

## Strategy

In 2020, AUGA group (hereinafter the Company) announced its strategy to improve efficiency in all its business segments and set a standard for sustainable farming. In May 2023, AUGA group created 11 cooperatives to serve as a functional base for operations driven by the new sustainability standards. Additionally, in August 2023, the Group expanded its potential reach by converting 1/3 of the cultivated hectares into regenerative conventional agriculture, that helped increase the touch base with regenerative farming and improve the Company's results in terms of a more controlled cashflow and risk diversification.

While the improved structure allows for industry expansion and wider sustainability standard distribution, the main goals of the Company's strategy remain:

- (i) to improve efficiency in all business segments,
- (ii) to implement a model of sustainable organic food production (SOFA — sustainable organic food architecture) and reduce greenhouse gas emission through innovation.

AUGA group's efficiency agenda was planned to conclude in 2023. Upon evaluating efficiency of the previous period, it became evident that, given the volatility in the business environment brought about by internal and external factors, including the transition to conventional regenerative farming and geopolitical developments due to the war in Ukraine, the planned efficiency objectives have not been fully met. Consequently, to ensure seamless continuation of the Efficiency agenda, the Board supported the Executive Team's suggestion to extend its implementation until the year 2025. This strategic decision aligns with the overarching timeline for strategy implementation, synchronising with the ongoing formulation of the plans leading up to 2025.

The SOFA business model attributes key roles to the following technologies and processes with tangible progress reached in 2023 and continuing onwards:

1. In 2023, the biomethane infrastructure has become fully functional and thereby closed the loop in the circular farming operations. Biomethane stands as one of the most progressive forms of renewable energy, serving as an integral part of the circular economy business model developed by AUGA group. In the future, these gases will be used in the Company's AUGA M1 tractors, and altogether the emissions from fossil fuel use on the farms are expected to be reduced by 50%. In the meantime, since the end of 2023, the opportunity to inject biogas into the natural gas system has emerged (namely, remote production), it will pave the way for biogas supply and sale to the German market in 2024. In 2023, the Group also presented the first factory batch of tractors to the public assembled at Rokiškis machine factory, which is on the way to be brought on scale when the available Green financing sources are secured.

2. In 2023, the technology of the feed processing has been tested to show higher milk yield by 13% and improved dry matter digestibility by 13%, which in turn amounts to 32% of emission reductions from rumen fermentation per litre of milk produced. These results were validated by the Lithuanian University of Health Sciences, Faculty of Veterinary Medicine in November 2023, signifying a pivotal milestone in its progression towards implementation. The technology for fractioning leguminous grasses into leaves and stems continued its progress in patenting, and further collaboration with research partners to publish peer-reviewed papers was evident to support and strengthen the claims of technology effects.

3. Regenerative crop-rotation is undertaken annually to partially replace cereal crops with perennial leguminous grasses capable of sequestering carbon and fixing nitrogen in the soil. In alignment with advancements in feed technology, there will be a proportional increase in the cultivation of leguminous crops in the coming years.

Finally, a new organisational structure took shape in 2023 in order to meet the needs of the SOFA business model: AUGA Tech, responsible for developing and manufacturing innovative agricultural technologies to be commercialised; AUGA SOFA, tasked with developing the AUGA sustainable farming standard and providing services to agricultural cooperatives and farmers through franchise agreements; and AUGA Trade, focused on organising the production, trade, and marketing of sustainable products for consumers. These various branches of activity within the new business model are driven by AUGA Community.

## 2023 Strategy review

Overall, we, as the new Board together with the Executive team, conducted a review of the 2020-2023 period against the Strategy 2025 and concluded that the strategy is focused on the right areas and significant progress has been made, albeit slightly overambitious given the expected delayed roll-out of technologies and the respective change in consumer behaviour.

Throughout the timeframe in question, the strategy direction has not changed, yet certain implementation phases faced formidable challenges; notably, - the COVID-19 pandemic, the outbreak of the war in Ukraine, an energy

crisis, and a couple of years in a row with adverse weather conditions. These external factors significantly influenced the outcome of the implementation process. The Executive team made a number of strategic changes while facing limitations in financial resources and manpower, making it challenging to keep up with the pace yet emphasising the team's flexibility and ability to adapt.

**Per segment**

Crop segment – 2023 marked an endeavour to synchronise organic and regenerative conventional production to cover the market demand and meet the best practice operational standards aiming to enhance efficiency, sustainability, and product quality under financial discipline due to the difficult situation in the commodity market and poorer annual results from the segment.

Dairy segment - during the period, the segment has suffered from lower than usual bulk milk prices with the low spread between organic and conventional price-levels for the majority part of 2023, whereby the price level rebounding only in Q4 2023. However, improvements have been made in operational efficiency and in animal welfare that has been primarily possible due to the changes in the organisational structure, dating back to Q4 2022.

In the mushroom growing segment, the cultivation cycle was reviewed, where solving the labour capacity issues correlated with a more robust business performance in the second half of the year that helped generate positive EBITDA in 2023.

FMCG witnessed a major strategic milestone delivery for 2023 with the launch of the new sustainable organic product category for consumers that in time will be fully substantiated by technology solutions from the Innovation agenda directly saving CO2eq emissions throughout the production cycle.

In 2023, the Company reviewed the organisational structure with an aim to reduce operational complexity and evaluate the compatibility of individual business units with the AUGA group's strategy. As a result, the successfully developed soup and other canned product manufacturing unit Grybai LT, developed from scratch to become an independent, profit-generating entity with a strong base of international clients was sold.

**Conversion to regenerative conventional agriculture**

To showcase different sustainable farming practices and to increase risk diversification of the Company, the Group converted one-third of its arable land to regenerative conventional agriculture in 2023. This transition will not only foster the further development of AUGA's sustainable farming standard but will also generate know-how on the differences in the sources of pollution when comparing organic to conventional regenerative farming and help significantly reduce emissions from agricultural practices, benefiting both organic and conventional farms.

