# Grigeo AB

**CONSOLIDATED ANNUAL REPORT AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

**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.**

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# FOREWORD BY THE PRESIDENT

Dear members of the society,

You've already heard and read it on numerous occasions and yet, there is no other way to describe the year 2021 as a period of challenges. Turbulence in the markets of raw materials, energy, logistics and other rocked the whole world. However, despite this, Grigeo AB group of companies has demonstrated a consistent and sustainable growth, which reveals that we have strong business fundamentals and people who are capable of creating value even in the most dynamic environment.

To support this, we present you the report for 2021 which provides information about the key performance indicators and significant events in the areas of finance, environmental protection, social responsibility and governance of Grigeo AB group of companies.

Operating in a sustainable manner, the financial performance of Grigeo AB group of companies was excellent in 2021. The pandemic kept on changing consumer habits by boosting the online sales, which resulted in a growing demand for packaging, while the increasing consumers' and businesses' sensitivity to environment encouraged to search for alternatives to plastic packaging. Recyclable, multi-purpose and reliable corrugated packaging has strengthened its position in the segment of e-trade as a highly sustainable and popular solution.

A growing need for sustainable products will have a positive long-term effect on the group of companies. As much as 98% of the Group's products were manufactured using renewable raw materials. Secondary raw material reached 32% of all raw material used in production during the last year. And in 2021, the total of more than 139K tons of waste paper was processed.

In 2021, we have also revised our long-term strategy. We are an integral part of circular economy, thus we have decided to take on a mission – create a future circular society. Last year we carried out an extensive analysis of stakeholders and assessed the needs of our operation and their significance. It enabled us to precisely identify economic, social and environmental challenges which are key to the group of companies and stakeholders.

As for social area, the occupational safety and health remained our priority. Maximum attention and responsibility when applying Covid-19 management measures allowed us to guarantee uninterrupted production, and an opportunity for the employees to take advantage of additional health insurance enabled us to provide people with a broad access to health care services. In 2021, the assessment of employee engagement was carried out in the Group companies as well. The results of the survey have exceeded the average of production companies, however – what is even more important – these results have enabled us to place a stronger focus on the employees' expectations.

A significant increase in prices of raw materials and resources in 2021 added extra challenges to those caused by the pandemic. Even though the pandemic had no material direct impact on the financial performance of the Group, rising prices of raw materials and energy resources had an adverse effect on the profitability indicators. In 2021, the Group's EBITDA was at EUR 23.7M which is less by 9.6% if compared to 2020, and EBITDA margin remained on a high level, i.e. at 14.5%. The overall increase in prices resulted in the Group's revenue soaring to record highs in 2021, i.e. EUR 163.2M.

In 2021, the investments made by the Group amounted to EUR 12.4M, the major portion whereof was aimed at acquisition of modern, more efficient facilities and improvement of processes of environmental protection. We see investments from the perspective of sustainability – we seek is that changes helped to strengthen safety at work and ensured a more efficient use of resources.

After the environmental incident in Grigeo Klaipėda AB that took place in 2020, in 2021 the prosecutor's office completed the pre-trial investigation regarding the wastewater treatment carried out by Grigeo Klaipėda AB, and the criminal proceedings were referred to the court. We assume the moral responsibility and hope that the fact of damage to natural environment will be established by the court and, once it has been established, an objective scope of damage will be determined as well. This will allow Grigeo Klaipėda AB to recover the impact made on the natural environmental in a fair manner and in compliance with international standards.

In 2021, for the first time the Group prepared a sustainability report according to the GRI (Global Reporting Initiative) standards. The implementation of this standards will make it possible for us to achieve the highest level of the Group's accountability and transparency in the society. The calculation of GHG emissions was carried out by the Group for all entities. Having made estimates of our impacts, the matters of sustainability were included in our Group's obligations. After the assessment of the regulatory environment, expectations of stakeholders and standards of the industry, we have projected the main challenges which have a direct impact on the long-term sustainable development. In 2022 we are going to approve common sustainability objectives.

As for the coming year, we will strive to maintain the profitability indicators of the Group, manage the effect of prices of raw materials and energy on the production. After the environmental incident Grigeo Klaipėda AB will seek to recover the impact made on the natural environment. Having integrated the sustainability objectives in our long-term strategy, we will work towards turning of the sustainable operation into the axis of strategic activity and efficient execution of the mission that we took on – to create a future circular society.

President of Grigeo AB

Gintautas Pangonis

# CONSOLIDATED ANNUAL REPORT

## 1. Business model

Grigeo AB (hereinafter the "Company" or the "Issuer") company group is the only paper and wood industry company group in Lithuania and one of the largest groups in the Baltic countries. 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").

### 1.1. The future is circular

The Group operates following the principle of a circular economy. A part of paper used for the production of tissue paper products and all raw materials designated 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.


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.

### 1.2. Sustainability as part of our strategy

A more intensive use of renewable raw materials leads to a higher involvement in the circular economy (secondary use of raw materials), thus allowing to make a more significant contribution to economic sustainability.

In 2021, the Group's management carried out the analysis of stakeholders, impact and significance with respect to them. The comprehensive significance assessment helped to identify the economic, social and environmental issues that are the most important to the Group and its stakeholders.

The significance assessment served as a primary data source for the Group's sustainability targets, as well as for the integration of those targets into the Group's strategy. The Group's management recognises a strategic importance of the sustainability reporting, it was therefore actively involved in the development of the Group's sustainability strategy.

Detailed information on sustainability is presented in a separate Sustainability report which is publicly available on Company's website https://www.grigeo.lt/en.

Under our business strategy, we commit the following:

## MISSION


## STRATEGIC DIRECTIONS FOR 2026

**FOR CLIENTS:**
a culture of innovation, actively involving a customer while introducing new products

**FOR EACH OTHER:**
involved employees, innovating, sharing good practises and being proud of the results

**FOR CO-DEVELOPERS:**
a recognised manufacturer that develops solutions in cooperation with co-developers

**FOR INVESTORS:**
a sustainability-based business strategy that enchases business diversification and attracts investors

**FOR THE SOCIETY:**
a leader in waste collection and recycling in the Baltic states, involving the society

Each direction has at least one target, which is directly related to the sustainability strategy. More detailed information is presented in a separate Sustainability report which is publicly available on Company's website https://www.grigeo.lt/en.

## 2. Overview of operations

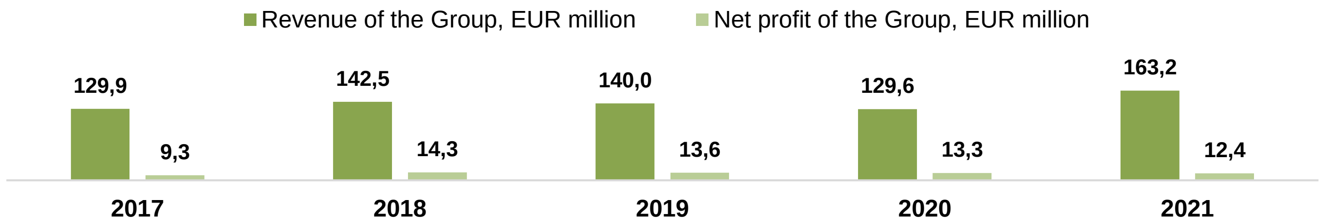
### 2.1. Executive summary of 2021

During 2021, compared to 2020:

- The Group's and the Company's revenue increased by EUR 33.6 million (25.9%) and EUR 3.9 million (6.1%), respectively.
- The Group's and the Company's EBITDA was lower by EUR 2.5 million (9.6%), EUR 8.8 million (59.8%), respectively.
- The Group's and the Company's EBT was lower by EUR 1.3 million (8.6%), EUR 7.0 million (71.0%), respectively.

| Indicator, EUR million | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Revenue | 163.2 | 129.6 | 25.9% | 67.6 | 63.7 | 6.1% |
| EBITDA | 23.7 | 26.2 | -9.6% | 5.9 | 14.8 | -59.8% |
| Profit before tax (EBT) | 13.6 | 14.9 | -8.6% | 2.9 | 9.9 | -71.0% |

In 2021, the Group reached the record high level of turnover – EUR 163.2 million (EUR 129.6 million in 2020). The increase in turnover was driven by higher quantities of products sold as well as increase in sale prices.




The Group's net profit for 2021 decreased and was equal to EUR 12.4 million (EUR 13.3 million in 2020). Despite increase in turnover, the Group's profitability ratios declined due to a significant increase in prices of raw materials and energy resources (the comparison of ratios is presented in section 2.2).

The Group's performance remains satisfactory due to business diversification: more profitable segments compensate poorer performance of other segments at different times, and vertical integration, i.e., the Group covers a full production cycle of corrugated cardboard and related products, and in the tissue paper segment – from paper production to final products.

More detailed information on reasons of these changes is presented in the table and explanations below according to business segments.

Revenue, gross profit, and gross margin of the business segments*:

| Indicator, EUR million | Tissue paper and paper products | | Wood fibreboards | | Raw materials for corrugated cardboard and related products | | Unallocated | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenue | 60.7 | 58.9 | 20.7 | 17.3 | 78.7 | 51.2 | 3.1 | 2.2 | 163.2 | 129.6 |
| Gross profit | 9.6 | 17.6 | 4.5 | 3.6 | 19.1 | 12.1 | 0.3 | 0.2 | 33.6 | 33.5 |
| Gross margin of the segment | 15.9% | 29.9% | 21.7% | 20.6% | 24.3% | 23.6% | 9.5% | 10.5% | 20.6% | 25.8% |

*The data is presented after the elimination of the impact of transactions between the segments.

**Segment of tissue paper and paper products**

In 2021, the tissue paper segment's sales in tons remained at a similar level as in 2020. The COVID-19 pandemic management measures in 2021 and 2020, which imposed restrictions on the activities of hotels and catering establishments, had a similar negative impact on sales of tissue paper for the business segment. The segment's turnover in 2021 reached EUR 60.7 million (EUR 58.9 million in 2020). The increase in turnover was mainly driven by the increase in the prices of products sold.

Despite a higher turnover, the segment's gross profitability in 2021 decreased significantly to 15.9% (29.9% in 2020). The decrease in gross profitability was caused by the significant increase in the prices of pulp and white wastepaper, as well as a sharp rise in energy prices in the second half of 2021.

The Group’s management believes that as a result of the easing of restrictions and self-isolation rules over the course of the COVID-19 pandemic the hotel and catering sector should return to the pre-pandemic level in the upcoming years, and sales of tissue paper to the business segment will recover accordingly.

Prices of raw materials stabilised to some extent at the beginning of 2022, however they are not expected to decline in the future. Energy prices are likely to fall after the end of the winter season, but there are no guarantees or sound projections that similar energy price spikes will not occur in the future.

**Segment of wood fibreboards**

The segment’s sales revenue amounted to EUR 20.7 million (EUR 17.3 million in 2020). A significant growth of 20.1% was partly driven by increased sales volumes (67.8 tons sold in 2021; 65.1 tons in 2020), though the main reason for the increase in turnover was higher sales prices.

The increase in sale prices in this segment was determined by the global rise in the prices of wood raw materials. Significantly higher energy prices contributed to the increase in the cost of the segment’s products, but higher sale prices compensated the increase in costs of production and increased overall profitability of the segment to 21.7% in 2021 (2020: 20.6%).

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

The Group’s management believes that the prices in this segment, both in respect of raw materials and final products, will remain at a high level.

**Raw materials for corrugated cardboard and related products**

In 2021, this segment showed a significant growth – sales revenue reached EUR 78.7 million. It was 53.8% higher than in 2020 (EUR 51.2 million). The segment was negatively affected by increase in prices of wastepaper and significant increase in the prices of energy resources in the last quarter of 2021, but higher sales volumes and sales prices increased the segment's gross profit to EUR 19.1 million (57.9% higher than in 2020, when it amounted to EUR 12.1 million). Accordingly, the gross margin of the segment increased as well from 23.6% to 24.3%.

The segment’s sales of raw materials for corrugated cardboard (paper rolls) reached 102.3 thousand tons and were 6.2% higher than in 2020 (96.3 thousand tons). Sales of related products (corrugated cardboard boxes and sheets) in 2021 reached 48.8 thousand tons and were 20.1% higher than in 2020 (40.7 thousand tons).

Higher segment revenue was mostly affected by higher sales prices. The increase in paper packaging prices was driven by a significant rise in demand, which is growing globally. The main reasons are:

- Growth of e-commerce. The COVID-19 pandemic has contributed significantly to the growth of online shopping, which is increasing the need of packaging for shipments.
- Sustainability initiatives. More and more businesses are choosing paper alternatives to plastic packaging.
- Other reasons, such as logistics disruptions, rising wastepaper prices.

The Group's management believes that the prices of raw materials for corrugated cardboard and related products will continue to rise in 2022 due to the reasons mentioned above.

## 2.2. Financial and operating performance of the Group and the Company

In 2021, the profitability ratios remained high, yet they declined due to increase in the prices of raw materials and energy resources. The values of the liquidity and capital structure ratios remained at a similar level compared to the respective values in 2020 – ratios confirm the financial stability as well as low financial risk of the Group and the Company. The share price to earnings ratio (P/E) increased compared to the previous year, but still remains below 10 indicating the potential of the share price growth in the future.

| Indicator | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Revenue, EUR million | 163.2 | 129.6 | 140.0 | 67.6 | 63.7 | 65.2 |
| Net profit, EUR million | 12.4 | 13.3 | 13.6 | 3.2 | 9.0 | 17.2 |
| EBITDA, EUR million | 23.7 | 26.2 | 28.6 | 5.9 | 14.8 | 11.6 |
| EBIT, EUR million | 13.9 | 15.1 | 17.2 | 3.0 | 10.0 | 10.3 |
| **Profitability ratios** | | | | | | |
| Gross margin | 20.6% | 25.8% | 23.7% | 13.4% | 27.2% | 20.1% |
| EBITDA profitability | 14.5% | 20.2% | 20.4% | 8.8% | 23.2% | 17.8% |
| EBIT profitability | 8.5% | 11.7% | 12.3% | 4.4% | 15.7% | 15.8% |
| Net margin | 7.5% | 10.3% | 9.7% | 4.8% | 14.1% | 26.4% |
| ROE profitability | 13.3% | 16.0% | 18.8% | 5.5% | 15.9% | 37.8% |
| ROA profitability | 9.6% | 11.1% | 11.7% | 4.2% | 12.0% | 24.3% |
| ROCE profitability | 13.8% | 15.8% | 19.9% | 5.0% | 15.6% | 17.7% |
| **Liquidity ratios** | | | | | | |
| Current ratio | 1.51 | 1.56 | 1.13 | 1.01 | 1.63 | 1.08 |
| Quick ratio | 1.07 | 1.23 | 0.80 | 0.72 | 1.33 | 0.76 |
| **Capital structure ratios** | | | | | | |
| Debt to equity ratio | 0.41 | 0.38 | 0.52 | 0.33 | 0.28 | 0.37 |
| Debt to total assets ratio | 0.29 | 0.27 | 0.34 | 0.25 | 0.22 | 0.27 |
| **Market value ratios*** | | | | | | |
| P/E | 9.92 | 6.57 | 7.03 | 37.83 | 9.73 | 5.53 |
| Dividend pay-out ratio | 64.3% | - | 29.2% | 245.1% | - | 22.9% |
| Basic earnings per share, in EUR | 0.093 | 0.101 | 0.103 | 0.024 | 0.068 | 0.131 |

*Ratios for year 2020 and 2019 are adjusted following the Company's authorised share capital increase on 19 May 2021 using the Company's retained earnings (section 4.2).

The above-mentioned indicators have been calculated in accordance with the formulas recommended by Nasdaq Vilnius AB:

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 attributable to shareholders / sales revenue. The ratio describes the profitability of the final total operational result.
ROE profitability = Net profit attributable to shareholders / average equity. This ratio estimates shareholders' return on investment.
ROA profitability = Net profit attributable to shareholders / 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 / Net profit attributable to shareholders. The ratio shows the portion of earnings paid out as dividends.
Basic 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.

All amounts are in EUR thousands unless otherwise stated

### 2.3. Business plans and forecasts of the Group

In 2022, the Group plans various investments and modernisations that will contribute to higher efficiency in production processes, as well as sustainability-enhancing investments that will contribute to the improvement of environmental protection, a safer working environment, and energy savings.

The main planned investments include as follows:

**Grigeo AB**

Having successfully implemented investments in new production equipment in recent years, Grigeo AB plans to invest in a dust collection system, a system for collecting and using rainwater in the production process, improve fire-fighting systems and make improvements in other areas.

**Grigeo Klaipėda AB**

Grigeo Klaipėda AB plans to modernise the treatment of circulating water generated in the paper production process by installing an anaerobic bioreactor for circulating water treatment. The wastewater treatment efficiency of the anaerobic bioreactor according to $BOD_7$ is at least 80%.

**Grigeo Baltwood UAB**

Grigeo Baltwood UAB plans to make investments in and start using water evaporation-concentration equipment. Its principle of operation is the evaporation and concentration of the water used during production, followed by the re-use of the retrieved biomass in production, and afterwards transfer of significantly treated technical water for further treatment.

### 2.4. Employees

There were no significant changes in the number of employees during 2021. Natural personnel turnover rates prevailed in the Group companies in the reported period.

The average salary in the Company and in the Group increased for all categories of employees as compared to the year 2020. The growth of the average salary was mostly driven by the consistent salary increase policy and recruitment of workers with higher competences.

The number of employees in the Group and in the Company:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Number of employees | 833 | 859 | 266 | 288 |

The average salary in the Group and in the Company*, in euros:

| Employees | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Workers | 1,822 | 1,675 | 1,890 | 1,798 |
| Specialists | 2,139 | 1,988 | 2,218 | 2,061 |
| Managers | 4,559 | 4,365 | 5,583 | 5,097 |
| **Total** | **2,214** | **2,036** | **2,393** | **2,229** |

* - information on the average salary does not include data of Mena Pak AT in order to show a more precise average salary in the Group that is not affected by fluctuations in exchange rate of the Ukrainian hryvnia.

**Management of the COVID-19 situation**

In 2021, the Group continued to pay large attention to the management of the COVID-19 situation.

Awareness and focus of all employees contributed to the timely response and control of COVID-19 pandemic developments. The companies of the Group implemented the following COVID-19 prevention measures:

- preventive measurement of temperature of employees and all visitors entering the territory, continuous control of employees' temperature during work;
- continuous provision of personal and collective protective equipment (face masks, respirators, gloves, disinfectant fluid) to employees;
- remote work, management of employee flows;
- constant disinfection of all premises and surfaces, use of an antibacterial cleaning and air disinfection system;

All amounts are in EUR thousands unless otherwise stated

- 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 2021 | Grigeo AB | Grigeo Klaipėda AB | Grigeo Packaging UAB | Grigeo Baltwood UAB | Grigeo Recycling UAB/ Grigeo Recycling SIA | AT Mena Pak |
|---|---|---|---|---|---|---|
| COVID-19 tests performed | 1,261 | 120 | 2,147 | 1,459 | 194 | - |
| COVID-19 cases detected | 44 | 30 | 34 | 24 | 10 | 14 |

| 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 |

More detailed information on human resources is provided in separate Sustainability report which is publicly available on Company's website https://www.grigeo.lt/en.

### 2.5. Environmental protection

The Group fully recognises that sustainable development embraces economic, environmental and social business issues which remain relevant in the daily operations of the organization. In 2021 the Group consistently made investments the majority of which was aimed at the acquisition of modern, more efficient facilities and improvement of processes of environmental protection. After the environmental incident in Grigeo Klaipėda AB that took place in 2020, in 2021 the prosecutor's office completed the pre-trial investigation regarding the wastewater treatment carried out by Grigeo Klaipėda AB, and the criminal proceedings were referred to the court. Assuming moral responsibility we hope that the fact of damage to the natural environment will be established by the court and, once it has been established, an objective scope of damage will be determined. This will allow Grigeo Klaipėda AB to recover the impact made on the natural environment in a fair manner and in compliance with international standards.

We have set clear guidelines for our further development starting from 2022.

A previous shift to renewable electricity allowed us to avoid greenhouse gas (GHG) emissions of 16,740t of CO2 equivalent. In order to set an ambitious and effective GHG reduction goals, in 2022 we will be working on to:

- reducing our GHG emission intensity,
- improve nature- and people-friendly product properties,
- select more environmentally friendly mix of energy sources,
- invest in energy efficiency,
- promote responsible collection of waste paper,
- reduce chemical compound intensity,
- better manage the wastewater quality,
- reduce the disposable waste.

Environmental management system certificates ISO 14001:2015 implemented at the companies of the Group are a proof that we aim to 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 – these priorities will remain the focus of our Group entities future activities.

Detailed information on environmental protection is provided in a separate Sustainability report which is publicly available on Company's website https://www.grigeo.lt/en.

### EU Taxonomy

The disclosure requirements of the EU Taxonomy came into force as of 1 January 2022. The Taxonomy is the EU-wide classification system, which will allow businesses and investors speak the same language in identifying those economic activities which are considered environmentally sustainable.

Economic sectors and economic activities included in the EU Taxonomy have the potential to make a substantial contribution to climate change mitigation or climate change adaptation. The approach differs for each of these objectives, reflecting their nature.

The current version of the EU Taxonomy does not list the Group's core activities as eligible. In their final report, the Technical Experts Group (TEG) recognises that the scope of the manufacturing section of the Taxonomy should be extended to cover more manufacturing activities. The TEG recommends considering screening criteria and thresholds for other manufacturing sectors including paper manufacturing in the next phase of the industry analysis. The TEG recommends that the future platform address these manufacturing sectors, by prioritising those processes that generate the most significant portion of emissions (e.g., steam generation in the paper and pulp sector) and work to establish thresholds for these specific processes.

We continue monitoring the development of the sustainable finance platform to make sure the Group is ready to report the compliance with the EU Taxonomy when needed. We are using this time to properly prepare our internal reporting systems to be ready to provide all relevant and significant sustainability data and comply with upcoming requirements.

## 2.6. Risk management

### COVID-19-related risks

The main business risks associated with the COVID-19 pandemic are:

- a significant proportion of production workers becoming infected with COVID-19, which may lead to the suspension of the production process;

- quarantine restrictions imposing limitations on the activities of hotels and catering establishments. The introduction of restrictions in these sectors leads to a significant reduction in sales of tissue paper to this business sector.

The companies of the Group have introduced pandemic management measures that allowed to ensure social distancing of employees and continuity of production. The companies of the Group did not suspend production in 2021 and in 2020 due to the COVID-19 disease. Along with the easing of restrictions and self-isolation rules, the Group's management believes that COVID-19 risks to production processes will diminish in the long term and will become insignificant.

Lockdowns for certain business sectors have had a negative impact on hygiene paper sales in the short term. In the medium term, this risk is diminishing as countries move from the complete lockdowns of individual sectors to the control of human flows (in terms of numbers, or access permits only upon vaccination).

Another important factor providing the ability to manage risk in a long run is the diversification of the Group's business. Due to the disruptions in the above-mentioned sectors of the sale of hygiene paper, there is a continuing increase in the demand in packaging which results in increasing sales of raw materials for corrugated board and related products. Lockdowns have led to higher purchases of various products in online stores, what has increased the demand for paper packaging.

### Ecological risk

The Group is constantly exposed to ecological risks in the course of its manufacturing activities. In order to properly manage environmental risks, ISO 14001 (Environmental Management System) has been implemented in all of the Group's manufacturing companies in Lithuania, the effectiveness of which is constantly monitored with the help of external certification consultants.

The Company follows the integrated pollution prevention and control principles in its economic activities. The Company rationally uses energy and natural resources through the application of modern production technologies and technologies for the treatment of environmental components without worsening the quality of the products manufactured.

### Product risk

The Group's hygiene paper segment manufactures products that come into contact with food or are used as personal hygiene products. For these reasons, the Group must apply the highest quality standards.

In 2020, Grigeo AB was the first personal hygiene product manufacturer in Lithuania to receive an IFS HPC quality certificate. It accredits that tissue 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.

This certification is carried out every year. In 2021, the certificate was renewed. The Group plans to continue renewing this certificate on an annual basis in order to maintain a minimal risk of the tissue paper product.

### Climate change risk

The management of the Group recognises the importance of analysis in disclosing climate-related risks and opportunities. In 2021, the Group's management decided to start with a qualitative analysis that will help explore a possible range of effects of climate change. The Group used the reporting principles of the Climate-Related Financial Disclosure Working Group (TCFD) to analyse the potential impact of the climate change on the activities of the companies of the Group.

Although the physical risk to the Group is low, in the opinion of the management, the reputational risk and market risk remain significant in the context of the climate change risk. During the production process, the Group's companies emit greenhouse gases (GHGs) and the Group is sensitive to electricity needs. In order to ensure the Group's transparency, the Group uses electricity from renewable sources and provides GHG emissions data calculated by independent consultants (see separate Sustainability report which is publicly available on Company's https://www.grigeo.lt/en) and sets targets for reducing emissions and energy needs through technological means, through the purchase of new and more energy-efficient equipment and upgrade of existing ones.

### Risk of prices of raw materials

One of the consequences of the protracted COVID-19 pandemic is the shortage of raw materials and supplies as well as the rise in their prices. This is connected to increased demand for raw materials and to higher logistics costs, as well as to disruptions in supply chains around the world.

To manage this risk, the Group companies enter into long-term supply contracts with the major suppliers of raw materials and supplies. Efforts are also being made to expand the supply chain through potential alternative suppliers and maintain higher than usual inventory levels that help cushion late deliveries of raw materials and supplies.

### Risk of prices of energy resources

Increased demand for energy resources (electricity, gas), the prices of emission allowances in 2021 resulted in multiple price increases of these resources.

The Group companies have long-term contracts for both electricity and gas supply. Opportunities to invest in renewable energy resources are being explored, thus reducing the need to purchase them and related costs for the Group. The Group is constantly investing in new technologies that increase energy efficiency and reduce the need for energy resources. Under favourable market conditions, a part of the prices of energy resources is fixed to avoid the impact of price volatility or to reduce it.

### Risk related to the process of financial reporting

The Company's financial accounting is performed, and financial statements are prepared in accordance with the requirements of International Financial Reporting Standards, as adopted by the European Union effective at 31 December 2021. The annual financial statements are audited by the independent auditors elected by the General Meeting of Shareholders. 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.

### Financial risk

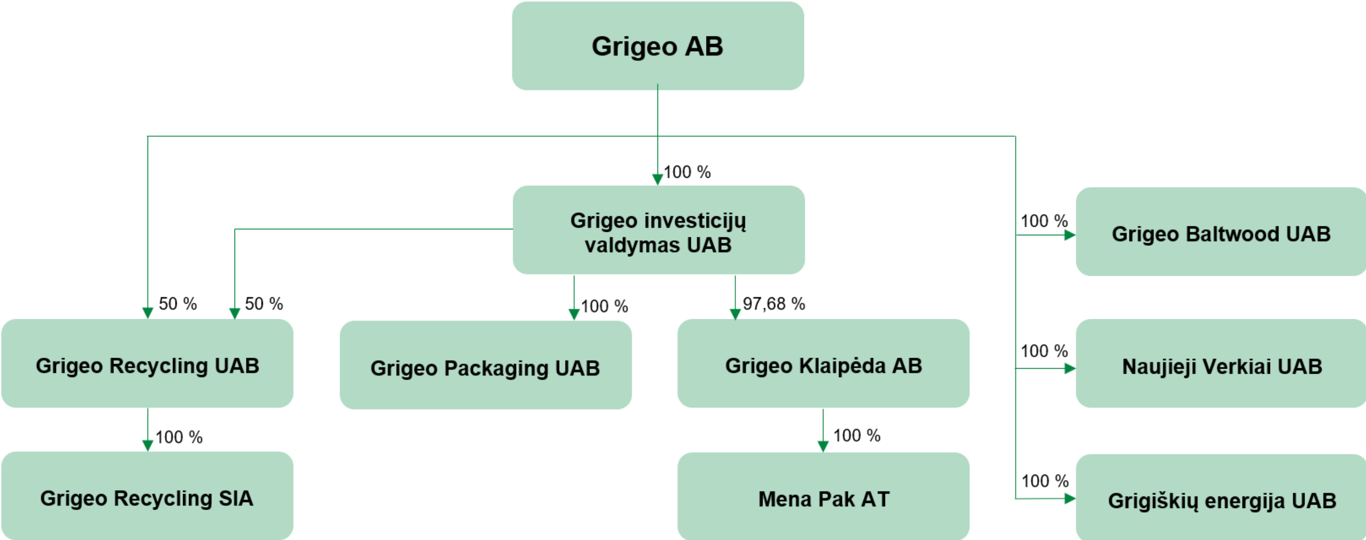
The information on financial risks and their management is disclosed in Note 3 to the consolidated and separate financial statements.

All amounts are in EUR thousands unless otherwise stated

# 3. Group companies

## 3.1. Structure and contact details

As at 31 December 2021, the Group consisted of the Company and its nine subsidiaries as indicated below:




The Company has sales representatives operating in Latvia and Estonia. No new representative offices or branches are planned to be opened in 2022.

| Status | Parent company | Subsidiary | Subsidiary |
|---|---|---|---|
| Company name | **Grigeo** AB | **Grigeo Klaipėda** AB | **Grigeo Packaging** UAB |
| Code | 110012450 | 141011268 | 302329061 |
| Authorised share capital | EUR 38,106,000 | EUR 11,890,550 | EUR 15,202,900 |
| Portion of shares directly/indirectly controlled by Grigeo AB | The Company has not acquired own shares | 97.68% | 100% |
| LEI code | 529900YXT3CDTZGS0R43 | - | 89450051UF5GVR6C9B04 |
| Address | Vilniaus g. 10, Grigiškės, Vilnius City Municipality, Lithuania | Nemuno g. 2, Klaipėda | Vilniaus g. 10, Grigiškės, Vilnius City Municipality |
| Telephone | +370 5 243 5801 | +370 46 39 5601 | +370 5 243 5838 |
| Fax | +370 5 243 5802 | +370 46 39 5600 | - |
| E-mail | info@grigeo.lt | info.klaipeda@grigeo.lt | info.packaging@grigeo.lt |
| Website | https://www.grigeo.lt/en | https://www.grigeo.lt/en | https://www.grigeo.lt/en |
| 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 share 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 g. 10, Grigiškės, Vilnius City Municipality | Vilniaus g. 10, Grigiškės, Vilnius City Municipality | Ēdoles iela 5, Riga, Latvia |
| Telephone | +370 5 243 5900 | +370 5 243 3393 | +370 5 243 3393 |
| Fax | +370 5 243 5910 | - | - |
| E-mail | info.baltwood@grigeo.lt | info.recycling@grigeo.lt | info.recycling@grigeo.lt |
| Website | https://www.grigeo.lt/en | https://www.grigeo.lt/en | - |
| Legal 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 share 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 | Koševovo g. 6, Chernihiv region, Mena, Ukraine | Vilniaus g. 10, Grigiškės, Vilnius City Municipality | Popieriaus g. 15, Vilnius | Vilniaus g. 10, Grigiškės, Vilnius City Municipality |
| Telephone | +380 4644 21341 | +370 698 87433 | +370 5 243 5933 | +370 5 243 5933 |
| Fax | +380 4644 21084 | - | +370 5 243 5802 | +370 5 243 5802 |
| E-mail | 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 | Mena District State Administration, Chernihiv Region | State enterprise Centre of Registers | State enterprise Centre of Registers | State enterprise Centre of Registers |

### 3.2. Main activities of the Group companies

The main business activity of Grigeo AB is the production of tissue paper.

Grigeo Klaipėda AB manufactures the raw material for the production of corrugated cardboard – testliner (smooth layered cardboard) and fluting (paper for corrugation) as well as paper honeycomb used in the furniture industry.

Grigeo Packaging UAB manufactures corrugated cardboard and corrugated cardboard products.

Grigeo Baltwood UAB manufactures uncoloured hardboard and painted hardboard panels.

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

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

All amounts are in EUR thousands unless otherwise stated

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

Grigeo Investicijų Valdymas UAB is engaged in investment activities and management of companies.

Naujieji Verkiai UAB is engaged in construction and development of real estate; the company was dormant in 2021.

The activities of Grigiškių Energija UAB are related to heat production and sale; the company was dormant in 2021.

The transactions between related parties are disclosed in Note 30 to the financial statements.

## 4. Data on the Issuer's securities

The ordinary registered shares of Grigeo AB are listed on the Official Baltic List of Nasdaq Vilnius Stock Exchange (trading code of shares is GRG1L).

The Company and the companies of the Group did not purchase own shares during the reporting period and have no such shares acquired.

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

The Company has signed a contract with Šiaulių Bankas AB (telephone: 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 FMĮ Orion Securities UAB (A. Tumėno g. 4, Vilnius, telephone: (8~5) 231 3833, info@orion.lt) on the bookkeeping of securities issued by the Company and on market making activities.

### 4.2. Main characteristics of the Company's shares

| Date | Type of shares | Securities' ISIN code | Number of shares, units | Par value, EUR | Total par value, EUR |
|---|---|---|---|---|---|
| Until 18/05/2021 | Ordinary registered shares | LT0000102030 | 65,700,000 | 0.29 | 19,053,000 |
| From 19/05/2021 | Ordinary registered shares | LT0000102030 | 131,400,000 | 0.29 | 38,106,000 |

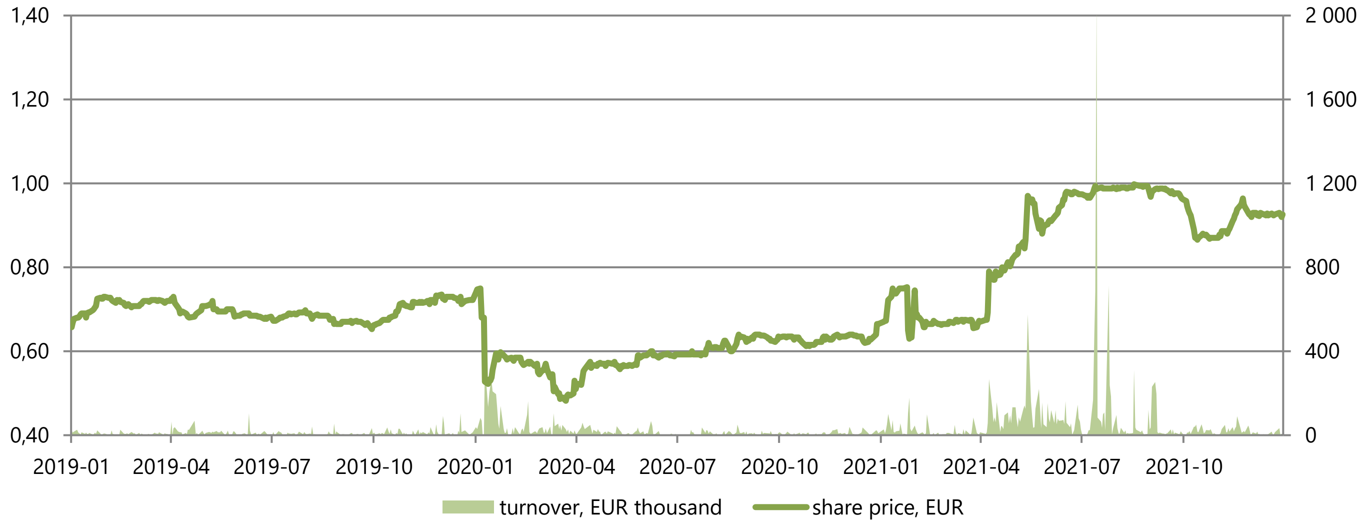
Based on the decision of the Ordinary General Meeting of Shareholders held on 30 April 2021, the Company's authorised share capital was increased on 19 May 2021 out of the Company's retained earnings from EUR 19,053 thousand to EUR 38,106 thousand by issuing 65,700,000 ordinary registered shares with par value of EUR 0.29.

### 4.3. Trade in the Company's shares

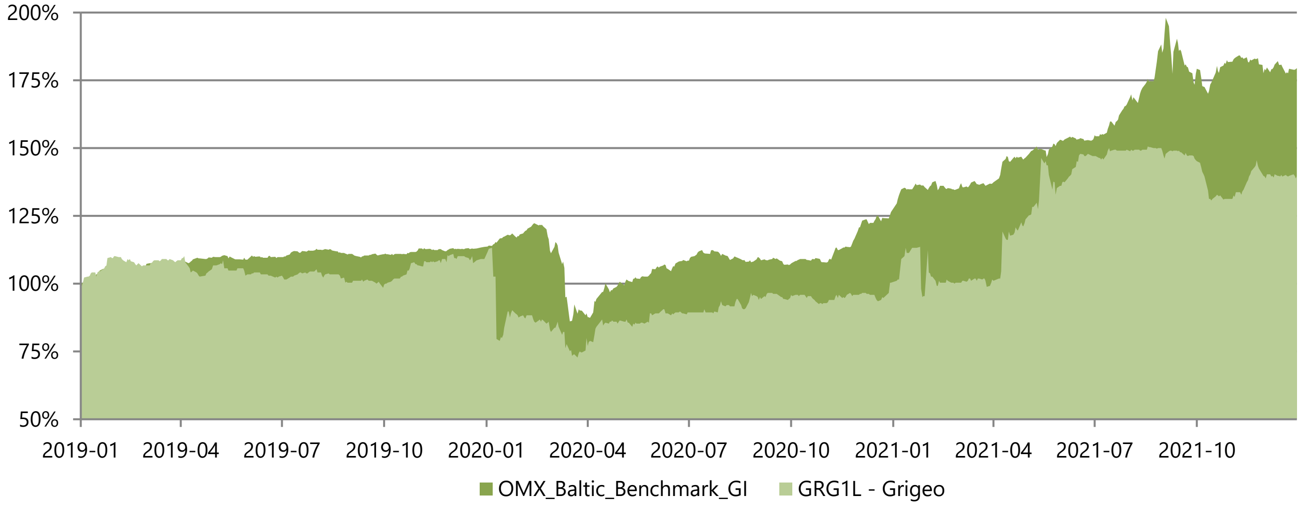
| Reporting period | Price, EUR | | | | Turnover, EUR | | | Total turnover | |
|---|---|---|---|---|---|---|---|---|---|
| | Max. | Min. | Last session | Average | Max. | Min. | Last session | Units | EUR |
| **2018** | **0.788** | **0.663** | **0.663** | **0.707** | **1,089,964** | **-** | **14,277** | **7,535,222** | **5,327,757** |
| 2019, Q1 | 0.730 | 0.658 | 0.720 | 0.703 | 26,314 | - | 5,517 | 721,208 | 507,184 |
| 2019, Q2 | 0.730 | 0.678 | 0.680 | 0.695 | 103,995 | - | 1,715 | 1,256,884 | 873,498 |
| 2019, Q3 | 0.698 | 0.653 | 0.653 | 0.677 | 55,746 | 266 | 33,354 | 755,028 | 510,790 |
| 2019, Q4 | 0.735 | 0.660 | 0.723 | 0.710 | 104,495 | 42 | 13,623 | 1,257,594 | 892,451 |
| **2019** | **0.735** | **0.653** | **0.723** | **0.698** | **104,495** | **-** | **13,623** | **3,990,714** | **2,783,923** |
| 2020, Q1 | 0.750 | 0.482 | 0.530 | 0.554 | 342,036 | 310 | 23,212 | 6,240,586 | 3,458,776 |
| 2020, Q2 | 0.600 | 0.510 | 0.593 | 0.567 | 67,608 | 11 | 6,651 | 1,630,360 | 925,039 |
| 2020, Q3 | 0.640 | 0.590 | 0.628 | 0.616 | 50,999 | 151 | 2,737 | 985,304 | 606,631 |
| 2020, Q4 | 0.665 | 0.613 | 0.665 | 0.630 | 40,416 | 9 | 9,670 | 973,192 | 613,338 |
| **2020** | **0.750** | **0.482** | **0.665** | **0.570** | **342,036** | **9** | **9,670** | **9,829,442** | **5,603,785** |
| 2021, Q1 | 0.753 | 0.630 | 0.673 | 0.676 | 178,553 | 77 | 3,085 | 2,120,000 | 1,432,306 |
| 2021, Q2 | 0.980 | 0.670 | 0.974 | 0.878 | 576,103 | 1,782 | 64,516 | 6,366,053 | 5,590,079 |
| 2021, Q3 | 0.998 | 0.964 | 0.964 | 0.986 | 2,079,207 | 3,054 | 12,209 | 6,960,462 | 6,862,103 |
| 2021, Q4 | 0.964 | 0.866 | 0.926 | 0.905 | 90,003 | 260 | 6,726 | 1,265,914 | 1,145,714 |
| **2021** | **0.998** | **0.630** | **0.926** | **0.899** | **2,079,207** | **77** | **6,726** | **16,712,429** | **15,030,202** |

All amounts are in EUR thousands unless otherwise stated

Price and turnover of shares over the period form 1 January 2019 to 31 December 2021




Share price benchmarked against the Baltic market index over the period form 1 January 2019 to 31 December 2021




### 4.4. Capitalisation of the Company's shares

| Last session date | Capitalisation, EUR |
|---|---|
| **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** |
| 31/03/2021 | 88,366,500 |
| 30/06/2021 | 127,983,600 |
| 30/09/2021 | 126,669,600 |
| **31/12/2021** | **121,676,400** |

All amounts are in EUR thousands unless otherwise stated

## 5. Corporate governance report

The applied corporate governance code and information on compliance with the code are presented in the section "Statement of compliance with the corporate governance code".

### 5.1. Significant directly and indirectly controlled shares

As at 31 December 2021, the number of shareholders of Grigeo AB was 4,360 (31 December 2020: 3,412).

There are no shareholders holding special controlling rights at the Company. There are no limitations of voting rights at the Company. Moreover, the Company is not aware of any agreements between the shareholders under which a transfer of securities and / or voting rights could be restricted. The Company is not aware of any agreements concluded between the shareholders.

Shareholders holding more than 5% of the Issuer's authorised share capital by the right of ownership as at 31 December 2021 and 31 December 2020 are presented in the table below:

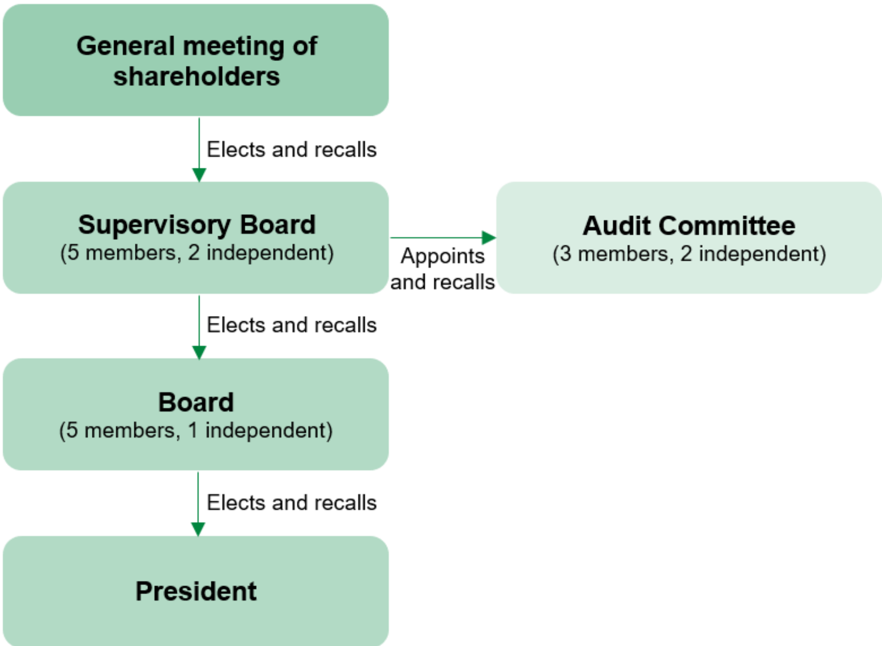
| Shareholder's name, surname (company's name, type, registered office address, company code | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Number of ordinary registered shares owned by the shareholder, units | Portion of the authorised share capital held, % | Votes granted by shares held by the right of ownership, % | Number of ordinary registered shares owned by the shareholder, units | Portion of the authorised share capital held, % | Votes granted by shares held by the right of ownership, % |
| Ginvildos investicija UAB* Turniškių g. 10a-2, Vilnius, 125436533 | 60,809,151 | 46.28 | 46.28 | 28,582,407 | 43.50 | 43.50 |
| Irena Ona Mišeikienė | 17,168,342 | 13.07 | 13.07 | 8,584,171 | 13.07 | 13.07 |

*Gintautas Pangonis holds 100% of shares of Ginvildos Investicija UAB. During 2021, after the Company's authorised share capital increase out of the Company's retained earnings (section 4.2), Ginvildos Investicija UAB additionally acquired 3,644,337 shares.

### 5.2. Rules regulating the election and replacement of the management and supervisory bodies

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

The Company pursues that the elected members of management and supervisory bodies ensure the diversity of qualifications, professional experience and competences as well as gender equality.



**Supervisory Board**

The Supervisory Board consists of five members. The members of the Supervisory Board are elected by the General Meeting of Shareholders for a period of four 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 of the Supervisory Board, each shareholder holds the number of votes which is equal to the number of votes conferred by the shares held by them 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 the largest number of votes are elected. In case the number of candidates who collected equal number of votes exceeds the number of vacancies on the Supervisory Board, a repeated voting is organised during which each shareholder may vote only for one of the candidates who collected equal number of 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 is 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 a half of the Supervisory Board members must have no employment relations with the Company, at least 1/3 of the Supervisory Board members must be independent. The Supervisory Board or its members commence their activities after the end of the General Meeting of Shareholders which elected the Supervisory Board or its members. The Supervisory Board is chaired by its chairperson who is elected by the Supervisory Board from its members.

**Audit Committee**

The Audit Committee is formed at the Company and it consists of three 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 for four 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 statements, or the sector in which the company operates; at least one member of the Audit Committee must have at least three years' working experience in the area of accounting and (or) audit of financial statements. The Manager of the Company and a person who has held this position for the past five years may not be a member of the Audit Committee. More than a half of the Audit Committee members must be independent members. The chairperson of the Audit Committee is elected by the members of the Audit Committee. An independent member is elected to be the chairperson of the Audit Committee.

**Board**

The Company's Board consists of five members. The Board is elected for a period of four 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 is held in the year in which the Board's term of office ends. The Board elects the chairperson 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 commence their activities after the end of the 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.

**Manager of the Company**

The Manager of the Company 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/her duties from the election day, unless otherwise provided by the agreement signed.

**Articles of Association of the Company**

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 on Companies of the Republic of Lithuania. The Articles of Association of the Company are amended following the procedure established by the Law on Companies of the Republic of Lithuania.

All amounts are in EUR thousands unless otherwise stated

## 5.3. Management and supervisory bodies

### Composition of the management and supervisory bodies

| Name, surname | Position | Education | Term of office | Portion of ownership interest and voting rights, % |
|---|---|---|---|---|
| | | **Supervisory Board** | | |
| Norimantas Stankevičius | Chairman | Vilnius University, Physicist | From 26 April 2019 until the General Shareholders' Meeting to be held in 2023 | 4.42 |
| Vilius Oškeliūnas | Independent Member | Vilnius University, Bachelor's and Master's degree 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 | From 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, Bachelor's and Master's degree in Economics | | - |
| | | **Board** | | |
| Gintautas Pangonis | Chairman | Kaunas University of Technology, Telecommunications Engineer | From 26 April 2019 until the General Shareholders' Meeting to be held in 2023 | Indirectly 46.28* |
| Algimantas Variakojis | Independent Member (since 13/07/2020) | Vilnius University, Economist | | 0.16** |
| Vigmantas Kažukauskas | Member | Kaunas University of Technology, Telecommunications Engineer | | 0.88 |
| Saulius Martinkevičius | Member | Vilnius University, Master's degree in Business Administration and Management, Bachelor's degree in Economics and Business IT Systems | | 0.17 |
| Tomas Jozonis | Member | ISM University of Management and Economics, Bachelor's degree in Management and Business Administration; Vilnius University, Master's degree in Business | | - |
| | | **Manager of the Company** | | |
| Gintautas Pangonis | President | Kaunas University of Technology, Telecommunications Engineer | - | Indirectly 46.28* |

*Ginvildos Investicija UAB holds 46.28% of the Company's shares. 100% of shares of Ginvildos investicija UAB are held by Gintautas Pangonis.

**The Board member holds 0.13% of the Company's shares directly and 0.03% – through 100% owned company Alro Kapitalas UAB.

**Gintautas Pangonis** – Chairman of the Board, President. Education – higher education. 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 |

### Participation of the management and supervisory bodies in the activities of other organisations

| Name, surname | Position | Name of the enterprise, institution and organisation |
|---|---|---|
| Norimantas Stankevičius | Chairman of the Supervisory Board, Member of the Audit Committee | Grigeo AB |
| | Project Manager | Didma UAB |
| Vilius Oškeliūnas | Independent Member of the Supervisory Board, Member of the Audit Committee | Grigeo AB |
| | Wealth Manager | Gerovės Valdymas UAB |
| | Director, Board Member | Atelier Investment Management UAB |
| | Director | IM Investment UAB |
| | Deputy Director | WB Invest UAB |
| | True Member | Gerovės Partneriai KŪB |
| | Board Member | Invalda Privatus Kapitalas AB, ETA projektai UAB, Liv in LT UAB, V46 UAB |
| Romualdas Degutis | Member of the Supervisory Board | Grigeo AB |
| | Strategy and Development Director | InComSystems UAB |
| | Chairman of the Board | Antena UAB, InComSystems UAB |
| Normantas Paliokas | Director | Elnorma UAB |
| | Member of the Supervisory Board | Grigeo AB |
| Daiva Duksienė | Independent Member of the Supervisory Board, Chairperson of the Audit Committee | Grigeo AB |
| | Chief Accountant | Autodina UAB, Vilturas UAB, Autovizija LT UAB |
| Gintautas Pangonis | President | Grigeo AB |
| | Director | Ginvildos investicija UAB |
| | Chairman of the Board | Grigeo AB |
| | Board Member | Grigeo Klaipėda AB, Grigeo Packaging UAB |
| | Chairman of the Board | Naujieji Verkiai UAB, Grigeo Baltwood UAB, Grigiškių Energija UAB, Grigeo Recycling UAB, Grigeo Investicijų Valdymas UAB |
| | Member of the Supervisory Board | Mena Pak AT |
| | Chairman of the Supervisory Board | Grigeo Recycling SIA |
| Vigmantas Kažukauskas | Vice President for Business Development | Grigeo AB |
| | Board Member | Grigeo AB, Grigeo Klaipėda AB, Grigeo Baltwood UAB, Grigeo Packaging UAB, Grigeo Investicijų Valdymas UAB |
| | Director, Board Member | Naujieji Verkiai UAB, Grigiškių Energija UAB |
| | Member of the Supervisory Board | Mena Pak AT |
| Algimantas Variakojis | Independent Board Member | Grigeo AB |
| | Partner, True Member | Verslo Angelų fondas I KŪB |
| | Member of the council | Vilnius University of Applied Sciences |
| | Director | Alro Kapitalas UAB, Verslo Praktika UAB |
| | Board Member | Nailtex UAB, Chipper Blades Center UAB |
| | Chairman of the Board | Mes Invest UAB |
| Saulius Martinkevičius | Vice President, Procurement and Logistics | Grigeo AB |
| | Board Member | Grigeo AB, Grigeo Baltwood UAB, Grigeo Packaging UAB, Grigeo Klaipėda AB, Naujieji Verkiai UAB, Grigiškių Energija UAB, Grigeo Investicijų Valdymas UAB |
| Tomas Jozonis | Managing Director | Grigeo AB |
| | Board Member | Grigeo AB, Grigeo Recycling UAB, Grigiškių Energija UAB |
| | Member of the Supervisory Board | Grigeo Recycling SIA |

## 5.4. Functions and responsibilities of the management and supervisory bodies

### Supervisory Board

The Supervisory Board discusses and approves the business strategy of the Company, elects members of the Board of the Company and recalls them from their positions, adopts decisions regarding transactions with related parties, supervises the activity performed by the Board and the Manager of the Company, submits replies and proposals regarding the set of financial statements, the proposed profit or loss appropriation 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 decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company and its management bodies.

### Audit Committee

The functions of the Audit Committee are to inform the Manager or the supervisory body of the Company about the results of the audit of the financial statements and to explain how this audit contributed to the reliability of the financial statements and the role of the Audit Committee in doing that; to monitor the financial reporting process and submit recommendations for ensuring the reliability thereof; to monitor the audit of the annual financial statements and the consolidated financial statements; to review and monitor the independence of the auditors or the audit companies; to provide recommendations regarding the appointment of statutory auditors or the audit companies; to submit opinions regarding the transactions conducted by the Company with the related parties.

### Board

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/her remuneration and other terms and conditions of the employment contract; analyses and assesses the information submitted by the Manager of the Company on the organisation of the Company's business activities, financial condition, the set of the Company's annual financial statements, proposed profit or loss appropriation and submits to the Supervisory Board and General Meeting of Shareholders together with the responses and proposals in relation thereto and the Company's annual report; 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 adopts other decisions assigned to the competence of the Board by the Law on Companies of the Republic of Lithuania, the Articles of Association or the decisions of the 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 employee payment systems; elects and recalls employees directly reporting to the Manager of the Company, directors of the Company's divisions, sets their salaries, other terms and 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.

### Manager of 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 the organisation of the Company's business activities and for the implementation of its goals, preparation of the set of the annual financial statements, preparation of the Company's annual report, and for the fulfilment of other obligations provided by the Law on Companies of the Republic of Lithuania and other legal acts as well as the Articles of Association of the Company.

# 6. Remuneration report

On 30 April 2021, the General Meeting of the Shareholders approved the remuneration report of 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 remuneration, 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.

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 of the members of the management and supervisory bodies.

## 6.1. Remuneration policy

The Company's remuneration policy (the "Remuneration Policy"), which was approved on 4 August 2020, is applicable to the Company's Manager, members of the Board and the Supervisory Board. The Remuneration Policy is published on the Company's website www.grigeo.lt. The main provisions of the Remuneration Policy of the Company are presented below:

### Manager 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. Following the Rules for Granting Shares of the Company, the Manager of the Company may be remunerated by granting shares.

### Board

A civil agreement on the provision of services is concluded with the member of the Board of the Company who has no employment relations with the Company whereby a fixed monthly remuneration is set amounting to no more than 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 chairperson 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 has no employment relations with the Company, and no remuneration is offered by granting shares, no specific remuneration criteria are predefined depending on the financial and non-financial performance.

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. 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 legal acts, by the decision and at the discretion of the General Meeting of Shareholders of the Company, the members of the Board of the Company may be granted annual bonuses.

### Supervisory Board

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 no more than EUR 3,000 (before the applicable taxes). In case the member of the Supervisory Board has performed his/her activity for less than a calendar year, a proportionally lower remuneration is paid thereto in view of the actual 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.

All amounts are in EUR thousands unless otherwise stated

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

### 6.2. Remuneration paid to the management and supervisory bodies

| Position, name, surname | Reporting period | Fixed salary component | | Variable salary component | One-off payments | Total remune-ration | Fixed to variable salary ratio, % |
|---|---|---|---|---|---|---|---|
| | | Base salary | Other benefits | | | | |
| Chairman of the Board, President Gintautas Pangonis | 2021 | 133 | 15 | 59 | - | 207 | 71% / 29% |
| | 2020 | 115 | 5 | - | - | 120 | 100% / 0% |
| Member of the Board Tomas Jozonis | 2021 | 117 | 4 | 50 | - | 170 | 71% / 29% |
| | 2020 | 100 | 4 | 37 | - | 141 | 74% / 26% |
| Member of the Board Saulius Martinkevičius | 2021 | 86 | 3 | 21 | - | 109 | 81% / 19% |
| | 2020 | 82 | 4 | 12 | - | 97 | 88% / 12% |
| Member of the Board Vigmantas Kažukauskas | 2021 | 87 | 2 | 21 | 2 | 112 | 80% / 20% |
| | 2020 | 82 | 2 | 20 | - | 104 | 81% / 19% |
| Member of the Board Nina Šilerienė (until 12/07/2020) | 2021 | - | - | - | - | - | - |
| | 2020 | 71 | 2 | - | 54 | 128 | 58% / 42% |
| Independent Member of the Board Algimantas Variakojis (from 13/07/2020) | 2021 | 30 | - | - | - | 30 | 100% / 0% |
| | 2020 | 14 | - | - | - | 14 | 100% / 0% |

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.

During the reporting period, variable remuneration was not recovered.

Annual remuneration paid to the members of the management bodies of the Company as compared to the Group's performance and the average salary of the employees:

| Position, name, surname | 2017 | 2018 | 2019 | 2020 | 2021 | |
|---|---|---|---|---|---|---|
| Chairman of the Board, President Gintautas Pangonis | 153 | 176 | 206 | 120 | 207 | |
| Member of the Board Tomas Jozonis | - | - | 64 | 141 | 170 | |
| Member of the Board Saulius Martinkevičius | - | - | 48 | 97 | 109 | |
| Member of the Board Vigmantas Kažukauskas | 109 | 127 | 148 | 104 | 112 | |
| Member of the Board Nina Šilerienė (until 12/07/2020) | 107 | 126 | 150 | 128 | - | |
| Independent Member of the Board Algimantas Variakojis (from 13/07/2020) | - | - | - | 14 | 30 | |
| **The Group's performance** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| EBITDA (-1 year)* | 16,068 | 22,894 | 28,113 | 28,603 | 26,243 | 23,726 |
| **Average annual salary paid to full-time employees** | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | |
| Average annual salary paid to the Group's employees** | 15.0 | 16.4 | 22.2 | 23.8 | 25.9 | |

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

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

All amounts are in EUR thousands unless otherwise stated

Annual remuneration paid to the members of the supervisory body of the Company as compared to the Group's performance and the average salary of the Group's employees:

| Position, name, surname | 2017 | 2018 | 2019 | 2020 | 2021 | |
|---|---|---|---|---|---|---|
| Chairman of the Supervisory Board, member of the Audit Committee Norimantas Stankevičius | 9.0 | 10.0 | 12.0 | - | 8.7 | |
| Independent Member of the Supervisory Board, Member of the Audit Committee Vilius Oškeliūnas | 1.8 | 1.8 | 2.2 | - | 7.2 | |
| Member of the Supervisory Board Romualdas Degutis | 1.8 | 1.8 | 2.2 | - | 6.0 | |
| Independent Member of the Supervisory Board, Chairwoman of the Audit Committee Daiva Duksienė | 1.8 | 1.8 | 2.2 | - | 8.4 | |
| Member of the Supervisory Board Normantas Paliokas | - | - | - | - | 6.0 | |
| **The Group's performance** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| EBITDA (-1 year)* | 16,068 | 22,894 | 28,113 | 28,603 | 26,243 | 23,726 |
| **Average annual salary paid to full-time employees** | | | | | | |
| | **2017** | **2018** | **2019** | **2020** | **2021** | |
| Average annual salary paid to the Group's employees** | 15.0 | 16.4 | 22.2 | 23.8 | 25.9 | |

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

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

### 6.3. Compliance with the Remuneration Policy

The remuneration received by the members of the Company's management and supervisory bodies complies with the approved Remuneration Policy.

Four out of five members of the Board of the Company (except for the independent member of the Board) are the Company's employees holding the top-level management positions at the Company. They receive the remuneration in the amount set by the Board under the employment contract signed with the Company. The amounts of 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, annual bonuses were allocated to the members of the Board of the Company who are the Company's employees depending on the Group's and/or the Company's financial performance. When allocating annual bonuses to the top-level employees, the Group's and/or the Company's profitability and EBITDA are the main criteria that are taken into consideration when evaluating the employees' performance.

The monthly remuneration paid to the independent member of the Board is set in accordance with the provisions of the Remuneration Policy and is provided for in the agreement signed with the member of the Board on the provision of management activities/services subject to remuneration by the member of the Board.

The members of the Supervisory Board of the Company were allocated annual bonuses following the procedure set by the Law on Companies of the Republic of Lithuania, by the decision and at the discretion of the General Meeting of Shareholders of the Company.

The remuneration paid to the Manager, members of the Board and the 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 high-risk decisions that may imply positive results only in the short-term.

## 7. Social responsibility report

Required disclosures of Social responsibility report are presented in a separate Sustainability report which is publicly available on Company's website https://www.grigeo.lt/en.

# CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

All amounts are in EUR thousands unless otherwise stated

## STATEMENTS OF FINANCIAL POSITION

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | 71,564 | 70,629 | 29,020 | 28,613 |
| Right-of-use assets | 6 | 3,969 | 4,129 | 1,534 | 1,833 |
| Intangible assets | 7 | 3,513 | 3,624 | 374 | 430 |
| Investment property | 8 | 4,417 | 1,979 | 4,417 | 1,979 |
| Investments in subsidiaries | 1 | - | - | 23,051 | 23,051 |
| Other amounts receivable | 10 | 3 | 3 | - | - |
| Deferred income tax assets | 25 | - | - | 123 | - |
| **Total non-current assets** | | **83,466** | **80,364** | **58,519** | **55,906** |
| **Current assets** | | | | | |
| Inventories | 9 | 14,428 | 9,133 | 4,796 | 3,996 |
| Trade and other amounts receivable | 10 | 22,340 | 15,127 | 10,515 | 7,367 |
| Prepaid income tax | | 128 | - | 159 | - |
| Other current assets | | 320 | 282 | 127 | 166 |
| Cash and cash equivalents | 11 | 12,443 | 18,275 | 818 | 10,453 |
| **Total current assets** | | **49,659** | **42,817** | **16,415** | **21,982** |
| **TOTAL ASSETS** | | **133,125** | **123,181** | **74,934** | **77,888** |

*(Cont'd on the next page)*

All amounts are in EUR thousands unless otherwise stated

## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Authorised share capital | 12 | 38,106 | 19,053 | 38,106 | 19,053 |
| Share premium | 12 | 1,119 | 1,119 | 1,119 | 1,119 |
| Legal reserve | 12 | 1,905 | 1,905 | 1,905 | 1,905 |
| Reserve for hedging instruments | 12 | - | 11 | - | (4) |
| Foreign currency translation reserve | 12 | (2,161) | (2,407) | - | - |
| Retained earnings | 12 | 54,607 | 69,278 | 15,259 | 38,980 |
| **Equity attributable to shareholders of the Company** | | **93,576** | **88,959** | **56,389** | **61,053** |
| Non-controlling interest | | 713 | 596 | - | - |
| **Total equity** | | **94,289** | **89,555** | **56,389** | **61,053** |
| | | | | | |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 13 | 864 | 1,226 | 175 | 556 |
| Lease liabilities | 14 | 3,177 | 3,287 | 1,259 | 1,554 |
| Grants | 15 | 939 | 1,147 | 811 | 970 |
| Deferred income tax liability | 25 | 579 | 77 | - | 187 |
| Long-term employee benefits | 16 | 173 | 191 | 71 | 86 |
| Other amounts payable | | 282 | 282 | - | - |
| **Total non-current liabilities** | | **6,014** | **6,210** | **2,316** | **3,353** |
| | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 13 | 2,094 | 6,404 | 1,380 | 2,281 |
| Lease liabilities | 14 | 360 | 387 | 320 | 310 |
| Income tax payable | | - | 572 | - | 352 |
| Trade and other amounts payable | 17 | 30,368 | 20,048 | 14,529 | 10,535 |
| Fair value of financial instruments | 3 | - | 5 | - | 4 |
| **Total current liabilities** | | **32,822** | **27,416** | **16,229** | **13,482** |
| **Total liabilities** | | **38,836** | **33,626** | **18,545** | **16,835** |
| **TOTAL EQUITY AND LIABILITIES** | | **133,125** | **123,181** | **74,934** | **77,888** |

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

*The financial statements were prepared by the management on 31 March 2022 and signed with a qualified electronic signature on its behalf by:*

Gintautas Pangonis
President

Martynas Nenėnas
Finance Director

All amounts are in EUR thousands unless otherwise stated

## STATEMENTS OF COMPREHENSIVE INCOME

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2021 | 2020 | 2021 | 2020 |
| Revenue | 18 | 163,215 | 129,602 | 67,591 | 63,735 |
| Cost of sales | 19 | (129,657) | (96,133) | (58,532) | (46,424) |
| **Gross profit** | | **33,558** | **33,469** | **9,059** | **17,311** |
| Selling and distribution expenses | 20 | (12,179) | (11,706) | (4,995) | (5,158) |
| Administrative expenses | 21 | (8,134) | (7,828) | (3,076) | (2,985) |
| Other income | 22 | 423 | 373 | 1,937 | 312 |
| Other gains/(losses) – net | 23 | 193 | 828 | 36 | 537 |
| **Operating profit** | | **13,861** | **15,136** | **2,961** | **10,017** |
| Finance income | 24 | 34 | 111 | 4 | 6 |
| Finance costs | 24 | (260) | (332) | (93) | (129) |
| **Finance income/(costs) – net** | | **(226)** | **(221)** | **(89)** | **(123)** |
| **Profit before income tax** | | **13,635** | **14,915** | **2,872** | **9,894** |
| Income tax | 25 | (1,250) | (1,646) | 344 | (916) |
| **PROFIT FOR THE PERIOD** | | **12,385** | **13,269** | **3,216** | **8,978** |
| | | | | | |
| **Profit for the period is attributable to:** | | | | | |
| Shareholders of the Company | | 12,266 | 13,292 | 3,216 | 8,978 |
| Non-controlling interest | | 119 | (23) | - | - |
| | | | | | |
| **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 | | 246 | (612) | - | - |
| Cash flow hedges – effective portion of changes in fair value | | (11) | 28 | 4 | 8 |
| **Total items that may be reclassified subsequently to profit or loss** | | **235** | **(584)** | **4** | **8** |
| **Other comprehensive income/(expenses) for the period** | | **235** | **(584)** | **4** | **8** |
| | | | | | |
| **Total comprehensive income for the period** | | **12,620** | **12,685** | **3,220** | **8,986** |
| | | | | | |
| **Total comprehensive income for the period is attributable to:** | | | | | |
| Shareholders of the Company | | 12,501 | 12,708 | 3,220 | 8,986 |
| Non-controlling interest | | 119 | (23) | - | - |
| | | | | | |
| Basic and diluted earnings per share (in EUR) | 26 | 0.093 | 0.101 | 0.024 | 0.068 |

*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 | Reserve for hedging instru-ments | Foreign currency transla-tion reserve | Retained earnings | Total | | |
| **At 1 January 2020** | **19,053** | **1,119** | **1,905** | **(17)** | **(1,795)** | **55,986** | **76,251** | **619** | **76,870** |
| Profit for the year | - | - | - | - | - | 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** |
| Profit for the year | - | - | - | - | - | 12,266 | 12,266 | 119 | 12,385 |
| Other comprehensive income/(expenses) | - | - | - | (11) | 246 | - | 235 | - | 235 |
| **Total comprehensive income/(expenses)** | **-** | **-** | **-** | **(11)** | **246** | **12,266** | **12,501** | **119** | **12,620** |
| Approved dividends | - | - | - | - | - | (7,884) | (7,884) | - | (7,884) |
| Share capital increase | 19,053 | - | - | - | - | (19,053) | - | - | - |
| **Transactions with the Company's owners** | **19,053** | **-** | **-** | **-** | **-** | **(26,937)** | **(7,884)** | **-** | **(7,884)** |
| Acquisition of non-controlling interest | - | - | - | - | - | - | - | (2) | (2) |
| **Transactions with the non-controlling interest** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2)** | **(2)** |
| **At 31 December 2021** | **38,106** | **1,119** | **1,905** | **-** | **(2,161)** | **54,607** | **93,576** | **713** | **94,289** |

| Company | Share capital | Share premium | Legal reserve | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | **19,053** | **1,119** | **1,905** | **(12)** | **30,002** | **52,067** |
| Profit for the year | - | - | - | - | 8,978 | 8,978 |
| Other comprehensive income | - | - | - | 8 | - | 8 |
| **Total comprehensive income** | **-** | **-** | **-** | **8** | **8,978** | **8,986** |
| **At 31 December 2020** | **19,053** | **1,119** | **1,905** | **(4)** | **38,980** | **61,053** |
| Profit for the year | - | - | - | - | 3,216 | 3,216 |
| Other comprehensive income | - | - | - | 4 | - | 4 |
| **Total comprehensive income** | **-** | **-** | **-** | **4** | **3,216** | **3,220** |
| Approved dividends | - | - | - | - | (7,884) | (7,884) |
| Share capital increase | 19,053 | - | - | - | (19,053) | - |
| **Transactions with the Company's owners** | **19,053** | **-** | **-** | **-** | **(26,937)** | **(7,884)** |
| **At 31 December 2021** | **38,106** | **1,119** | **1,905** | **-** | **15,259** | **56,389** |

*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 | |
|---|---|---|---|---|---|
| | | 2021 | 2020 | 2021 | 2020 |
| **Cash flows from operating activities** | | | | | |
| Profit before income tax | | 13,635 | 14,915 | 2,872 | 9,894 |
| **Adjustments for non-cash items:** | | | | | |
| Depreciation and amortisation | | 9,865 | 11,107 | 4,480 | 4,770 |
| Dividends received | | - | - | (1,500) | - |
| Interest expenses on borrowings and lease | 24 | 194 | 317 | 91 | 123 |
| (Income)/expenses from other financing activities – net | 24 | 31 | (96) | (2) | - |
| Gain on disposal of property, plant and equipment | | (112) | (81) | (29) | (36) |
| | | **23,613** | **26,162** | **5,912** | **14,751** |
| **Changes in working capital** | | | | | |
| (Increase)/decrease in inventories | | (5,280) | 991 | (785) | 342 |
| Decrease/(increase) in trade and other amounts receivable | | (7,213) | 282 | (3,149) | 1,111 |
| (Increase)/decrease in other assets | | (38) | (46) | 39 | (11) |
| Increase/(decrease) in trade and other amounts payable | | 11,340 | (90) | 4,276 | (296) |
| | | **(1,191)** | **1,137** | **381** | **1,146** |
| Interest paid | | (202) | (317) | (93) | (111) |
| Income tax paid | | (835) | (435) | (334) | - |
| **Net cash inflow from operating activities** | | **21,385** | **26,547** | **5,866** | **15,786** |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment and intangible assets | 5, 7 | (12,438) | (7,868) | (5,567) | (4,222) |
| Acquisition of investment property | 8 | (2,122) | (257) | (2,122) | (257) |
| Disposal of property, plant and equipment | | 189 | 147 | 29 | 88 |
| Acquisition of non-controlling interest | 1 | (2) | - | - | - |
| Reduction of the share capital of the subsidiary | 1 | - | - | - | 1,062 |
| Dividends received | 22 | - | - | 1,500 | - |
| **Net cash (outflow) from investing activities** | | **(14,373)** | **(7,978)** | **(6,160)** | **(3,329)** |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | (7,726) | (10) | (7,723) | (9) |
| Repayments of borrowings | | (6,403) | (8,576) | (2,281) | (3,271) |
| Proceeds from borrowings | | 1,731 | - | 1,000 | - |
| Lease payments | | (446) | (357) | (337) | (305) |
| **Net cash (outflow) from financing activities** | | **(12,844)** | **(8,943)** | **(9,341)** | **(3,585)** |
| **Net increase/(decrease) in cash flows** | | **(5,832)** | **9,626** | **(9,635)** | **8,872** |
| **Cash and cash equivalents at the beginning of the period** | | **18,275** | **8,649** | **10,453** | **1,581** |
| **Cash and cash equivalents at the end of the period** | | **12,443** | **18,275** | **818** | **10,453** |

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

Gintautas Pangonis
President

Martynas Nenėnas
Finance Director

# NOTES TO THE FINANCIAL STATEMENTS

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 g. 10, Grigiškės, Vilniaus m. sav., 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.

Based on the decision of the Ordinary General Meeting of the Shareholders of the Company that was held on 30 April 2021, the Company's authorised share capital was increased on 19 May 2021 out of the Company's retained earnings from EUR 19,053 thousand to EUR 38,106 thousand by issuing 65,700,000 ordinary registered shares with a nominal value of EUR 0.29.

After the authorised share capital increase and as at 31 of December 2021, the Company's authorised share capital was divided into 131,400,000 ordinary registered shares (31 December 2020: 65,700,000) with a nominal value of EUR 0.29 each. All shares were fully paid.

Three major shareholders as at 31 December 2021 and 2020 are listed below:

| | At 31 December 2021 | | At 31 December 2020 | |
|---|---|---|---|---|
| | Number of shares | % | Number of shares | % |
| Ginvildos Investicija UAB | 60,809,151 | 46.28 | 28,582,407 | 43.50 |
| Mišeikienė Irena Ona | 17,168,342 | 13.07 | 8,584,171 | 13.07 |
| Norimantas Stankevičius | 5,807,256 | 4.42 | 2,903,628 | 4.42 |
| **TOTAL** | **83,784,749** | **63.76** | **40,070,206** | **60.99** |

As at 31 December 2021, the number of the Group's employees was 833 (31 December 2020: 859). As at 31 December 2021, the number of the Company's employees was 266 (31 December 2020: 288).

The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of the financial statements.

### Structure of the Group

As at 31 December 2021 and 2020, the Grigeo group consisted of Grigeo AB and the following subsidiaries (hereinafter the "Group"):

| | At 31 December 2021 | | At 31 December 2020 | | Address | Principal activities<br>Date of acquisition (establishment) |
|---|---|---|---|---|---|---|
| | Ownership interest held by the Group | Amount (cost) of investment | Ownership interest held by the Group | Amount (cost) of investment | | |
| | **Subsidiaries directly controlled by the Company:** | | | | | |
| Grigeo Baltwood UAB | 100% | 2,555 | 100% | 2,555 | Vilniaus g. 10, Grigiškės, Vilniaus m. sav., Lithuania | Manufacturing of wood fibreboards.<br>10 April 2003 |
| Grigeo Recycling UAB | 100% | 1,066 | 100% | 1,066 | Vilniaus g. 10, Grigiškės, Vilniaus m. sav., Lithuania | Collection of secondary raw materials and preparation for recycling.<br>16 July 2010 |
| Naujieji Verkiai UAB | 100% | - | 100% | - | Popieriaus g. 15, Vilnius, Lithuania | Building and development of real estate. The company was dormant in 2021 and 2020.<br>6 April 2004 |
| Grigeo Investicijų Valdymas UAB | 100% | 19,427 | 100% | 19,427 | Vilniaus g. 10, Grigiškės, Vilniaus m. sav., Lithuania | Investment activities and corporate governance.<br>1 March 2010 |
| Grigiškių Energija UAB | 100% | 3 | 100% | 3 | Vilniaus g. 10, Grigiškės, Vilniaus m. sav., Lithuania | Heat production and sale. The company was dormant in 2021 and 2020.<br>7 October 2011 |
| **Total** | | **23,051** | | **23,051** | | |

All amounts are in EUR thousands unless otherwise stated

## 1. General information (continued)

| | At 31 December 2021 | | At 31 December 2020 | | | |
|---|---|---|---|---|---|---|
| | Ownership interest held by the Group | Amount (cost) of investment | Ownership interest held by the Group | Amount (cost) of investment | Address | Principal activities Date of acquisition (establishment) |
| | **Subsidiaries directly controlled by the Company:** | | | | | |
| Grigeo Klaipėda AB* | 97.68% | - | 97.67% | - | Nemuno g. 2, Klaipėda, Lithuania | Production of cardboard and cardboard paper honeycomb. 1 March 2010 |
| Grigeo Packaging UAB* | 100% | - | 100% | - | Vilniaus g. 10, Grigiškės, Vilniaus m. sav., Lithuania | Manufacturing of corrugated cardboard and packaging. 10 April 2009 |
| Mena Pak AT** | 100% | - | 100% | - | Koševovo g. 6, Černigovo raj., Mena, Ukraine | Manufacturing of corrugated cardboard and packaging. 1 March 2010 |
| Grigeo Recycling SIA*** | 100% | - | 100% | - | Ēdoles iela 5, Riga, Latvia | Collection of secondary raw materials and preparation for recycling. 16 June 2016 |

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

The non-controlling interest consists of 2.32% of shares of Grigeo Klaipėda AB, which are not owned by the Company's shareholders. On 18 November 2021, Grigeo Investicijų Valdymas UAB redeemed 0.01% of shares of subsidiary Grigeo Klaipėda AB from the minority shareholders.

### Changes in 2021 and 2020

*There were no significant changes in 2021*.

*The increase of the authorised share capital of Grigeo Baltwood UAB in 2020:*

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, and the remaining amount (EUR 1,062 thousand) was transferred to the Company's settlement account.

### 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.

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, namely:

- 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.

## 1. General information (continued)

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 material 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. Settlements from the Group's customers were not significantly overdue during 2021. The Group generated positive cash flows from operating activities and its current assets exceeded its current liabilities as at 31 December 2021. 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.

### Climate change-related matters

The management of the Group recognises the importance of analysis in disclosing climate-related risks and their significance to the financial statements. In 2021, the management of the Group decided to start with a qualitative analysis that will help explore a possible range of effects of climate change. The Group used the reporting principles of the Climate-Related Financial Disclosure Working Group (TCFD) to analyse the potential impacts of climate change.

Based on the Group management's analysis, the direct risk of climate change in the Group's operations is insignificant, but the indirect risk related to the transition to more environmentally friendly technological solutions in the long term may affect the Group's financial performance due to additional investments for the acquisition of new equipment or upgrade of existing one.

During the transition period, the management will additionally assess the projected cash flows due to the amount and timing of potential investments, as well as assess the risks of impairment of existing non-current assets and review the useful lives of renewed or newly acquired assets.

For the current and previous reporting years, such potential risks and their impact on the significant accounting estimates and assumptions used in the preparation of the financial statements were assessed as not significant. The qualitative analysis will be continued by including the climate change risk assessment in the periodic review and updates of the assumptions used by management.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These principles were applied consistently for the reported periods unless stated otherwise (adoption of new and/or amended standards and their interpretations).

### 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 2021. 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 2021 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 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.

### 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) The following IFRSs, amendments thereto were adopted by the Group and the Company for the first time in the financial year ended 31 December 2021:**

**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.

**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 (among which - accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform, end date for Phase 1 relief for non-contractually specified risk components in hedging relationships, additional temporary exceptions from applying specific hedge accounting requirements, additional IFRS 7 disclosures related to IBOR reform) including the replacement of one benchmark with an alternative one. 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 amendments thereto that are not yet effective and have not been early adopted by the Group and the Company**

**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 amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. An entity will use IAS 2 to measure the cost of those items where cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.

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

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed.

In the opinion of the Group and the Company, these amendments will not have any impact on the Group's and the Company's financial statements.

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

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. 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
- 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
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

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.

### 2.3 Principles of consolidation

The Group's consolidated financial statements 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;

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

- 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 in the statement of comprehensive income. 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 the statement of comprehensive income.

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.

### 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.

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

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.

### 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. Accounting principles for goodwill are presented in section 2.3.

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.

All amounts are in EUR thousands unless otherwise stated

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

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 of reinforced concrete | 40-80 years |
| Lightweight buildings and structures | 8-25 years |
| Machinery and equipment | 5–68 years |
| Motor vehicles | 4–10 years |
| Other fixtures and equipment | 2–10 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 and previous financial years, 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.

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: buildings – 62-91 years, infrastructure objects – 9-12 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 the statement of comprehensive income. 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 the statement of comprehensive income under the same item as impairment loss. Impairment of goodwill is recorded in the statement of comprehensive income.

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

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.

In the reporting and the previous financial year, the Company and the Group had no assets held for sale.

### 2.12 Emission allowances

Based on Directive 2003/87/EC of the European Union, the greenhouse gas emissions trading (EU ETS) 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 fourth phase started on 1 January 2021 and it will end in 2030. 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.

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.

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. Income from emission allowances is presented in the statement of cash flows as cash flows from operating activities. If the disposal of emission allowances results in an actual shortage of emission allowances, an additional provision is recognised in the statement of financial position.

### 2.13 Borrowing costs

Borrowing costs comprise interest and other expenses (currency exchange differences) 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.

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. Summary of significant accounting policies (continued)

### 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 in the statement of comprehensive income.

**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.

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 in the statement of comprehensive income.

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 in the statement of comprehensive income.

**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.

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

### 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 statement of comprehensive income. Gain or loss on assets classified at fair value through profit or loss also includes interest or dividend income.

As at 31 December 2021 and 2020, 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 the statement of comprehensive income as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in the statement of comprehensive income.

#### *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 the statement of comprehensive income.

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

### 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 the statement of comprehensive income.

### 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.

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

### 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.

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 (cost of raw materials, electricity, heat (steam) energy production, depreciation, salaries and other costs) based on a normal operating capacity.

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

### 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 2021, the Group applied a discount rate of 4.0% (2020: 4.0%) to land and buildings used under the lease rights and the discount rate of 1.3% (2020: 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.

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 2021 and 31 December 2020), 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 2021 and 31 December 2020 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 the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

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

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 2021 and 31 December 2020, 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 2021 and 31 December 2020, 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 2021 and 2020.

#### 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 the statement of comprehensive income.

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

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. Grants related to assets are recognised in the statement of comprehensive income in the proportions in which depreciation expense on those assets is recognised, and a relevant line item of expenses is reduced in the statement of comprehensive income.

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 2021 was 18% (2020: 18%).

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. Summary of significant accounting policies (continued)

### 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.

**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.

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

| 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 fibreboards<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 Recognition of expenses

Expenses are recognised on an accrual basis and following the matching principle during the reporting period in which revenue associated with such expenses is earned, regardless of the timing of the cash payments. Expenses incurred during the reporting period, which cannot be attributed directly to specific revenue earned and will not generate any revenue in subsequent reporting periods, are recognised as expenses in the period in which they were incurred.

Expenses are usually measured at the amount paid or payable, net of VAT. When a long term of settlement is established and no interest is charged, expenses are determined by discounting the amount of settlement at the market interest rate.

### 2.24 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.

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.

When applicable, further information on assumptions used in determining fair values is disclosed in the note related to specific assets or liabilities:

Note 8 – Investment property

Note 3 – Financial risk management – Interest rate risk

All amounts are in EUR thousands unless otherwise stated

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

### 2.25 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.

### 2.26 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.

### 2.27 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.

### 2.28 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.

## 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Trade receivables | 19,071 | 13,420 | 8,112 | 6,462 |
| Trade receivables from related parties | - | - | 1,294 | 425 |
| Other amounts receivable | 1,232 | 966 | 558 | 394 |
| Cash and cash equivalents | 12,443 | 18,275 | 818 | 10,453 |
| **Total** | **32,746** | **32,661** | **10,782** | **17,734** |

**Trade receivables**

As at 31 December 2021 and 2020, 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 2019-2021. 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.

All amounts are in EUR thousands unless otherwise stated

### 3. Financial risk management (continued)

Based on the impairment tests performed, no individually assessed loss allowance was established at the Group in 2021 (individually assessed loss allowance of EUR 54 thousand was additionally established in 2020). Movements in the loss allowance for amounts receivable were as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Individually assessed impairment 2021 | Individually assessed impairment 2020 | Collectively assessed impairment 2021 | Collectively assessed impairment 2020 | Individually assessed impairment 2021 | Individually assessed impairment 2020 | Collectively assessed impairment 2021 | Collectively assessed impairment 2020 |
| **At 1 January** | **153** | **117** | **-** | **-** | **72** | **72** | **-** | **-** |
| Increase in allowance | - | 54 | - | 1 | - | - | - | - |
| Receivables written off | (7) | (18) | - | - | - | - | - | - |
| **At 31 December** | **146** | **153** | **-** | **1** | **72** | **72** | **-** | **-** |

Change in the loss allowance for trade receivables in 2021 and 2020 is included in administrative expenses.

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 (2021)** | **17,016** | **1,797** | **201** | **36** | **21** | **-** | **19,071** |
| Trade receivables – gross | **17,016** | **1,797** | **201** | **36** | **21** | 146 | 19,217 |
| Recognised loss allowance | - | - | - | - | - | (146) | (146) |
| Expected loss coefficient | - | - | - | - | - | 100% | |
| **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% | |

| 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 (2021)** | **7,850** | **254** | **8** | **2** | **-** | **-** | **8,112** |
| Trade receivables – gross | 7,850 | 254 | 8 | - | - | 72 | 8,184 |
| Recognised loss allowance | - | - | - | - | - | (72) | (72) |
| Expected loss coefficient | - | - | - | - | - | 100.0% | |
| **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% | |

The concentration of trade partners of the Group and the Company is not high. As at 31 December 2021, the Group's trade receivables from two major customers accounted for respectively 8.6% and 4.5% of the total trade receivables (31 December 2020: 9.4% and 2.0%, respectively). As at 31 December 2021, the Company's amounts receivable from two major customers accounted for respectively 20.3% and 11.6% of the total trade receivables (31 December 2020: 20.4% and 4.4%, respectively).

As at 31 December 2021 and 31 December 2020, 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.

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

### 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.

### 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| AA- | 269 | - | - | - |
| A+ | 8,114 | 17,898 | 763 | 10,080 |
| BBB+ | 2,056 | 373 | 55 | 373 |
| BBB | 2,000 | - | - | - |
| Other | 4 | 4 | - | - |
| **Total** | **12,443** | **18,275** | **818** | **10,453** |

### <u>Liquidity risk</u>

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2021 and 2020 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 | 514 | 1,529 | 951 | - | 2,994 | 2,958 |
| Lease liabilities | 143 | 363 | 896 | 7,545 | 8,947 | 3,537 |
| Trade payables | 25,270 | - | - | - | 25,270 | 25,270 |
| Other amounts payable | 1,687 | - | - | - | 1,687 | 1,687 |
| **At 31 December 2021** | **27,614** | **1,892** | **1,847** | **7,545** | **38,898** | **33,452** |
| 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 | 1,824 | - | - | - | 1,824 | 1,824 |
| **At 31 December 2020** | **19,436** | **5,125** | **2,191** | **7,173** | **33,925** | **28,896** |

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2021 and 2020 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 | 421 | 972 | 176 | - | 1,569 | 1,555 |
| Lease liabilities | 99 | 292 | 417 | 2,806 | 3,614 | 1,579 |
| Amounts payable to related parties | 601 | - | - | - | 601 | 601 |
| Trade payables | 12,013 | - | - | - | 12,013 | 12,013 |
| Other amounts payable | 650 | - | - | - | 650 | 650 |
| **At 31 December 2021** | **13,784** | **1,264** | **593** | **2,806** | **18,447** | **16,398** |
| 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 | 711 | - | - | - | 711 | 711 |
| **At 31 December 2020** | **10,034** | **1,931** | **1,300** | **2,848** | **16,113** | **13,983** |

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 3, 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.

**Market risk**

***Interest rate risk***

A 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 them to the interest rate risk (Note 3).

In 2016, the Company entered into two interest rate swap agreements with the bank establishing fixed interest rates on loans. The agreements came into effect on 15 February 2016 and were 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. 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.

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 |
| **2021** | | | |
| EUR | +100 | (22) | (10) |
| EUR | -100 | - | - |
| | | | |
| **2020** | | | |
| EUR | +100 | (54) | (15) |
| EUR | -100 | - | - |
| | | | |

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

***Foreign exchange risk***

The Company's financial assets and liabilities as at 31 December 2021 and 2020 are denominated in the euros. The Group's financial assets and liabilities as at 31 December 2021 and 2020 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:

| | 2021 | 2020 |
|---|---|---|
| Reasonably possible change in the EUR/UAH exchange rate, % | +/-10% | +/-10% |
| Financial assets denominated in the Ukrainian hryvnias | 879 | 686 |
| Financial liabilities denominated in the Ukrainian hryvnias | 304 | 241 |
| Estimated negative effect on profit before tax | (52) | (41) |
| Estimated positive effect on profit before tax | 64 | 50 |

**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.

**Capital risk 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 2021.

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 2021 and 2020, 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%.

All amounts are in EUR thousands unless otherwise stated

## 3. Financial risk management (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Non-current liabilities (excluding subsidies, grants and deferred income tax liability) | 4,496 | 4,986 | 1,505 | 2,196 |
| Current liabilities | 32,822 | 27,416 | 16,229 | 13,482 |
| **Total liabilities** | **37,318** | **32,402** | **17,734** | **15,678** |
| **Equity attributable to owners of the Company** | **93,576** | **88,959** | **56,389** | **61,053** |
| **Debt-to-equity ratio** | **40%** | **36%** | **31%** | **26%** |

## 4. Significant accounting estimates and assumptions

Set out below are the areas significant to the Group's and the Company's financial statements that involve complex judgements, assumptions and accounting estimates.

### 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 7).

### 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 332).

All amounts are in EUR thousands unless otherwise stated

## 5. Property, plant and equipment

| Group | Buildings and structures | Machinery and equipment | Motor vehicles | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | | | | | | |
| **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 inventory | - | 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** |
| | | | | | | |
| **Opening net book amount at 1 January 2021** | **27,555** | **33,619** | **899** | **943** | **7,613** | **70,629** |
| Additions | 51 | 490 | 171 | 181 | 9,956 | 10,849 |
| Disposals and write-offs | - | (70) | (5) | (1) | - | (76) |
| Transfer to inventory | - | (15) | - | - | - | (15) |
| Transfer from construction in progress to property, plant and equipment | 328 | 7,154 | 35 | 49 | (7,566) | - |
| Reclassification to investment property | (618) | (9) | - | 3 | - | (624) |
| Reclassification between categories | - | 15 | - | (15) | - | - |
| Foreign exchange effect | 17 | 55 | - | - | 15 | 87 |
| Depreciation charge | (2,241) | (6,419) | (272) | (354) | - | (9,286) |
| **Closing net book amount at 31 December 2021** | **25,092** | **34,820** | **828** | **806** | **10,018** | **71,564** |
| **At 31 December 2021** | | | | | | |
| **Cost** | **46,700** | **119,730** | **2,468** | **2,514** | **10,018** | **181,430** |
| **Accumulated depreciation** | **(21,608)** | **(84,910)** | **(1,640)** | **(1,708)** | **-** | **(109,866)** |
| **Net book amount** | **25,092** | **34,820** | **828** | **806** | **10,018** | **71,564** |

The Group's prepayments amounted EUR 1,880 thousand as at 31 December 2021 (31 December 2020: EUR 68 thousand).

All amounts are in EUR thousands unless otherwise stated

## 5. 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 2020** | | | | | | |
| **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** |
| | | | | | | |
| **Opening net book amount at 1 January 2021** | **10,699** | **12,368** | **354** | **393** | **4,799** | **28,613** |
| Additions | 17 | 27 | - | 65 | 4,963 | 5,072 |
| Transfer from/to inventory | - | (15) | - | - | - | (15) |
| Reclassification between categories | - | 15 | - | (15) | - | - |
| Transfer from construction in progress to property, plant and equipment | 125 | 4,422 | - | 9 | (4,556) | - |
| Reclassification to investment property | (618) | (9) | - | 3 | - | (624) |
| Depreciation charge | (864) | (2,923) | (85) | (154) | - | (4,026) |
| **Closing net book amount at 31 December 2021** | **9,359** | **13,885** | **269** | **301** | **5,206** | **29,020** |
| **At 31 December 2021** | | | | | | |
| **Cost** | **16,364** | **57,714** | **654** | **1,028** | **5,206** | **80,966** |
| **Accumulated depreciation** | **(7,005)** | **(43,829)** | **(385)** | **(727)** | **-** | **(51,946)** |
| **Net book amount** | **9,359** | **13,885** | **269** | **301** | **5,206** | **29,020** |

The Company's prepayments amounted EUR 450 thousand as at 31 December 2021 (31 December 2020: EUR 11 thousand).

All amounts are in EUR thousands unless otherwise stated

**5. 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Cost of sales | 8,897 | 10,374 | 3,782 | 4,138 |
| Administrative expenses | 271 | 260 | 170 | 169 |
| Selling and distribution expenses | 118 | 120 | 74 | 73 |
| **Statement of comprehensive income – total** | **9,286** | **10,754** | **4,026** | **4,380** |

As at 31 December 2021, the Group's and the Company's property, plant and equipment with the carrying amount of respectively EUR 18,249 thousand and EUR 12,152 thousand (31 December 2020: EUR 50,139 thousand and EUR 16,927 thousand, respectively) was pledged to the banks as security for borrowings (Note 13).

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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Buildings and structures | 880 | 791 | 332 | 272 |
| Machinery and equipment | 5,246 | 6,757 | 1,445 | 2,062 |
| Motor vehicles | 642 | 457 | 175 | 172 |
| Other assets | 514 | 597 | 248 | 290 |
| **Total** | **7,282** | **8,602** | **2,200** | **2,796** |

The Group's and the Company's commitments for the acquisition of property, plant and equipment under the signed agreements amounted to respectively EUR 3,333 thousand and EUR 323 thousand as at 31 December 2021 (31 December 2020: EUR 446 thousand and EUR 251 thousand, respectively).

All amounts are in EUR thousands unless otherwise stated

## 6. Right-of-use assets

| Group | Land | Buildings and structures | Machinery and equipment | Total |
|---|---|---|---|---|
| **At 1 January 2020** | | | | |
| **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** |
| | | | | |
| **Opening net book amount at 1 January 2021** | **3,476** | **132** | **521** | **4,129** |
| Change in value-in-use | - | 175 | 156 | 331 |
| Foreign exchange effect | 2 | - | - | 2 |
| Disposals and write-offs | - | - | (58) | (58) |
| Amortisation charge | (63) | (113) | (259) | (435) |
| **Closing net book amount at 31 December 2021** | **3,415** | **194** | **360** | **3,969** |
| **At 31 December 2021** | | | | |
| **Cost** | **3,948** | **416** | **823** | **5,187** |
| **Accumulated depreciation** | **(533)** | **(222)** | **(463)** | **(1,218)** |
| **Net book amount** | **3,415** | **194** | **360** | **3,969** |

All amounts are in EUR thousands unless otherwise stated

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

| Company | Land lease rights | Buildings and structures | Machinery and equipment | Total |
|---|---|---|---|---|
| **At 1 January 2020** | | | | |
| **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** |
| | | | | |
| **Opening net book amount at 1 January 2021** | **987** | **686** | **160** | **1,833** |
| Change in value-in-use | - | - | 57 | 57 |
| Disposals, write-offs | - | - | (29) | (29) |
| Amortisation charge | (13) | (229) | (85) | (327) |
| **Closing net book amount at 31 December 2021** | **974** | **457** | **103** | **1,534** |
| | | | | |
| **At 31 December 2021** | | | | |
| **Cost** | **1,014** | **1,154** | **243** | **2,411** |
| **Accumulated depreciation** | **(40)** | **(697)** | **(140)** | **(877)** |
| **Net book amount** | **974** | **457** | **103** | **1,534** |

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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Cost of sales | 319 | 292 | 65 | 52 |
| Administrative expenses | 64 | 64 | 14 | 15 |
| Selling and distribution expenses | 52 | 62 | 248 | 266 |
| **Total** | **435** | **418** | **327** | **333** |

As at 31 December 2021, the Group's and the Company's land lease rights with the carrying amount of respectively EUR 477 thousand and EUR 358 thousand (31 December 2020: EUR 2,022 thousand and EUR 364 thousand, respectively) were pledged to the banks as security for borrowings (Note 13).

All amounts are in EUR thousands unless otherwise stated

## 7. Intangible assets

| Group | Goodwill | Licences, patents | Software | Other assets | Total |
|---|---|---|---|---|---|
| **At 1 January 2020** | | | | | |
| **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** |
| | | | | | |
| **Opening net book amount at 1 January 2021** | **3,001** | **72** | **550** | **1** | **3,624** |
| Additions | - | 11 | 38 | 23 | 72 |
| Foreign exchange effect | - | 1 | - | - | 1 |
| Amortisation charge | - | (38) | (145) | (1) | (184) |
| **Closing net book amount at 31 December 2021** | **3,001** | **46** | **443** | **23** | **3,513** |
| | | | | | |
| **At 31 December 2021** | | | | | |
| **Cost** | **3,001** | **169** | **2,243** | **553** | **5,966** |
| **Accumulated amortisation** | - | (123) | (1,800) | (530) | **(2,453)** |
| **Net book amount** | **3,001** | **46** | **443** | **23** | **3,513** |

### 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 2021 and 2020, goodwill was allocated to the Grigeo Klaipėda AB cash-generating unit. As at 31 December 2021 and 2020, 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

## 7. Intangible assets (continued)

Forecasts as at 31 December 2021:

| Revenue | Projected annual revenue growth (decrease), % | | | | |
|---|---|---|---|---|---|
| **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| 54,488 | 39.3 | 2.7 | 0.2 | (0.3) | 0.1 |
| **Gross profit margin, %** | | | | | |
| **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| 18.2 | 24.4 | 22.6 | 22.9 | 22.8 | 22.4 |

Projected significant increase in revenue in 2022 is related to increasing sale prices in the market as well as sales of honeycomb that are expected to almost double compared to the year 2021 due to the expansion of the customer base. This also contributes to rise in a gross profit margin.

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 |

Revenue was projected based on the management's assumptions as at 31 December 2021 and 31 December 2020 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 2021, projected investments for the upcoming period of 5 years amounted to EUR 2,202 thousand on average annually (31 December 2020: EUR 1,571 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 6.7% after tax for the cash generating units located in Lithuania as at 31 December 2021 (as at 31 December 2020: 7%).

The calculation of the recoverable amount of the cash-generating unit as at 31 December 2021 and 2020 did not indicate any impairment of goodwill. The assessment was performed without taking into consideration the legal process described in Note 32 of the financial statements. With regard to the assessment of the recoverable amount of the above-mentioned cash-generating unit as at 31 December 2021 and 2020, 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 2021 and 2020 |
|---|---|
| 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

## 7. Intangible assets (continued)

| Company | Licences, patents | Software | Other assets | Total |
|---|---|---|---|---|
| **At 1 January 2020** | | | | |
| **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** |
| | | | | |
| **Opening net book amount at 1 January 2021** | **72** | **357** | **1** | **430** |
| Additions | 11 | 27 | 23 | 61 |
| Amortisation charge | (37) | (79) | (1) | (117) |
| **Closing net book amount at 31 December 2021** | **46** | **305** | **23** | **374** |
| | | | | |
| **At 31 December 2021** | | | | |
| **Cost** | **169** | **1,025** | **33** | **1,227** |
| **Accumulated amortisation** | **(124)** | **(720)** | **(9)** | **(853)** |
| **Net book amount** | **46** | **305** | **23** | **374** |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **At 31 December 2021** | **At 31 December 2020** | **At 31 December 2021** | **At 31 December 2020** |
| Cost of sales | 182 | 200 | 117 | 109 |
| Administrative expenses | - | - | - | - |
| Selling and distribution expenses | 2 | 2 | - | - |
| **Total** | **184** | **202** | **117** | **109** |

All amounts are in EUR thousands unless otherwise stated

## 7. 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Licences, patents | 15 | 9 | 15 | 9 |
| Software | 179 | 522 | 72 | 72 |
| Other assets | 520 | 521 | - | - |
| **Total** | **714** | **1,052** | **87** | **81** |

## 8. Investment property

| Group and Company | Buildings | Construction in progress and prepayments | Total |
|---|---|---|---|
| **At 1 January 2020** | | | |
| **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** | **1,481** | **40** | **1,521** |
| 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** |
| | | | |
| **Opening net book amount at 1 January 2021** | **1,463** | **516** | **1,979** |
| Additions | - | 1,983 | 1,983 |
| Transfer from construction in progress | 2,171 | (2,171) | - |
| Reclassification from property, plant and equipment | 623 | - | 623 |
| Depreciation charge | (168) | - | (168) |
| **Closing net book amount at 31 December 2021** | **4,089** | **328** | **4,417** |
| | | | |
| **At 31 December 2021** | | | |
| **Cost** | **5,203** | **328** | **5,531** |
| **Accumulated depreciation** | **(1,114)** | **-** | **(1,114)** |
| **Net book amount** | **4,089** | **328** | **4,417** |

As at 31 December 2021, the Group's and the Company's investment property (buildings) with the acquisition cost of respectively EUR 7 thousand and EUR 7 thousand (31 December 2020: EUR 31 thousand and EUR 31 thousand, respectively) was fully amortised but still in use.

The Group and the Company had no prepayments as at 31 December 2021 (31 December 2020: prepayments totalled EUR 28 thousand).

All amounts are in EUR thousands unless otherwise stated

## 8. Investment property (continued)

Commitments for the acquisition of investment property under the signed agreements amounted to EUR 165 thousand as at 31 December 2020. There were no such commitments as at 31 December 2021.

Investment property comprises the buildings and structures 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 (80% as at 31 December 2021 and 82% as at 31 December 2020 at the carrying amount) is leased to third parties. The lease term under the contracts is between 1 months to 5 years. As at 31 December 2021, future annual revenue amounted to EUR 492 thousand (31 December 2020: EUR 311 thousand) in the period from 2022 to 2026. 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 10%, 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 4,153 thousand (31 December 2020: EUR 2,270 thousand).

The fair value measurement of investment property does not include construction in progress and prepayments. The management of the Group estimates the book value of construction in progress and prepayments approximate their fair value.

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

| | At 31 December 2021 | At 31 December 2020 |
|---|---|---|
| Change in the discount rate (+100 basis points) | 3,857 | 2,100 |
| Change in the discount rate (-100 basis points) | 4,480 | 2,450 |
| Change in the rental yield (+100 basis points) | 3,810 | 2,140 |
| Change in the rental yield (-100 basis points) | 4,580 | 2,420 |

## 9. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Materials | 6,593 | 4,507 | 1,690 | 1,153 |
| Work in progress | 1,838 | 1,392 | 1,169 | 1,010 |
| Finished products | 5,600 | 3,035 | 1,880 | 1,779 |
| Inventories in transit | 289 | 164 | 38 | 36 |
| Prepayments | 108 | 35 | 19 | 18 |
| **Total** | **14,428** | **9,133** | **4,796** | **3,996** |

As at 31 December 2021, the acquisition value (cost) of the Group's and the Company's inventories was decreased by respectively EUR 776 thousand and EUR 298 thousand (31 December 2020: EUR 398 thousand and EUR 167 thousand, respectively) to net realisable value. The net realisable value adjustment was accounted for under cost of sales.

In 2021, inventories of EUR 97 million (2020: EUR 62 million) for the Group and inventories of EUR 46 million (2020: EUR 34 million) for the Company were included in cost of sales.

As described in the Note 13, as at 31 December 2021, 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 2020: EUR 1,158 thousand and EUR 1,158 thousand, respectively) as security for bank borrowings.

All amounts are in EUR thousands unless otherwise stated

## 10. Trade and other amounts receivable

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Trade receivables – gross | 19,217 | 13,573 | 8,184 | 6,533 |
| Loss allowance | (146) | (153) | (72) | (72) |
| **Trade receivables – net** | **19,071** | **13,420** | **8,112** | **6,461** |
| Amounts receivable from related parties (Note 30) | - | - | 1 294 | 425 |
| Amount receivable of the recovery of a part of the PSO* service fee | 900 | 758 | 314 | 273 |
| VAT receivable | 2,040 | 744 | 551 | 87 |
| Other amounts receivable – gross | 332 | 208 | 244 | 121 |
| **Total trade and other amounts receivable – net** | **22,343** | **15,130** | **10,515** | **7,367** |
| Of which: | | | | |
| **Non-current amounts receivable** | **3** | **3** | **-** | **-** |
| **Current amounts receivable** | **22,340** | **15,127** | **10,515** | **7,367** |

*PSO – services under public service obligation scheme.

As disclosed in Note 13, as at 31 December 2021, the Company and subsidiaries Grigeo Packaging UAB and Grigeo Baltwood UAB had pledged future inflows to secure the repayment of bank borrowings. As at 31 December 2020, only the Company and subsidiary Grigeo Packaging UAB had pledged future inflows.

## 11. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Cash at bank | 12,443 | 18,275 | 818 | 10,453 |
| Cash on hand | - | - | - | - |
| **TOTAL** | **12,443** | **18,275** | **818** | **10,453** |

As at 31 December 2021, cash held in bank accounts amounting to EUR 1,052 thousand (2020: EUR 13,089 thousand) for the Group and EUR 641 thousand (2020: EUR 10,453 thousand) for the Company was pledged as collateral against borrowings as further described in Note 13. As at 31 December 2021 and 2020, there were no restrictions on the use of cash balances held in the pledged bank accounts.

## 12. Authorised share capital and reserves

### Authorised share capital

| Date | Type of shares | Securities' ISIN code | Number of shares, units | Par value, EUR | Total par value, EUR |
|---|---|---|---|---|---|
| Until 18/05/2021 | Ordinary registered shares | LT0000102030 | 65,700,000 | 0.29 | 19,053,000 |
| From 19/05/2021 | Ordinary registered shares | LT0000102030 | 131,400,000 | 0.29 | 38,106,000 |

Based on the decision of the Ordinary General Meeting of the Shareholders of the Company that was held on 30 April 2021, the Company's authorised share capital was increased on 19 May 2021 out of the Company's retained earnings from EUR 19,053 thousand to EUR 38,106 thousand by issuing 65,700,000 ordinary registered shares with a nominal value of EUR 0.29.

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 2021 and 2020.

All amounts are in EUR thousands unless otherwise stated

## 12. Authorised share capital and reserves (continued)

### Share premium

The Company's authorised share 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 Ordinary General Meeting of the Shareholders 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.

### Reserves

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of at least 5% of profit to be appropriated calculated in accordance with the accounting principles established by laws are required until the reserve reaches 10% of the authorised share capital. In accordance with the procedure prescribed by the laws, the reserve can be used to cover the company's losses.

Following the authorised share capital increase, the Company's legal reserve represents 5% of the authorised share capital as at 31 of December 2021 (31 December 2020: 10%).

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 the statement of comprehensive income.

### Dividends

During the Ordinary General Meeting of Shareholders of the Company held in 2021, a decision was made to allocate dividends equal to EUR 0.06 per share (Note 27). No dividends were allocated in 2020.

## 13. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **Non-current borrowings:** | | | | |
| Bank borrowings | 864 | 1,226 | 175 | 556 |
| | **864** | **1,226** | **175** | **556** |
| **Current borrowings:** | | | | |
| Bank borrowings | 2,094 | 6,404 | 1,380 | 2,281 |
| | **2,094** | **6,404** | **1,380** | **2,281** |
| **TOTAL** | **2,958** | **7,630** | **1,555** | **2,837** |

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **Opening balance** | **7,630** | **16,206** | **2,837** | **6,107** |
| Proceeds from borrowings | 1,731 | - | 1,000 | - |
| Repayments | (6,403) | (8,576) | (2,282) | (3,270) |
| Interest charged | 62 | 183 | 25 | 66 |
| Interest paid | (62) | (183) | (25) | (66) |
| **Closing balance** | **2,958** | **7,630** | **1,555** | **2,837** |

Borrowings outstanding at the year-end by currency:

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| EUR | 2,958 | 7,630 | 1,555 | 2,837 |
| **TOTAL** | **2,958** | **7,630** | **1,555** | **2,837** |

The unwithdrawn balance under the credit agreements amounted to EUR 5,802 thousand for the Group and EUR 3,715 thousand for the Company as at 31 December 2021. Neither the Group nor the Company had credit limit agreements as at 31 December 2020.

All amounts are in EUR thousands unless otherwise stated

## 13. 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Borrowings/EBITDA | < 3.0 | (0.40) | (0.40) | (0,12) | (0.51) |
| Debt service coverage ratio (DSCR) | > 1.2 | 3.59 | 2.98 | 2.50 | 4.43 |

As at 31 December 2021 and 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 2021, the Group complied with all financial and non-financial requirements established in the bank agreements.

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 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 was repaid in 2021, i.e., the loan was classified within current liabilities.

**Interest rates**

As at 31 December 2021 and 31 December 2020, the Company's and the Group's borrowings were subject to variable interest rates. They are linked with the EURIBOR interest rate base and with the margin agreed with the bank. In 2021 and 2020, the period of re-pricing variable interest rates on borrowings ranged from 3 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 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **Weighted average interest rate** | **1.55%** | **1.47%** | **1.51%** | **1.42%** |

**Pledged assets**

The Group and the Company have pledged to the banks property, plant and equipment (Note 4), right-of-use assets (Note 6), inventories (Note 9), cash balances in bank accounts (Note 11) and future inflows (Note 10) as security for borrowings.

All amounts are in EUR thousands unless otherwise stated

## 14. Lease liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Non-current | 3,177 | 3,287 | 1,259 | 1,554 |
| Current | 360 | 387 | 320 | 310 |
| **TOTAL** | **3,537** | **3,674** | **1,579** | **1,864** |

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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Balance at 1 January** | **3,674** | **2,801** | **1,864** | **1,064** |
| New lease liabilities | 331 | 1,267 | 56 | 1,129 |
| Interest charged | 124 | 142 | 65 | 47 |
| Lease payments | (534) | (536) | (377) | (376) |
| Lease terminations | (58) | - | (29) | - |
| **Balance at 31 December** | **3,537** | **3,674** | **1,579** | **1,864** |

The Group's and the Company's lease liabilities are secured by right-of-use assets (Note 6).

## 15. Grants

| | Group | Company |
|---|---|---|
| **Balance at 1 January 2020** | **1,494** | **1,101** |
| Amortisation charge | (347) | (131) |
| **Balance at 31 December 2020** | **1,147** | **970** |
| Amortisation charge | (208) | (159) |
| **Balance at 31 December 2021** | **939** | **811** |

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 2021 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.

## 16. Long-term employee benefits

As at 31 December 2021 and 2020, 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 the statement of comprehensive income.

| | Group | Company |
|---|---|---|
| **At 1 January 2020** | **156** | **68** |
| Change during the year 2020 | 35 | 18 |
| **At 31 December 2020** | **191** | **86** |
| Change during the year 2021 | (18) | (15) |
| **At 31 December 2021** | **173** | **71** |

Actuarial gains and losses during 2021 and 2020 were insignificant, therefore they were not separately disclosed in other comprehensive income.
The main assumptions applied in evaluating the Group's and the Company's long-term employee benefits are as follows:

| | At 31 December 2021 | At 31 December 2020 |
|---|---|---|
| Discount rate | 0.16% | 0.16% |
| Expected annual salary increase | 5% | 2.18% |

All amounts are in EUR thousands unless otherwise stated

## 17. Trade and other amounts payable

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| Trade payables | 25,270 | 15,768 | 12,614 | 8,571 |
| Wages and salaries and social security contributions | 3,224 | 2,209 | 1,236 | 1,147 |
| Advance amounts received | 187 | 247 | 29 | 106 |
| Accrued expenses | 332 | 353 | 47 | 274 |
| Other amounts payable | 1,355 | 1,471 | 603 | 437 |
| **TOTAL** | **30,368** | **20,048** | **14,529** | **10,535** |
| Of which: | | | | |
| Attributable to financial liabilities (Note 3) | 26,957 | 17,592 | 13,264 | 9,282 |
| Not attributable to financial liabilities | 3,411 | 2,456 | 1,265 | 1,253 |

## 18. 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 fibreboards 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 2021 | Paper and paper products | Woodfibre boards | Raw materials for corrugated cardboard and related products | Total reportable segments | Unallocated | Elimination | TOTAL |
|---|---|---|---|---|---|---|---|
| Sales | 60,662 | 20,728 | 78,727 | 160,117 | 3,098 | - | 163,215 |
| Inter-segment sales | (5,471) | (836) | (26,884) | (33,191) | (6,064) | 39,255 | - |
| Unconsolidated segment sales | 66,133 | 21,564 | 105,610 | 193,307 | 9,163 | (39,255) | 163,215 |
| Cost of sales | (51,041) | (16,224) | (59,588) | (126,853) | (2,804) | - | (129,657) |
| **Gross profit** | **9,621** | **4,504** | **19,139** | **33,264** | **294** | **-** | **33,558** |
| Depreciation and amortisation | 3,817 | 742 | 4,713 | 9,272 | 801 | - | 10,073 |
| Property, plant and equipment of the segment | 26,189 | 4,929 | 36,965 | 68,083 | 3,481 | - | 71,564 |
| Intangible assets of the segment | 276 | 1 | 136 | 413 | 99 | - | 512 |
| Investment property of the segment | - | - | - | - | 4,417 | - | 4,417 |
| Right-of-use assets of the segment | 169 | 888 | 1,888 | 2,945 | 1,024 | - | 3,969 |
| Goodwill | - | - | 3,001 | 3,001 | - | - | 3,001 |
| Investments of the segment | 5,060 | 2,493 | 3,011 | 10,564 | 2,340 | - | 12,904 |

All amounts are in EUR thousands unless otherwise stated

## 18. Segment information (continued)

| Group 2020 | Paper and paper products | Woodfibre 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 | (41,308) | (13,705) | (39,108) | (94,121) | (2,012) | - | (96,133) |
| **Gross profit** | **17,601** | **3,555** | **12,076** | **33,233** | **237** | **-** | **33,469** |
| Depreciation and amortisation | 4,573 | 706 | 5,774 | 11,053 | 401 | - | 11,454 |
| Property, plant and equipment of the segment | 25,365 | 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 |

[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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Domestic market (Lithuania)** | **55,283** | **38,189** | **22,294** | **19,388** |
| **Foreign market** | | | | |
| Poland | 28,723 | 22,161 | 11,526 | 9,554 |
| Latvia | 14,423 | 11,820 | 8,514 | 7,582 |
| Estonia | 13,348 | 8,222 | 3,773 | 4,390 |
| Ukraine | 11,869 | 8,019 | 2,081 | 1,924 |
| Finland | 8,288 | 8,006 | 3,592 | 3,528 |
| Denmark | 7,671 | 7,879 | 6,119 | 6,658 |
| Sweden | 7,011 | 6,545 | 3,901 | 4,169 |
| Belarus | 3,648 | 3,881 | 992 | 863 |
| The Netherlands | 3,173 | 2,747 | 1,782 | 2,105 |
| Russia | 1,833 | 1,350 | 572 | 577 |
| Germany | 1,794 | 2,768 | 724 | 1,791 |
| Norway | 1,452 | 873 | 1,240 | 806 |
| Great Britain | 1,105 | 943 | 14 | - |
| Austria | 1,054 | 664 | 64 | 53 |
| Belgium | 936 | 599 | 181 | 165 |
| Czech Republic | 384 | 272 | 9 | - |
| France | 302 | 246 | - | - |
| Hungary | 232 | 143 | 21 | 18 |
| China | - | 1,551 | - | - |
| Saudi Arabia | - | 1,513 | - | - |
| Other markets | 686 | 1,211 | 192 | 164 |
| **TOTAL** | **163,215** | **129,602** | **67,591** | **63,735** |

All amounts are in EUR thousands unless otherwise stated

## 18. Segment information (continued)

Breakdown of property, plant and equipment, intangible assets, right-of-use assets and investment property by geographical location:

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Lithuania | 82,297 | 79,299 | 35,345 | 32,855 |
| Latvia | 381 | 293 | - | - |
| Ukraine | 785 | 769 | - | - |
| **TOTAL** | **83,463** | **80,361** | **35,345** | **32,855** |

## 19. Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Raw materials and consumables | 72,867 | 48,704 | 36,455 | 28,539 |
| Energy | 23,673 | 13,597 | 9,496 | 5,182 |
| Wages and salaries and social security contributions | 15,853 | 14,973 | 5,547 | 5,317 |
| Depreciation and amortisation of non-current assets, including grants | 9,190 | 10,520 | 3,806 | 4,167 |
| Other expenses | 8,074 | 8,339 | 3,228 | 3,219 |
| **TOTAL** | **129,657** | **96,133** | **58,532** | **46,424** |

## 20. Selling and distribution expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Fuel and transport services | 8,512 | 7,895 | 3,006 | 2,839 |
| Wages and salaries and social security contributions | 2,448 | 2,366 | 1,137 | 1,237 |
| Other selling expenses | 516 | 715 | 173 | 226 |
| Intermediation, marketing, advertising and representation | 324 | 446 | 249 | 442 |
| Property maintenance and servicing | 207 | 99 | 108 | 74 |
| Depreciation and amortisation of non-current assets | 172 | 185 | 322 | 340 |
| **TOTAL** | **12,179** | **11,706** | **4,995** | **5,158** |

## 21. Administrative expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Wages and salaries and social security contributions | 3,799 | 3,293 | 1,496 | 1,612 |
| Legal services | 610 | 602 | 39 | 20 |
| Taxes (other than income tax) | 596 | 502 | 164 | 185 |
| Depreciation and amortisation of non-current assets | 503 | 402 | 352 | 262 |
| Property maintenance and servicing | 433 | 481 | 324 | 283 |
| Security services | 341 | 329 | 39 | 46 |
| Social expenses | 278 | 202 | 96 | 76 |
| Consultation services | 244 | 505 | 90 | 25 |
| Advertising and representation | 236 | 47 | 34 | 11 |
| Insurance services | 211 | 181 | 74 | 61 |
| Support | 180 | 255 | 24 | 140 |
| Audit services | 140 | 146 | 55 | 64 |
| Personnel training and recruitment expenses | 113 | 47 | 57 | 34 |
| Bonuses and other similar payments | 66 | 14 | 66 | 14 |
| Fuel and transport services | 40 | 32 | 18 | 15 |
| Expenses for the listing of securities and related expenses | 39 | 35 | 39 | 35 |
| Impairment of doubtful amounts receivable/(reversal of impairment) | (3) | 70 | - | - |
| Other administrative expenses | 310 | 685 | 109 | 102 |
| **TOTAL** | **8,134** | **7,828** | **3,076** | **2,985** |

During 2021, audit services provided to the Group and the Company by audit firm PricewaterhouseCoopers UAB under the audit agreements amounted to respectively EUR 104 thousand and EUR 40 thousand (2020: EUR 96 thousand and EUR 32 thousand, respectively); non-audit services provided amounted to respectively EUR 11 thousand and EUR 6 thousand (2020: EUR 28 thousand and EUR 9 thousand, respectively).

All amounts are in EUR thousands unless otherwise stated

## 22. Other income

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Rental income | 423 | 373 | 437 | 312 |
| Dividend income | - | - | 1,500 | - |
| **TOTAL** | **423** | **373** | **1,937** | **312** |

In 2021, the Company received dividends of EUR 1,500 thousand from Grigeo Baltwood UAB.

## 23. Other gains/(losses) – net

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net gain from turnover of emission allowances | 110 | 645 | (52) | 459 |
| Result of disposal of assets | 89 | 98 | 28 | 36 |
| Other gain/(losses) | (6) | 85 | 60 | 42 |
| **TOTAL** | **193** | **828** | **36** | **537** |

## 24. Finance income and costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Interest income | 7 | 16 | - | 2 |
| Foreign exchange gain – net | - | 90 | - | - |
| Other finance income | 27 | 5 | 4 | 4 |
| **Total finance income** | **34** | **111** | **4** | **6** |
| | | | | |
| Interest on loans and lease | (194) | (317) | (91) | (123) |
| Foreign exchange loss – net | (38) | - | - | - |
| Default charges | (28) | - | (2) | - |
| Other finance costs | | (15) | - | (6) |
| **Total finance costs** | **(260)** | **(332)** | **(93)** | **(129)** |
| | | | | |
| **Net finance costs** | **(226)** | **(221)** | **(89)** | **(123)** |

### Capitalisation of interest on loans and lease

No interest was capitalised in 2021 and 2020.

## 25. Income tax and deferred income tax

| **Income tax expense components:** | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Current year income tax | 787 | 783 | - | 352 |
| Adjustments to previous year income tax | (39) | 17 | (34) | - |
| Deferred income tax (benefit) | 502 | 846 | (310) | 564 |
| **Income tax expenses recognised in the statement of comprehensive income** | **1,250** | **1,646** | **(344)** | **916** |

All amounts are in EUR thousands unless otherwise stated

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

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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Profit before income tax** | **13,635** | **14,915** | **2,872** | **9,894** |
| Income tax expenses calculated at the tax rate of 15% | 2,046 | 2,237 | 431 | 1,484 |
| Effect of a higher income tax rate applied in Ukraine | 22 | 18 | - | - |
| Effect of a tax rate due to taxation in Latvia | (28) | (6) | - | - |
| Effect of change in unrecognised deferred income tax | - | 48 | - | (29) |
| Effect of investment relief | (849) | (589) | (523) | (572) |
| Support | (10) | (58) | (7) | (28) |
| Adjustments of income tax in respect of prior periods | (36) | 37 | (31) | - |
| Non-allowable deductions | 113 | 103 | 16 | 63 |
| Income not subject to tax | (8) | (144) | (230) | (2) |
| **Income tax expenses recognised in the statement of comprehensive income** | **1,250** | **1,646** | **(344)** | **916** |

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 December 2021 | At 31 December 2020 | At 31 December 2021 | At 31 December 2020 |
| **Deferred income tax assets** | | | | |
| Decrease in net realisable value of amounts receivable | 20 | 23 | 11 | 11 |
| Investment relief | 409 | 403 | 366 | - |
| Write-downs of inventories to net realisable value | 116 | 60 | 45 | 25 |
| Long-term employee benefits | 26 | 29 | 11 | 13 |
| Vacation reserve | 196 | 182 | 95 | 86 |
| Right-of-use assets and liabilities | 9 | 11 | 7 | 4 |
| Tax losses carried forward | - | 311 | - | - |
| Other accruals | - | 38 | - | 38 |
| Grants | 69 | 4 | 69 | - |
| **Deferred income tax assets** | **845** | **1,061** | **604** | **177** |
| Less: unrecognised part | (11) | (11) | (11) | (11) |
| **Deferred income tax assets – net** | **834** | **1,050** | **593** | **166** |
| **Deferred income tax liability** | | | | |
| Property, plant and equipment | (1,413) | (1,127) | (470) | (353) |
| **Deferred income tax liability** | **(1,413)** | **(1,127)** | **(470)** | **(353)** |
| **Deferred income tax – net** | **(579)** | **(77)** | **123** | **(187)** |

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.

All amounts are in EUR thousands unless otherwise stated

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

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

| Group | At 31 December 2019 | Change | At 31 December 2020 | Change | At 31 December 2021 |
|---|---|---|---|---|---|
| Non-current assets | (624) | (503) | (1,127) | (286) | (1,413) |
| Investment relief | 1,172 | (769) | 403 | 6 | 409 |
| Long-term employee benefits | 23 | 6 | 29 | (3) | 26 |
| Decrease in net realisable value of amounts receivable | 18 | 5 | 23 | (3) | 20 |
| Write-downs of inventories to net realisable value | 41 | 19 | 60 | 56 | 116 |
| Vacation reserve | 165 | 17 | 182 | 14 | 196 |
| Right-of-use assets and liabilities | - | 11 | 11 | (2) | 9 |
| Tax losses carried forward | - | 311 | 311 | (311) | - |
| Grants | - | 38 | 38 | 31 | 69 |
| Other | 32 | (29) | 4 | (4) | - |
| **Total deferred income tax** | **827** | **(894)** | **(66)** | **(502)** | **(568)** |
| Unrecognised part | (59) | 48 | (11) | - | (11) |
| **Deferred income tax – net** | **769** | **(846)** | **(77)** | **(502)** | **(579)** |

In 2021, write-downs of inventory were recognised as deferred income tax. 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).

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

| Company | At 31 December 2019 | Recognised in the statement of comprehen-sive income | At 31 December 2020 | Recognised in the statement of comprehen-sive income | At 31 December 2021 |
|---|---|---|---|---|---|
| Property, plant and equipment | (83) | (270) | (353) | (117) | (470) |
| Investment relief | 368 | (368) | - | 366 | 366 |
| Long-term employee benefits | 11 | 2 | 13 | (2) | 11 |
| Decrease in net realisable value of amounts receivable | 11 | - | 11 | - | 11 |
| Write-downs of inventories to net realisable value | 29 | (4) | 25 | 20 | 45 |
| Vacation reserve | 81 | 5 | 86 | 9 | 95 |
| Grants | - | 38 | 38 | 31 | 69 |
| Right-of-use assets and liabilities | - | 4 | 4 | 3 | 7 |
| **Total deferred income tax** | **417** | **(593)** | **(176)** | **310** | **134** |
| Unrecognised part | 40 | (29) | 11 | - | 11 |
| **Deferred income tax – net** | **377** | **(564)** | **(187)** | **310** | **123** |

Deferred income tax assets and liabilities related to the companies operating in Lithuania were accounted for at a rate of 15% in 2021 and 2020. Deferred taxes related to the company operating in Ukraine were calculated at a rate of 18% in 2021 and 2020. 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.

All amounts are in EUR thousands unless otherwise stated

## 26. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted annual average of ordinary shares issued and 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 | | |
|---|---|---|---|
| | 2021 | 2020 (adjusted)* | 2020 |
| Net profit for the year attributable to the Company's shareholders | 12,266 | 13,292 | 13,292 |
| Weighted average number of ordinary shares | 131,400,000 | 131,400,000 | 65,700,000 |
| **Earnings per share (in EUR)** | **0.093** | **0.101** | **0.202** |

| | Company | | |
|---|---|---|---|
| | 2021 | 2020 (adjusted)* | 2020 |
| Net profit for the year attributable to the Company's shareholders | 3,216 | 8,978 | 8,978 |
| Weighted average number of ordinary shares | 131,400,000 | 131,400,000 | 65,700,000 |
| **Earnings per share (in EUR)** | **0.024** | **0.068** | **0.137** |

*On 19 May 2021 the Company's authorised share capital was increased out of the Company's retained earnings from EUR 19,053 thousand (65,700,000 ordinary registered shares with a nominal value of EUR 0.29) to EUR 38,106 thousand (131,400,000 ordinary registered shares with a nominal value of EUR 0.29). The Group's and the Company's basic earnings per share ratios for the previous periods were adjusted retrospectively using a new number of shares.

## 27. Dividends per share

| | 2021 | 2020*** |
|---|---|---|
| Allocated dividends* | 7,884 | - |
| Number of shares** | 131,400,000 | 131,400,000 |
| **Allocated dividends per share (in EUR)** | **0.06** | **-** |

* The year when dividends are allocated.
** The date when dividends are allocated.
*** The number of shares for year 2020 is adjusted as described in Note 26.

## 28. 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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | | | | |
| **Profit for the period** | **12,385** | **13,269** | **3,216** | **8,978** |
| Income tax | 1,250 | 1,646 | (344) | 916 |
| **Profit before income tax** | **13,635** | **14,915** | **2,872** | **9,894** |
| Adjustment: | | | | |
| Finance costs – net (Note 24) | 226 | 221 | 89 | 123 |
| Dividends received (Note 22) | - | - | (1,500) | - |
| Depreciation* (Notes 5 and 8) | 9,454 | 10,833 | 4,194 | 4,459 |
| Amortisation (Notes 6 and 7) | 619 | 621 | 444 | 442 |
| Amortisation of grants (Note 15) | (208) | (347) | (159) | (131) |
| **Adjusted EBIDTA** | **23,726** | **26,243** | **5,941** | **14,787** |

*The depreciation in 2021 has decreased mainly due to revised useful live of the items of property, plant and equipment.

All amounts are in EUR thousands unless otherwise stated

## 29. Financial instruments by category

| Group | Notes | At 31 December 2021 | At 31 December 2020 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Trade receivables | 10 | 19,071 | 13,420 |
| Other amounts receivable | 10 | 1,232 | 966 |
| Cash and cash equivalents | 11 | 12,443 | 18,275 |
| **Total financial assets at amortised cost** | | **32,746** | **32,661** |
| | | | |
| **Financial liabilities at amortised cost** | | | |
| Borrowings | 13 | 2,958 | 7,630 |
| Lease liabilities | 14 | 3,537 | 3,674 |
| Trade payables | 17 | 25,270 | 15,768 |
| Other amounts payable | 17 | 1,687 | 1,824 |
| **Total financial liabilities at amortised cost** | | **33,452** | **28,896** |

| Company | Notes | At 31 December 2021 | At 31 December 2020 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Trade receivables | 10 | 8,112 | 6,461 |
| Amounts receivable from related parties | 10 | 1,294 | 425 |
| Other amounts receivable | 10 | 558 | 394 |
| Cash and cash equivalents | 11 | 818 | 10,453 |
| **Total financial assets at amortised cost** | | **10,782** | **17,733** |
| | | | |
| **Financial liabilities at amortised cost** | | | |
| Borrowings | 13 | 1,555 | 2,837 |
| Lease liabilities | 14 | 1,579 | 1,864 |
| Trade payables | 17 | 12,013 | 7,910 |
| Trade payable to related parties | 17 | 601 | 661 |
| Other amounts payable | 17 | 650 | 711 |
| **Total financial liabilities at amortised cost** | | **16,398** | **13,983** |

Risks associated with the financial instruments relevant to the Company and the Group are disclosed in Note 3.

## 30. 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 2021 and 2020, there were no guarantees or pledges given or received in respect of the related-party payables and receivables at the Group.

At the date of the issue of these financial statements, the Company had 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.

All amounts are in EUR thousands unless otherwise stated

### 30. Related-party transactions (continued)

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.

| Group (the year 2021) | Sales of goods and services | Purchases of goods and services | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| Companies having significant influence | - | 14 | - | 2 |
| Other related companies | 2 | - | - | - |
| **TOTAL** | **2** | **14** | **-** | **2** |

| 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** |

| Company (the year 2021) | Sales of goods and services | Purchases of goods and services | Amounts receivable* | Amounts payable** |
|---|---|---|---|---|
| Companies having significant influence | - | 10 | - | 2 |
| Subsidiaries | 6,094 | 7,654 | 1,294 | 601 |
| Other related companies | - | - | - | - |
| **TOTAL** | **6,094** | **7,664** | **1,294** | **603** |

| 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** |

* Amounts receivable comprise prepayments for goods and services.
** Amounts payable also comprise loans received from the subsidiaries.

**Key management personnel compensation**

Compensation calculated to the key management personnel for the year ended 31 December:

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Key management personnel compensation | 1,280 | 1,121 | 654 | 641 |
| Average annual number of management personnel | 11 | 11 | 5 | 5 |

In 2021 and 2020, 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 totalled EUR 36 thousand in 2021. No bonuses were paid in 2020.

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 | 46.28 |
| Vigmantas Kažukauskas | Vice-President for Business Development | 0.88 |
| Saulius Martinkevičius | Vice-President for Purchase and Logistics | 0.17 |
| Tomas Jozonis | Managing Director | - |

## 31. 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 processes**

A claim has been filed against Grigeo Klaipėda AB, subsidiary of Grigeo AB, regarding compensation for damage caused to the environment. In the management's opinion, numerous uncertainties exist in relation to the outcome of the claim (Note 32).

## 32. Legal processes

### Background information

In 2021, the pre-trial investigation regarding wastewater management by Grigeo Klaipėda AB, subsidiary of Grigeo AB (hereinafter the "Subsidiary"), was completed by the Klaipėda District Prosecutor's Office of the Klaipėda Regional Prosecutor's Office (hereinafter the "Prosecutor's Office") and the criminal case was referred to the Klaipėda Regional Court. The Subsidiary is charged in the 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 the "WWTP") during the period from 1 January 2012 to 13 February 2020 when partially biologically treated wastewater would be discharged through the treated wastewater collector of municipal company Klaipėdos Vanduo AB to the Curonian Lagoon.

According to the Prosecutor's Office's indictment act of 31 December 2021 in the criminal case No 04-2-00154 - 19, (hereinafter the "Indictment Act"), the Subsidiary abused the office, forged documents and violated the legal acts in order to seek material gain (to avoid a 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 related 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 is not denying its legal liability and it expressed its standpoint in writing to the Prosecutor's Office that it was and still is 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. The Subsidiary is ready to implement the environment remedy measures plan as soon as possible with the aim of restoring the original condition of the environment and compensating for the damage that it has caused, objectively determined and proceeding from unbiased 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 organised 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 the expert organisations of the USA and Italian companies providing consultative expert services in the environmental area (i.e. TIG Environmental (leading expert Dr. Carlo Monti (the Italian scientist and the Executive Director of TIG Environmental Forensic Examination), Veritas Economic Consulting and Hydrodata S.p.A (hereinafter "TIG")) was engaged 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.

## 32. Legal processes (continued)

The TIG's environmental assessment has been performed according to Directive 2004/35/EC of the European Parliament and of the Council of 21 April 2004 on environmental liability regarding the prevention and remedying of environmental damage (hereinafter "Directive 2004/35/EC") 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 principles of Directive 2004/35/EC 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. Directive 2004/35/EC does not provide for punitive damages.

On 26 June 2020, the Environmental Protection Department submitted to the Subsidiary the assessment of the ecological status or ecological potential and deterioration 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 it the applicable plan of 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 the environmental damage assessment for the Curonian Lagoon which analysed 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. During the assessment the above-mentioned monitoring data from the Environmental Protection Agency, municipal company Klaipėdos Vanduo AB, the Klaipėda Seaport Authority were used, a survey of the Curonian Lagoon's 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 the independent laboratories were taken into consideration.

TIG did not identify any significant damage to the water status of the Curonian Lagoon by the discharge of biologically partially untreated wastewater. In the worst-case scenario (if only 15% of the wastewaters were treated biologically in the Subsidiary's WWTP) a very low ecological impact (i.e., not damage) from the releases of untreated wastewater could have been caused.

The TIG's economics expert has developed an estimate of potential ecological service losses for the Curonian Lagoon for the purposes of the environmental damage assessment. As the loss in ecosystem service is related only to the superficial waters in the Klaipėda 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 (if 90% 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 would be equal to EUR 0.

### Civil claim

On 3 March 2020, the Environmental Protection Department filed a civil claim against the Subsidiary for compensation of a EUR 3,982,184 damage caused to the environment in the pre-trial investigation case (the civil claim was received by the Subsidiary on 17 July 2020). On 26 January 2021, the Subsidiary received from the Prosecutor's Office a revised civil claim of the Environmental Protection Department regarding the compensation of a material damage caused to the environment in the criminal case in the amount of EUR 48,257,676.57. The amount of damage caused to the environment specified in the civil claim corresponds to the amount indicated in the Indictment Act delivered against the Subsidiary.

The damage caused to the water body (the 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 and documentation:

- the quantities of sewage discharged to the collector of municipal company Klaipėdos Vanduo AB;
- the biochemical composition of sewage discharged to the collector of municipal company Klaipėdos Vanduo AB which is supported by the documents evidencing the data for exceedingly limited period (November 2019 to 7 January 2020), which could not be construed as sufficient and representative time-basis to substantiate findings for the entire incriminated period (from 1 January 2012 to 7 January 2020);

## 32. Legal processes (continued)

- the statement that a substantial amount of wastewater was not treated, whereas the said conclusion casts doubt caused by substantively contradicting findings of experts of both parties (the Prosecutor's Office and the Company) in relation to technical capabilities of the Company's waste treatment facilities as regards quantities and composition of pollution (partially untreated wastewater) reportedly released to the environment (the Curonian Lagoon);
- the unsupported statement that the damage done to the environment occurs by diminution or loss of certain values without indication which specific environmental element was negatively affected and what values and to what extent were lost due to the Subsidiary's actions.

No claim has been brought against the Subsidiary for unpaid related 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 differs. 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 the 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 the legal acts, in the 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.

On 3 January 2022, the Prosecutor's Office announced that it completed the pre-trial investigation in the environmental case regarding wastewater management by the Subsidiary. The case has been referred to the court, nonetheless the court proceedings have not yet begun as at the date of this report.

Key considerations of the civil claim of the 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, 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;

- 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.

The Subsidiary's management considers the above list to remain conclusive notwithstanding the pre-trial investigation files that the Subsidiary became acquainted with in September 2021. Different expert reports within the pre-trial investigation case deliver inconsistent findings and conclusions which further substantiates the fact of numerous uncertainties in relation to the outcome of court proceedings and the amount of expenditure required to settle related outstanding obligations of the Subsidiary.

**Summary of uncertainties**

At the date of approval of these consolidated financial statements the management faces the following uncertainties in relation to the amount of the civil claim or determination of the timing of any possible outcome of 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 collector of municipal company Klaipėdos Vanduo AB.

- 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 Directive 2004/35/EC 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.

All amounts are in EUR thousands unless otherwise stated

## 32. Legal processes (continued)

- 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 is 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 the 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 Order No D1-228 of 16 May 2006 to implement the principles and legal requirements of Directive 2004/35/EC. Clause 10 of the Legal Act on ERM states 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.

### 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 the independent TIG Environmental experts, estimates that the potential costs of offsetting ecological impact from the releases of biologically untreated wastewater are limited. On the upper limit of the range the assessment of the Environmental Protection Department, the claim filed amounts to EUR 48,257,676.57 which is uncertain in the following areas:

- The claim amount is based on the mathematical formula specified in the Methodology with the key components of the formula – quantities and biochemical composition of sewage – being uncertain. The management thus far 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 that the claim is not in line with the methods entrenched in the above-mentioned local legal acts and the Directives.

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 objective information on the quantities and biochemical composition of the sewage discharged to the collector of municipal company Klaipėdos Vanduo AB, the management could not reliably estimate the amount of provision and the provision was not recognised in the financial statements, but instead is disclosed as a contingent liability. The management remains to hold an opinion 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.

## 33. Events after the end of the reporting period

Russia’s invasion of Ukraine on 24 February 2022 will have a negative financial impact on the Group’s and the Company’s financial performance for the year 2022. The Group’s subsidiary Grigeo Klaipeda AB has investments in Ukrainian subsidiary AT Mena Pak, which ceased its operations completely after the start of the war. The Group and the Company incurred losses after the reporting date due to the investment in AT Mena Pak and due to receivables from Ukraine and the countries that attacked it.

### Uncertainties related to the investment in Mena Pak AT

The Group’s statement of financial position as at 31 December 2021 includes the following consolidated assets and liabilities of Mena Pak AT:

| Mena Pak AT | At 31 December 2021 |
|---|---|
| | |
| Non-current assets | 786 |
| Current assets | 2,308 |
| **TOTAL ASSETS** | **3,094** |
| | |
| Shareholders’ equity | 2,670 |
| Non-current liabilities | 17 |
| Current liabilities | 407 |
| **TOTAL EQUITY AND LIABILITIES** | **3,094** |

All amounts are in EUR thousands unless otherwise stated

## 33. Events after the end of the reporting period (continued)

The Group's statement of comprehensive income for the year 2021 includes the following consolidated results of Mena Pak AT for 2021:

| Mena Pak AT | 2021 |
|---|---|
| | |
| Revenue | 8,124 |
| Profit before tax | 742 |
| Net profit | 611 |
| EBITDA | 932 |

The Group's management believes that the war that began has no material impact on the Group's assets, liabilities, financial position as at 31 December 2021, as well as on the Group's profit or loss and cash flows for the year 2021, because the war is considered to be a non-adjusting post-balance sheet event. Moreover, the major portion of financial assets and liabilities was recovered or settled before the start of the war.

Changes in assets and liabilities of Mena Pak AT during January and February in 2022 were not material. The net profit amounted to EUR 10 thousand in January 2022, there is no possibility to determine the results for February 2022.

The Group's management estimates that in 2022 a high uncertainty exists in relation to Mena Pak AT's assets of EUR 3.1 million and liabilities of EUR 0.4 million due to the started war and high uncertainty of future events.

**Impact on activities of the Group**

Since the start of the war, the Group suspended sales to Ukraine, Belarus, and Russia.

The supply chain of the Group and the Company did not have any material purchases from these countries.

As disclosed in Note 18, for the year 2021 the sales to Ukraine, Belarus and Russia amounted to EUR 17,350 thousand, or 10,6% of total sales of the Group (respectively, EUR 3,645 thousand or 5.4% of total sales of the Company).

Currently the management of the Group is estimating potential financial impact over future periods. However, due to significant uncertainties, as well as foreseen energy price increases, it is impossible to estimate the financial impact reliably. The Group is selling production in over 20 countries, therefore, if needed, lost sales will be redirected to other markets.

Amounts receivable from these countries comprised as follows as at 28 March 2022:

| | Group | Company |
|---|---|---|
| Ukraine | 226 | 226 |
| Russia | 14 | - |
| Belarus | 25 | 25 |
| **TOTAL** | **265** | **251** |

The recoverability of these amounts is doubtful.

# STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

## STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Grigeo AB (hereinafter the "**Company**"), acting in compliance with Article 12(3) of the Republic of Lithuania Law on Securities and paragraph 24.4 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 share capital of the Company consists of 131,400,000 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. The 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 related to COVID-19 disease (coronavirus infection), in 2021 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 the general meeting of shareholders being convened, 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 due to legal uncertainties and obstacles regarding the participation and voting of shareholders in general meetings of shareholders via electronic means of communication. 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 that were 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 administration1 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 can 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 the collegial body attend the general meetings of shareholders as far as possible. |

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

| 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.<br>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 knowledge of 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. Independent2 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 the supervisory board has the right to seek independent professional advice from external legal, accounting, or other experts on matters falling within their competence. |

[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**<br>The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance. | | |
| 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 has members of both genders. |
| 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 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 his/her duties as a member of the supervisory board and his/her 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. |
| 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. |
| 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 | | |
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| **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 in 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 applies 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. |
| **3.2. Formation of the management board** | | |
| 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] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

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| 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 are disclosed at the meeting of the supervisory board in which the management board or individual members of the management board are elected. The data on the members of the management board referred to in this paragraph is also disclosed 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 four 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 impartially carry out the functions of the chair of the management board 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. |
| 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. |

[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.

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| 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's remuneration policy approved by the Resolution of the Ordinary General Meeting of Shareholders of 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. |

**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. |

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| 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] 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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| 5.1.3. 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 three members of the supervisory board of the Company. The chair of the management board is not a member of the Audit Committee. |
| 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><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><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><br>3) to devote the attention necessary to ensure succession planning. | No | To date, the nomination committee has not been formed at the Company. |

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| 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. |

**5.3.Remuneration committee**

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| 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**

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| 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.

### Principle 6: Prevention and disclosure of conflicts of interest

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.

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.

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| 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

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.

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| 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. |
| 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. |

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| 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**

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.

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| 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. |

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| 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 disclosing information about 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. |
| 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. |

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| 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**

The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.

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| 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. |

## CONFIRMATION OF RESPONSIBLE PERSONS

In accordance with the Law on Securities of the Republic of Lithuania, and the Rules on the Disclosure of Information of the Bank of Lithuania, we, President of Grigeo AB Gintautas Pangonis and Finance Director of Grigeo AB Martynas Nenėnas, hereby confirm that, to the best of our knowledge, the consolidated financial statements of Grigeo AB for the year ended 31 December 2021, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the issuer's and of the consolidated companies' assets, liabilities, financial position, profit or loss and cash flows, and also that the consolidated annual report includes a fair overview of the business development and operations.

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| President of Grigeo AB | Gintautas Pangonis |
| Finance Director of Grigeo AB | Martynas Nenėnas |