate of 15% | 2,237 | 2,377 | 1,484 | 2,715 |
| Effect of a higher income tax rate applied in Ukraine | 18 | 20 | - | - |
| Effect of a tax rate due to taxation in Latvia | (6) | 14 | - | - |
| Effect of change in unrecognised deferred income tax | 48 | 17 | (29) | (22) |
| Use of the current year investment relief | (589) | (238) | (572) | - |
| Support | (58) | | (28) | |
| Adjustments of income tax in respect of prior periods | 37 | - | - | - |
| Non-allowable deductions | 103 | 131 | 63 | 226 |
| Income not subject to tax | (144) | (98) | (2) | (2,001) |
| **Income tax expenses recognised in profit or loss** | **1,646** | **2,223** | **916** | **918** |

**All amounts are in EUR thousands unless otherwise stated**

### 24. Income tax and deferred income tax (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **At 31 December 2020** | **At 31 December 2019** | **At 31 December 2020** | **At 31 December 2019** |
| **Deferred income tax assets** | | | | |
| Decrease in net realisable value of amounts receivable | 23 | 18 | 11 | 29 |
| Investment relief | 403 | 1 172 | - | 369 |
| Write-downs of inventories to net realisable value | 60 | 41 | 25 | 11 |
| Long-term employee benefits | 29 | 23 | 13 | 10 |
| Vacation reserve | 182 | 165 | 86 | 81 |
| Right-of-use assets and liabilities | 11 | - | 4 | - |
| Tax losses carried forward | 311 | - | - | - |
| Other accruals | 38 | - | 38 | - |
| Grants | 4 | 33 | - | - |
| **Deferred income tax assets** | **1,061** | **1 452** | **177** | **500** |
| Less: unrecognised part | (11) | (59) | (11) | (40) |
| **Deferred income tax assets – net** | **1,050** | **1,393** | **166** | **460** |
| **Deferred income tax liability** | | | | |
| Property, plant and equipment | (1,127) | (624) | (353) | (83) |
| **Deferred income tax liability** | **(1,127)** | **(624)** | **(353)** | **(83)** |
| **Deferred income tax – net** | **(77)** | **769** | **(187)** | **377** |

The Group's deferred income tax assets and liabilities were offset at the amount which is related to the same tax administration authority and the same taxable entity.

Movements in the Group's deferred income tax differences before and after tax were as follows:

| **Group** | **At 31 December 2018** | **Change** | **At 31 December 2019** | **Change** | **At 31 December 2020** |
|---|---|---|---|---|---|
| Non-current assets | (578) | (46) | (624) | (503) | (1,127) |
| Investment relief | 2,398 | (1,226) | 1,172 | (769) | 403 |
| Long-term employee benefits | 24 | (1) | 23 | 6 | 29 |
| Decrease in net realisable value of amounts receivable | 22 | (4) | 18 | 5 | 23 |
| Write-downs of inventories to net realisable value | 54 | (13) | 41 | 19 | 60 |
| Vacation reserve | 145 | 20 | 165 | 17 | 182 |
| Right-of-use assets and liabilities | - | - | - | 11 | 11 |
| Tax losses carried forward | - | - | - | 311 | 311 |
| Grants | - | - | - | 38 | 38 |
| Other | 41 | (8) | 32 | (29) | 4 |
| **Total deferred income tax** | **2,106** | **(1,278)** | **827** | **(894)** | **(66)** |
| Unrecognised part | (76) | 17 | (59) | 48 | (11) |
| **Deferred income tax – net** | **2,030** | **(1,261)** | **769** | **(846)** | **(77)** |

All amounts are in EUR thousands unless otherwise stated

## 24. Income tax and deferred income tax (continued)

As at 31 December 2020, the amount of the Group's unrecognised deferred income tax was related to decrease in net realisable value of amounts receivable (EUR 11 thousand). In 2020, write-downs of inventory were recognised as deferred income tax.

Movements in the Company's deferred income tax differences before and after tax were as follows:

| Company | At 31 December 2018 | Recognised in profit or loss | At 31 December 2019 | Recognised in profit or loss | At 31 December 2020 |
|---|---|---|---|---|---|
| Property, plant and equipment | (111) | 28 | (83) | (270) | (353) |
| Investment relief | 2,335 | (1,967) | 368 | (368) | |
| Long-term employee benefits | 15 | (4) | 11 | 2 | 13 |
| Decrease in net realisable value of amounts receivable | 20 | (9) | 11 | - | 11 |
| Write-downs of inventories to net realisable value | 42 | (13) | 29 | (4) | 25 |
| Vacation reserve | 102 | (21) | 81 | 5 | 86 |
| Grants | - | - | - | 38 | 38 |
| Right-of-use assets and liabilities | - | - | - | 4 | 4 |
| Value of deferred income tax liability transferred | (1,046) | 1 046 | - | - | - |
| **Total deferred income tax** | **1,357** | **(940)** | **417** | **(593)** | **(176)** |
| Unrecognised part | 62 | (22) | 40 | (29) | 11 |
| **Deferred income tax – net** | **1.295** | **(918)** | **377** | **(564)** | **(187)** |

Deferred income tax assets and liabilities related to the companies operating in Lithuania were accounted for at a rate of 15% in 2020 and 2019. Deferred taxes related to the company operating in Ukraine were calculated at a rate of 18% in 2020 and 2019. Deferred income tax assets arising from the investment relief can be realised by the companies operating in Lithuania over the current and subsequent four years.

## 25. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary shares paid. The Company has no instruments that could affect the number of shares, therefore the basic and diluted earnings per share are equal. The calculation of the basic and diluted earnings per share is presented below:

| | Group | |
|---|---|---|
| | 2020 | 2019 |
| Net profit for the reporting year attributable to the Company's shareholders | 13,292 | 13,509 |
| Weighted average number of ordinary shares | 65,700,000 | 65,700,000 |
| **Earnings per share (in EUR)** | **0.20** | **0.21** |

| | Company | |
|---|---|---|
| | 2020 | 2019 |
| Net profit for the reporting year attributable to the Company's shareholders | 8,986 | 17,181 |
| Weighted average number of ordinary shares | 65,700,000 | 65,700,000 |
| **Earnings per share (in EUR)** | **0.14** | **0.26** |

## 26. Dividends per share

| | 2020 | 2019 |
|---|---|---|
| Allocated dividends* | - | 3,942,000 |
| Number of shares** | 65,700,000 | 65,700,000 |
| **Allocated dividends per share (in EUR)** | **-** | **0.06** |

* The year when dividends are allocated.
** The date when dividends are allocated.

All amounts are in EUR thousands unless otherwise stated

## 27. Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

The management of the Group and the Company calculate the adjusted EBITDA – they monitor this performance indicator both at the consolidated level and at the individual company level. The management believes that this indicator is important for understanding the Group's and the Company's financial performance. The adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of taxation, net finance costs, depreciation, amortisation, impairment losses/reversals related to goodwill, intangible assets, property plant and equipment. The calculation also includes amortisation of subsidies related to non-current assets which affects the profit for the period.

The adjusted EBITDA as a performance indicator is not established by IFRS. The Group's definition of the adjusted EBITDA may not match with similarly named performance indicators and disclosures of other entities.

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2020 | At 31 December 2019 | At 31 December 2020 | At 31 December 2019 |
| | | | | |
| **Profit for the period** | **13,269** | **13,625** | **8,978** | **17,181** |
| Income tax | (1,646) | (2,223) | (916) | (918) |
| **Profit before income tax** | **14,915** | **15,848** | **9,894** | **18,099** |
| Adjustment: | | | | |
| Finance costs – net (Note 23) | (221) | (1,377) | (123) | 7,832 |
| Dividends received (Note 21) | - | - | - | 3,900 |
| Depreciation (Notes 4 and 7) | (10,833) | (11,545) | (4,459) | (5,293) |
| Amortisation (Notes 5 and 6) | (621) | (590) | (442) | (439) |
| Amortisation of grants (Note 14) | 347 | 759 | 131 | 511 |
| **Adjusted EBIDTA** | **26,243** | **28,603** | **14,787** | **11,588** |

## 28. Related-party transactions

The Group's related parties are as follows:

- Companies having significant influence – Ginvildos Investicija UAB – the main shareholder of Grigeo AB;
- Other related parties – the companies related to the members of the Supervisory Board (transactions were conducted with the following companies: Didma UAB and Statybų Namai UAB, Elnorma UAB).

The Company's related parties are as follows:

- Companies having significant influence – Ginvildos Investicija UAB – the main shareholder of the Company;
- Subsidiaries – subsidiaries of Grigeo AB (the list of the subsidiaries is presented in Note 1);
- Other related parties – the companies related to the members of the Supervisory Board (transactions were conducted with the following companies: Didma UAB and Statybų Namai UAB, Elnorma UAB).

Transactions with the related parties comprise regular sales and purchases of goods and services related to the Company's activity.

As at 31 December 2020 and 2019, there were no guarantees or pledges given or received in respect of the related-party payables and receivables at the Group.

As at 31 December 2019, the Company provided a guarantee to the bank to secure the repayment of the loans granted by the bank to Grigeo Klaipėda AB (loans amounted to EUR 545 thousand). As at 31 December 2020, the bank loans were paid, the guarantee had expired. At the date of the issue of these financial statements, the Company had also provided the letter to Grigeo Klaipėda AB confirming that it had assumed the obligation to grant financial support to Grigeo Klaipėda AB, if a need arises, for the next 12 months from the date of the letter.

Related-party payables and receivables are expected to be settled in cash or by set-off against payables/receivables to/from a respective related party.

Related-party payables and receivables are subject to the same terms and conditions that are applicable to payables/receivables to/from the external customers/suppliers.

All amounts are in EUR thousands unless otherwise stated

## 28. Related-party transactions (continued)

| Group (the year 2020) | Sales of goods and services | Purchases of goods and services | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| Companies having significant influence | - | 15 | - | 3 |
| Other related companies | 12 | - | - | - |
| **TOTAL** | **12** | **15** | **-** | **3** |

| Group (the year 2019) | Sales of goods and services | Purchases of goods and services | Amounts receivable* | Amounts payable |
|---|---|---|---|---|
| Companies having significant influence | - | 15 | - | - |
| Other related companies | 12 | - | - | - |
| **TOTAL** | **12** | **15** | **-** | **-** |

| Company (the year 2020) | Sales of goods and services | Purchases of goods and services | Amounts receivable* | Amounts payable** |
|---|---|---|---|---|
| Companies having significant influence | - | 15 | - | 3 |
| Subsidiaries | 4,036 | 6,619 | 425 | 661 |
| Other related companies | 10 | - | - | - |
| **TOTAL** | **4,046** | **6,634** | **425** | **664** |

| Company (the year 2019) | Sales of goods and services | Purchases of goods and services | Amounts receivable* | Amounts payable** |
|---|---|---|---|---|
| Companies having significant influence | - | 15 | - | - |
| Subsidiaries | 5,121 | 7,738 | 426 | 1,781 |
| Other related companies | 12 | - | - | - |
| **TOTAL** | **5,133** | **7,753** | **426** | **1,781** |

* Amounts receivable comprise prepayments for goods and services.
** Amounts payable also comprise loans received from the subsidiaries.

The Company – sales to the subsidiaries:

| 2020 | Heat (steam) energy | Electricity | Services | Raw materials | Other sales | TOTAL |
|---|---|---|---|---|---|---|
| Grigeo Baltwood UAB | 1,630 | 1,436 | 194 | - | 28 | 3,288 |
| Grigeo Recycling UAB | 1 | 17 | 73 | - | 11 | 103 |
| Grigeo Packaging UAB | 103 | 163 | 223 | - | 18 | 507 |
| Grigeo Klaipėda AB | - | - | 115 | - | 23 | 138 |
| **TOTAL** | **1,734** | **1,616** | **605** | **-** | **80** | **4,036** |

| 2019 | Heat (steam) energy | Electricity | Services | Raw materials | Other sales | TOTAL |
|---|---|---|---|---|---|---|
| Grigeo Baltwood UAB | 1,955 | 1,503 | 308 | - | 27 | 3,793 |
| Grigeo Recycling UAB | 2 | 17 | 65 | - | 26 | 110 |
| Grigeo Packaging UAB | 124 | 171 | 207 | 629 | 4 | 1,136 |
| Grigeo Klaipėda AB | - | - | 80 | - | 2 | 82 |
| **TOTAL** | **2,081** | **1,691** | **660** | **629** | **59** | **5,121** |

All amounts are in EUR thousands unless otherwise stated

## 28. Related-party transactions (continued)

The Company – purchases from the subsidiaries:

| 2020 | Raw materials | Sewage treatment and biodegradable waste management | Lease of premises and territory maintenance | Packaging | Other purchases | TOTAL |
|---|---|---|---|---|---|---|
| Grigeo Baltwood UAB | 167 | 522 | 307 | - | 23 | 1,019 |
| Grigeo Recycling UAB | 5,146 | - | - | - | 12 | 5,158 |
| Grigeo Packaging UAB | - | - | - | 411 | 4 | 415 |
| Grigeo Klaipėda AB | 27 | - | - | - | - | 27 |
| **TOTAL** | **5,340** | **522** | **307** | **411** | **39** | **6,619** |

| 2019 | Raw materials | Sewage treatment and biodegradable waste management | Lease of premises and territory maintenance | Packaging | Other purchases | TOTAL |
|---|---|---|---|---|---|---|
| Grigeo Baltwood UAB* | 296 | 245 | 361 | - | 346 | 1,248 |
| Grigeo Recycling UAB | 5,592 | - | - | - | 28 | 5,620 |
| Grigeo Packaging UAB | - | - | - | 374 | 1 | 375 |
| Grigeo Klaipėda AB | 494 | - | - | - | - | 495 |
| **TOTAL** | **6,382** | **245** | **361** | **374** | **375** | **7,738** |

*Other purchases from Grigeo Baltwood UAB in 2019 mainly comprised purchases of non-current assets (EUR 174 thousand) and purchases of transport services organised by the subsidiary (EUR 154 thousand).

**The Company – borrowings**

As at 31 December 2019, the Company had a loan from Grigeo Baltwood UAB (EUR 1,000 thousand) which was subject to the fixed annual interest rate approximate to the interest rate paid to the bank. The loan was repaid in August 2020. This amount was offset by reducing the share capital of Grigeo Baltwood UAB (Note 1).

**The Company – disposal of a part of the business**

In 2019, Grigeo AB transferred to its wholly owned subsidiary Grigeo Packaging UAB the corrugated cardboard manufacturing business in exchange for the newly issued shares of Grigeo Packaging UAB. The Company earned profit of EUR 8,609 thousand from this transaction (see Note 1).

**Key management personnel compensation**

Compensation calculated to the key management personnel for the year ended 31 December:

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Key management personnel compensation | 1,121 | 1,196 | 641 | 555 |
| Average annual number of management personnel | 11 | 11 | 5 | 5 |

In 2020 and 2019, no loans, guarantees or any other benefits were paid or calculated, nor any assets were transferred to the Company's key management personnel. Bonuses paid by the Company to the Supervisory Board and the Board totalled EUR 160 thousand in 2019. No bonuses were paid in 2020.

As at 31 December 2019, loans granted to the Group's and the Company's key management personnel, including accrued interest, amounted to EUR 91 thousand for the Group and EUR 91 thousand for the Company. Loans granted were not secured by collateral. As at 31 December 2020, the Group and the Company had no loans granted to the Group's and the Company's key management personnel.

All amounts are in EUR thousands unless otherwise stated

## 28. Related-party transactions (continued)

Shares (directly and indirectly held ownership interest) and job positions held by the Group's and the Company's key management personnel at the Company are disclosed below:

| Full name | Job position | Percentage of share capital and voting rights held at the Company |
|---|---|---|
| Gintautas Pangonis | President | 43.50 |
| Vigmantas Kažukauskas | Vice-President for Business Development | 0.85 |
| Saulius Martinkevičius | Vice-President for Purchase and Logistics | 0.12 |
| Tomas Jozonis | Managing Director | - |

## 29. Contingent liabilities

### Taxes

The Tax Authorities have not carried out a full-scope tax audit at the Group companies. The Tax Authorities may inspect accounting, transaction and other documents, accounting records and tax returns for the current and previous 3 calendar years at any time, and in certain cases, for the current and previous 5 or 10 calendar years and impose additional taxes and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in respect of taxes not paid.

### Legal procedures

***Background information***

In 2020 the pre-trial investigation regarding the wastewater management of Grigeo Klaipėda AB, a subsidiary company of Grigeo AB (hereinafter - the Subsidiary), was initiated and carried out by the Klaipėda District Prosecutor's Office of Klaipėda County Prosecutor's Office (hereinafter - the Prosecutor's Office). The Subsidiary is suspected in criminal case under Articles 270(2), 228(2) and 300(3) of the Criminal Code of the Republic of Lithuania. The Subsidiary is suspected of its actions related to improper operation of its wastewater treatment plant (hereinafter - WWTP) during the period from 1 January 2012 to 13 February 2020 when partially treated wastewater would be discharged through the treated wastewater collector of the Municipal Company Klaipėdos Vanduo AB to the Curonian Lagoon.

According to the notice of suspicion, the Subsidiary abused the office, forged documents and violated the legal acts in order to seek material gain (to avoid pollution tax in the amount of at least EUR 37,863,706) and caused significant damage to the environment. No claim has been brought against the Subsidiary for unpaid taxes.

The Environmental Protection Department filed a civil claim against the Subsidiary regarding the compensation for material damage caused to the environment in the criminal case in the amount of EUR 48,257,676.57.

The Subsidiary it is not denying its legal liability and that it would be prepared to compensate for the objectively calculated damage if such damage is to be determined on the basis of unbiased expert calculations.

In the event of environmental damage, if such proved, the Subsidiary is under an obligation to instantly take all necessary actions to ensure immediate control of pollutants and/or other harmful agents in order to reduce or prevent greater damage to the environment and adverse effects on, or further deterioration of human health. On 5 February 2020, the Subsidiary wrote to the Environmental Protection Department requesting the preparation and approval of a plan of measures for the environment restoration that would be applicable. The Subsidiary is ready to implement the environmental measures plan prepared by the Environmental Protection Department as soon as possible with the aim of restoring the original state of the environment and compensating for the damage that it has caused, objectively determined and based on expert calculations.

***Scientific research***

In order to expedite the determination of the fact and scope of damage caused to the environment (the water of the Curonian Lagoon) the Subsidiary has organized on its own initiative a tender process in order to select international experts to assess potential environmental damage caused by the Subsidiary.  As a result, a group of expert organizations of USA and Italian companies providing consultative expert services in environmental area (i.e. TIG Environmental (leading expert dr. Carlo Monti (Italian scientist and Executive Director of TIG Environmental Forensic Examination), Veritas Economic Consulting and Hydrodata S.p.A (hereinafter - TIG)) were retained in April 2020 to determine and calculate the damage to the water status of the Curonian Lagoon inflicted by the incriminated illicit activities of the Subsidiary. Prior to initiation of procedures for identification and selection of international experts, the Subsidiary approached the Prosecutor's Office and the Environmental Protection Department with a proposal to cooperate in this respect, however, both of them refused to do so.

## 29. Contingent liabilities (continued)

The TIG's environmental assessment has been performed according to the Directive 2004/35/CE of the European Parliament and of the Council of 21 April 2004 on environmental liability regarding the prevention and remedying of environmental damage (hereinafter - ELD) and according to the guideline published by the European Commission (European Commission, Eftec and Stratus Consulting, 2013) which provides specific guidelines for damage assessment. The guideline is in line with the ELD‘s principles which stipulate that compensatory remediation is carried out by compensating for the temporary loss of natural resources and / or functions until such resources and functions are restored. Such compensation is to consist of additional improvements to protected natural habitats and species or water, either in the damaged area or in an alternative area. The ELD does not provide for punitive damages.

On 26 June 2020 Environmental Protection Department submitted to the Subsidiary the assessment of the ecological status or ecological potential and detoriation of chemical status of the surface water body - the Curonian Lagoon performed by the Environmental Protection Agency and requested the Subsidiary to submit a plan of environmental restoration measures.

In response to a letter from the Environmental Protection Department dated 26 June 2020 the Subsidiary stated that (i) the Environmental Protection Department, rather than the Subsidiary, should prepare and submit to the company Environmental Restoration Measures; (ii) there are currently no objective data and supporting evidence that the Subsidiary has caused significant damage to the water status of the Curonian Lagoon through its actions; (iii) for the determination and calculation of the damage caused to the water status of the Curonian Lagoon TIG did not identify any significant negative impact on the water status of the Curonian Lagoon.

On 28 October 2020, TIG delivered the “Final Report on Environmental Damage Assessment for Curonian Lagoon” which analyzed the composition of the combined wastewaters of Grigeo Klaipėda AB and Municipal company Klaipėdos Vanduo AB (because they get mixed before entering the lagoon), their impact on the local environment, the biodiversity, the ecological condition of the Curonian Lagoon, and the landscape. The monitoring results from the Environmental Protection Agency, Municipal company Klaipėdos Vanduo AB, the Klaipėda Seaport Authority, a survey of the Curonian Lagoon condition performed by the University of Klaipėda, analysis results from the State Food and Veterinary Service as well as Grigeo Klaipėda AB's wastewater test results rendered by independent laboratories were used during the assessment.

TIG did not identify any significant damage to the water status of the Curonian Lagoon by the discharge of biologically untreated wastewater. In the worst-case scenario (15 percent of the wastewaters were treated biologically in the Subsidiary's WWTP) very low ecological impact (i.e. not damage) from the releases of untreated wastewater could be caused.

TIG's economics expert developed an estimate of potential ecological service losses for the Curonian Lagoon for purposes of the environmental damage assessment. As the loss in ecosystem service is related only to the superficial waters in the Port area and in an area close to the outlet and is related only to the possible oxygen concentration (and saturation) reduction by maximum 16% at the outlet area, the expected costs of offsetting ecological impacts from the releases of untreated wastewater in the worst-case scenario has been estimated as unsignificant. Under the best-case scenario (90 percent of the wastewaters were treated biologically in the Subsidiary's WWTP), there are no estimated resource losses or human-use service losses, and the potential costs of offsetting ecological impacts from the releases of untreated wastewater are EUR 0.

***The Civil Claim***

On March 3, 2020, the Environmental Protection Department filed a Civil Claim against the Subsidiary for compensation of EUR 3,982,184 damage caused to the environment in the pre-trial investigation case (the Civil Claim was received at the Subsidiary on 17 July 2020). On 26 January 2021, the Subsidiary received a revised Civil Claim of the Environmental Protection Department regarding the compensation for material damage caused to the environment in the criminal case in the amount of EUR 48,257,676.57 from the Prosecutor's Office. The amount of damage caused to the environment specified in the Civil Claim corresponds to the amount indicated in the notice of suspicion delivered against the Subsidiary.

The damage caused to the water body (Curonian Lagoon) was estimated in the Civil Claim according to the general mathematical formula specified in the Methodology for Estimation of the Amounts of Compensation for Damage Caused to the Environment approved by Order No 471 of the Minister of Environment of the Republic of Lithuania of 9 September 2002 (hereinafter - the Methodology) using the following information:

- the quantities of sewage discharged to the Municipal Company's Klaipėdos Vanduo AB collector unsupported by any documents;
- the biochemical composition of sewage discharged to the Municipal Company's Klaipėdos Vanduo AB collector unsupported by any documents and assuming that substantial amount of wastewater being not treated;

## 29. Contingent liabilities (continued)

- unsupported statement that the damage done to the environment occurs by diminution or loss of certain values without indication which specific natural element was affected and what values and to what extent were lost due to the Subsidiary's actions;
- other information/data supported by documents listed in the claim that were not presented to the Subsidiary.

No claim has been brought against the Subsidiary for unpaid taxes. According to the Subsidiary’s management, such a claim seeking the award of unpaid taxes, in all likelihood, could not be brought against the Subsidiary, as the purpose of legal actions relating to adjudication of environmental pollution tax and to the compensation (remedy) of environmental damage differ. In case of pollution, the environment is polluted in a place agreed with responsible authorities by measuring the pollutants and paying of respective environmental tax, whereas the amount of environmental damage is calculated on the basis that a person in charge made the breach of prohibitions set up by legal acts. If there is a claim lodged for compensation of environmental damage made, as result of release of the specified pollutants in violation of the requirements of legal acts, in view of the Subsidiary’s management, it is not possible at the same time (concurrently) to claim payment of applicable pollution tax for the same pollutants released.

***Key considerations of the Civil Claim of Environmental Protection Department***

The following was not considered and/or indicated in the Civil Claim:

- the requirements of Article 32 of the Environment Protection Law whose provisions are implemented by the Methodology. Article 32 of the Environment Protection Law indicates that the damage to the environment is assessed and the amount of compensation is calculated in accordance with the methodology approved by the Minister of the Environment, <u>assessing the initial condition of the environment, significance of negative impact on the environment, natural recovery possibilities and time, as well as adopted remediation measures;</u>
- identification of specific environmental element(s) which was(were) affected and assessment of the significance of the negative impact of Subsidiary's actions on the environment (Curonian Lagoon);
- data on the fact and extent of the damage caused by the Subsidiary's actions;
- the causal link between the identified significant negative impact on the environment and the Subsidiary's actions.

***Summary of uncertainties***

At the date of approval of these consolidated financial statements the management faces the following uncertainties relating to the amount of Civil Claim or timing of any outflow related to the Civil Claim:

- The Subsidiary does not currently possess any objective, complete and comprehensive factual data in relation to the period, extent, frequency and biochemical composition of its sewage discharged to the Municipal Company’s Klaipėdos Vanduo AB collector.
- The damage caused to the environment was determined in the Civil Claim according to the general mathematical formula specified in the Methodology without identifying initial condition of the environment, significance of negative impact on the environment and not taking into account that a plan of measures for the environment restoration is not prepared and applied as required by legal acts.
- The fact and scope of damage caused to the environment were not determined in the Civil Claim by special scientific and other valid studies aimed at individual approach to a particular case in line with methods entrenched in the ELD and Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (hereinafter – the Directives), instead, a general mathematical formula specified in the Methodology was used.
- The fact of pollution by the Subsidiary is mistakenly equated with the fact of environmental damage. The fact and extent of the actual environmental damage made by the Subsidiary was not established and determined.
- Uncertainties of the damage calculated in the Civil Claim are also related to the fact that it is not clear why the Environmental Protection Department did not apply mandatory legal act “Description of the Procedure for Selecting Environmental Remediation Measures and Obtaining Prior Approval” (hereinafter - the “Legal Act on ERM”) approved by the Minister of Environment by virtue of the order No. D1-228 on May 16 in 2006, to implement, as stated in the said act, the principles and legal requirements of ELD. It is stated in Clause 10 of Legal Act on ERM, that environmental damage related to water (the Curonian Lagoon), is to be remedied by restoring the baseline condition of environment by choosing the following methods of environmental restoration: primary, supplementary and compensatory.

## 29. Contingent liabilities (continued)

***Conclusion***

The Subsidiary is not denying its legal liability and is prepared to compensate for objectively calculated damage. The Subsidiary's management, following the scientific research performed by independent TIG Environmental experts, estimates that the potential costs of offsetting ecological impact from the releases of untreated wastewater are limited. On the upper limit of the range the claim of Environmental Protection Department amounts to EUR 48,257,676.57, which is uncertain in the following areas:

- It is based on mathematical formula specified in the Methodology with the key components of the formula – quantities and biochemical composition of sewage. The management does not possess objective information to reliably estimate quantity of the pollutants (BDS7, nitrogen, phosphorus or any other elements) in the biologically partially untreated wastewater released.
- The management considers it is not in line with the methods entrenched in the aforementioned local legal acts and Directives.

The International Accounting Standard 37 requires measuring the provision in the amount of the best estimate of the expenditure required to settle the present obligation. As there is a wide range of estimates depending on the source of information and significant uncertainties relating to them, as described above, it is difficult to estimate probability of any outcome as well as to assess the amount of expenditure required to settle this obligation. Having no information on the quantities and biochemical composition of the sewage discharged to the Municipal Company's Klaipėdos Vanduo AB collector, the management could not reliably estimate the amount of provision and the provision was not recognized in the financial statements, but instead is disclosed as a contingent liability. The management remains in a position that any compensation for the potential damage should be scientifically based and estimated following the legal acts and in accordance with the legal framework of the Republic of Lithuania and the European Union.

## 30. Events after the end of the reporting period

**Legal procedures**

After the date of the preparation of the statement of financial position, on 26 January 2021, the Company's subsidiary Grigeo Klaipėda AB received a revised Civil Claim of the Environmental Protection Department regarding the compensation for material damage caused to the environment in the criminal case in the amount of EUR 48,257,676.57 from the Klaipėda District Prosecutor's Office of Klaipėda County Prosecutor's Office.

# STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

## SECTION CONTENTS

## STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Grigeo AB (hereinafter referred to as the Company), acting in compliance with Article 12(3) of the Republic of Lithuania Law on Securities and paragraph 24.5 of the Listing Rules of Nasdaq Vilnius AB, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified. In addition, other explanatory information indicated in this form is provided.

| PRINCIPLES/ RECOMMENDATIONS | YES /NO /NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights**<br>The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders. | | |
| 1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed. | Yes | The Company fully complies with this recommendation and provides the information and/or documents established in the legal acts to the shareholders in accordance with the requirements established by the Republic of Lithuania Law on Securities and other legal acts. |
| 1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders. | Yes | The authorised capital of the Company consists of 65,700,000 ordinary registered shares, each with a nominal value of EUR 0.29. All shareholders of the Company are granted equal rights. |
| 1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company fully complies with this recommendation. |
| 1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders. | Yes | The Company will comply with this recommendation. |
| 1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest. | Yes | The procedures for convening and attending general meetings of shareholders of the Company provide equal opportunities for shareholders to attend a meeting and do not prejudice their rights and interests. Notice of the general meeting of shareholders is published in the central database of regulated information managed by Nasdaq Vilnius AB and on the Company's website in accordance with the procedure prescribed by the Law on Securities. General meetings of shareholders of the Company are convened at the registered office and business address of the Company at Vilniaus str. 10 Grigiškės, Vilnius city municipality. The chosen location of the general meeting of shareholders does not prevent active participation of the shareholders in the meeting. In view of the situation with COVID-19 disease (coronavirus infection), in 2020 all shareholders could participate in the extraordinary general meeting of shareholders of the Company only by voting in writing in advance by completing the general voting ballot paper and submitting it to the Company pursuant to the procedure provided in the notice of the meeting being convened. In the notice of convening of the General Meeting of Shareholders, the Company specifies that the shareholders may submit the proposed draft resolutions at any time prior to the general meeting. |

| | | |
|---|---|---|
| 1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | The Company complies with this recommendation. The Company publishes documents prepared for the general meeting of shareholders in advance in the Lithuanian and English languages. The Company also publicly announces information about the resolutions adopted by the general meeting of shareholders in the Lithuanian and English languages. The Company also announces the aforementioned information on the Company's website. |
| 1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The Company complies with this recommendation. The notice of the general meeting of shareholders being convened always indicates the possibility for the shareholders to vote in writing by filling in the attached voting ballot form. |
| 1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person. | No | The Company does not comply with this recommendation because so far there have been no such requests from its shareholders. The notice of the general meeting of shareholders being convened always states that the Company does not provide the shareholders with the conditions to participate and vote in the general meeting of shareholders via electronic means of communication. |
| 1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided. | Yes | The Company complies with this recommendation. The Company discloses information about the candidates for the collegial body of the Company to the shareholders immediately upon the receipt of the proposals for the candidates for the collegial body. The Company has only paid to the members of the collegial body annual bonuses for their work granted by the general meeting of shareholders, and therefore, the proposed remuneration was not indicated in the information about the candidates for the collegial body. The Company also provides information on the proposed audit firm and the proposed remuneration for the services when this issue is included in the agenda of the general meeting of shareholders. |
| 1.10 Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders. | Yes | The Company complies with this recommendation. Relevant competent persons who are able to provide information relating to the agenda of the general meeting of shareholders always attend the general meeting of shareholders. Proposed candidates for the members of collegial body attend the general meetings of shareholders if they are able. |

## Principle 2: Supervisory board

### 2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

| | | |
|---|---|---|
| 2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare. | Yes | According to the information available to the Company, all members of the supervisory board act in good faith for the benefit of the Company and its shareholders. |
| 2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest. | Yes | The supervisory board treats all shareholders fairly and impartially. |
| 2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them. | Yes | The supervisory board is independent in passing decisions that are significant for the Company's operations and strategy. |
| 2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence. | Yes | The supervisory board members are impartial in passing decisions and clearly voice their will regarding the decisions passed. |
| 2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks. | Yes | The supervisory board oversees that the Company's tax planning strategies are designed and implemented in accordance with the legal acts. |
| 2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees. | Yes | Meetings of the supervisory board are provided with premises and all necessary information and supervisory board has the right to seek independent professional advice from external legal, accounting, or other experts on matters falling within their competence. |

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

## 2.2. Formation of the supervisory board

The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.

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| 2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The members of the supervisory board elected by the general meeting of shareholders of the Company ensure the diversity of qualifications, professional experience and competences, and the supervisory board consists of members with appropriate implementation of gender equality |
| 2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience. | Yes | According to the Articles of Association of the Company, the supervisory board is elected by the general meeting of shareholders for a period of 4 years, i.e. the maximum period permitted by the legislation of the Republic of Lithuania. |
| 2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacles to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision. | Yes | Chair of the supervisory board is a person whose current or past positions constitute no obstacles to carry out impartial activities. Former managers or management board members of the Company were not being appointed as chairs of the supervisory board. |
| 2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof. | Yes | Each member devotes sufficient time and attention to perform their duties as a member of the supervisory board and their other professional obligations do not interfere with the proper performance of the duties of a member of the supervisory board. |
| 2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances. | No | The Company submits to the shareholders received proposals concerning the candidates for the members of the supervisory board without additional references to their independence. |
| 2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders. | Yes | The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board is approved by the general meeting of shareholders. Guidelines for the determination of remuneration of the members of the supervisory board of the Company and the procedure for payment of remuneration is established by the Company's remuneration policy approved by the Resolution of the Ordinary General Meeting of Shareholders on 4 August 2020. |

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| 2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures. | No | The supervisory board has not carried out an assessment of its activities. |
| **Principle 3: Management board** | | |
| **3.1. Functions and liability of the management board** | | |
| The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups. | | |
| 3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy. | No | The supervisory board has not approved the Company's strategy. |
| 3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the Articles of Association of the company, and in such cases where the supervisory board is not formed in the company, it performs *inter alia* the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development. | Yes | The management board, as a collegial management body of the Company, performs the functions assigned to it by the Law on Companies and the Articles of Association of the Company. By performing the functions assigned to it, the management board takes into account the needs of the Company's shareholders, employees and other interest groups and, respectively, strives to achieve sustainable business development. |
| 3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers. | Yes | The management board, within the limits of its competence and functions assigned to it, aims to ensure the compliance with the provisions of the laws and the internal policy of the Company. |
| 3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards. | Yes | The Company has a variety of documents ensuring the highest level of internal control, ethics and measures of compliance management. |
| 3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence. | Yes | When appointing the manager of the Company, the management board takes into account the appropriate balance between the candidate's qualifications, experience and competence. |

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

| 3.2. Formation of the management board | | |
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| 3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The management board members elected by the supervisory board of the Company ensure the diversity of qualifications, professional experience and competences. During the election of the members of the management board, the Company aims to ensure gender equality and the management board has had members of both genders for a number of years. |
| 3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report. | Yes | Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest is disclosed at the meeting of the supervisory board in which the management board or individual members of the management board are elected. The details of the members of the management board referred to in this paragraph are also provided in the Company's annual report. |
| 3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company. | Yes | Members of the management board are familiarised with their duties and the structure and operations of the Company, and the main corporate documents of the Company are shared. |
| 3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status. | Yes | Members of the management board are appointed for a term of 4 years, subject to re-election for a new term in office. The number of terms in office of a member of the management board is unlimited. |
| 3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacles to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision. | Yes | A person whose current or past positions constitute no obstacles to carry out the functions of the chair of the management board impartially is appointed as the chair of the management board. |
| 3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof. | Yes | Each member devotes sufficient time and attention to perform their duties as a member of the management board. |

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| 3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[4], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances. | Not applicable | The supervisory board has been formed at the Company. |
| 3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board. | Yes | The general meeting of shareholders of the Company approves the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board. Guidelines for the determination of remuneration of the members of the management board of the Company and the procedure for payment of remuneration is established by the Company remuneration policy approved by the Resolution of the Ordinary General Meeting of Shareholders on 4 August 2020. |
| 3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests. | Yes | According to the information available to the Company, all members of the management board act in good faith, with care and responsibility for the benefit and the interests of the Company and its shareholders and put an effort to maintain their independence in decision-making. In accordance with the provisions of the Republic of Lithuania Law on Companies, all members of the management board must protect the Company's commercial (industrial) secrets and confidential information that they got acquainted with when they were members of the management board. |
| 3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public the respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data. | No | The management board has not carried out an assessment of its activities. |

[4] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

**Principle 4: Rules of procedure of the supervisory board and the management board of the company**

The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.

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| 4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this. | Yes | The management board and the supervisory board act in close cooperation. |
| 4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter. | Yes | Meetings of the Company's collegial bodies are convened at such intervals that uninterruptable resolution of essential Company's management and supervision issues is ensured. |
| 4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution. | Yes | Members of a collegial body are notified of the meeting being convened and all materials relevant to the issues on the agenda of the meeting are submitted to them in advance, so that members of a collegial body would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. |
| 4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and closely cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed. | Yes | In order to coordinate the activities of the Company's collegial bodies and ensure effective decision-making process, the chairs of the Company's collegial supervision and management bodies mutually agree on the dates and agendas of the meetings and cooperate closely in resolving other matters related to the Company's management. |

## Principle 5: Nomination, remuneration and audit committees

### 5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

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| 5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. The collegial body is recommended to form the nomination, remuneration and audit committees[5]. | Yes | The Audit Committee has been formed at the Company. |
| 5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees. | Yes | The nomination and remuneration committees have not been formed at the Company. Candidates proposed for the members of a collegial body in accordance with the procedure established by the legal acts are submitted for consideration to the electing general meeting of shareholders or collegial body, and candidates to the top level management positions are considered and approved by the management board of the Company. The remuneration of the employees who hold top level management positions is determined by the management board of the Company. |
| 5.1.3. In the cases established by the legal acts, the functions assigned to the internal committees of the companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole. | Yes | Provisions of the Code pertaining to the committees (particularly those related to their role, operation and transparency) apply to the collegial body performing the functions of the committees. |
| 5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees. | Yes | The Company has formed the Audit Committee consisting of 3 members of the supervisory board of the Company. The chair of the management board is not a member of the Audit Committee. |

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

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| 5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance. | Yes | The supervisory board of the Company has established the authority of the Audit Committee in the internal rules of the Audit Committee approved by the supervisory board itself. |
| 5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee. | Yes | In accordance with the internal rules of the Audit Committee, it has the right to invite the chair of the supervisory board and certain employees of the Company, as well as external auditors, to its meetings. |
| **5.2. Nomination committee** | | |
| 5.2.1. The key functions of the nomination committee should be the following:<br>1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;<br>2) to assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought;<br>3) to devote the attention necessary to ensure succession planning. | No | To date, the nomination committee has not been formed at the Company. |
| 5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the nomination committee. | No | To date, the nomination committee has not been formed at the Company. |

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| **5.3. Remuneration committee** | | |
| The main functions of the remuneration committee should be as follows:<br>1) to submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so;<br>2) to submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned;<br>3) to review, on a regular basis, the remuneration policy and its implementation. | No | To date, the remuneration committee has not been formed at the Company. |
| **5.4. Audit committee** | | |
| 5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6].<br>5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.<br>5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.<br>5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.<br>5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.<br>5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved. | Yes | The Company has the Audit Committee the main functions of which comply with these recommendations. |

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

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| **Principle 6: Prevention and disclosure of conflicts of interest**<br>The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.<br>The corporate governance framework should recognize the rights of stakeholders entrenched in the laws and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned. | | |
| Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value. | Yes | The Company fully complies with these recommendations. |
| **Principle 7: Remuneration policy of the company**<br>The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy. | | |
| 7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy. | Yes | The Company has approved its remuneration policy and published it on the Company's website. |
| 7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments. | Yes | The remuneration policy of the Company includes all forms of remuneration. |
| 7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance. | Yes | The remuneration policy of the Company provides that the remuneration of the members of its supervisory board is not based on the Company's performance. |
| 7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance. | Yes | The Company fully complies with this recommendation. |

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| 7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares. | No | The financial incentive scheme is not applied at the Company. |
| 7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year. | Yes | The Company complies with this recommendation. |
| 7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders. | Yes | The Company complies with this recommendation. |
| **Principle 8: Role of stakeholders in corporate governance**<br>The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned. | | |
| 8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected. | Yes | The Company complies with all statutory requirements ensuring the rights of stakeholders. |
| 8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc. | Yes | The Company complies with all statutory requirements ensuring the rights of stakeholders. |
| 8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | The Company complies with all statutory requirements ensuring the rights of stakeholders. |
| 8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function. | No | Pursuant to the legislation of the Republic of Lithuania, the Company has established an internal whistleblowing channel and individuals have also been informed about this on the Company's website. |

## Principle 9: Disclosure of information

The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.

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| 9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following: | | |
| 9.1.1. operating and financial results of the company; | Yes | The Company complies with this recommendation. |
| 9.1.2. objectives and non-financial information of the company; | Yes | The Company complies with this recommendation. |
| 9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary; | Yes | The Company complies with this recommendation. |
| 9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration; | Yes | The Company complies with this recommendation. |
| 9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities; | No | To date, the Company has not published this information. |
| 9.1.6. potential key risk factors, the company's risk management and supervision policy; | Yes | The Company complies with this recommendation. |
| 9.1.7. the company's transactions with related parties; | Yes | The Company complies with this recommendation by announcing transactions with related parties that are not a part of the Company's normal economic activities and/or exert a significant influence on the Company. |
| 9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.); | Yes | The Company complies with this recommendation. |
| 9.1.9. structure and strategy of corporate governance; | No | The Company has not published its structure and strategy of corporate governance. |
| 9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.<br>This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts. | Yes | The Company complies with this recommendation. |

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| 9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies. | Yes | The Company complies with this recommendation. |
| 9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7. | Yes | The Company complies with this recommendation. |
| 9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time. | Yes | The Company discloses the information in the Lithuanian and English languages simultaneously through the information disclosure system used by Nasdaq Vilnius AB Stock Exchange. The Company usually publishes information before or after the trading session of Nasdaq Vilnius AB Stock Exchange and presents it simultaneously to all markets where the Company's securities are traded. The Company does not disclose any information that may affect the price of its issued securities in comments, interviews or otherwise until such information is made public through the information disclosure system of the Stock Exchange. This information is also disclosed on the Company's website www.grigeo.lt. |
| **Principle 10: Selection of the company's audit firm**<br>The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm. | | |
| 10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm. | Yes | The Company complies with this recommendation. |
| 10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company. | Yes | The Company complies with this recommendation. |
| 10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders. | Yes | When considering which audit firm should be proposed to the general meeting of shareholders, the Company's supervisory board had information on whether the audit firm has received remuneration from the company for the non-audit services provided. |